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AGRICULTURAL POLICY ANALYSIS PROJECT, PHASE II

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THE AGRIBUSINESS POLICY INVENTORY: THE TOOL AND ITS USE IN POLICY ANALYSIS AND REFORM

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TABLE OF CONTENTS

LIST OF TABLES, FIGURES, AND BOXES	iii
LIST OF ACRONYMS	iv
ACKNOWLEDGMENTS	v
PREFACE	vi
EXECUTIVE SUMMARY	vii
1. INTRODUCTION	1
1.1 Justification for Using an Agribusiness Policy Inventory	2
1.2 Goal and Objectives	3
1.3 Outline of the Report	3
2. UTILITY OF AN AGRIBUSINESS POLICY INVENTORY	4
2.1 Some Questions An Inventory Can Answer	4
2.2 Some Uses for the Answers	4
3. THE COMPONENTS OF AN AGRIBUSINESS POLICY INVENTORY	6
3.1 Description of the General Economic Setting	6
3.2 Overview of Agribusiness Performance	8
3.3 Matrix of Policies	8
3.4 Policy Analysis	9
3.4.1 Agencies Responsible for Policy Formulation and Implementation	11
3.4.2 Preliminary Assessment of Policy Impact	12
3.4.3 Analysis of Policy Interactions	12
3.5 Recommendations	13
3.5.1 Potential Policy Alternatives	13
3.5.2 Further Analysis	14
3.6 Persons Contacted	15
4. IMPLEMENTATION OF AN AGRIBUSINESS POLICY INVENTORY	16
4.1 Data Requirements	16
4.2 Process	16
4.2.1 Key Steps	16
4.2.2 Notes on Analysis	18
4.3 Required Expertise	19
5. PRESENTATION OPTIONS	20
5.1 Narrative Summaries of Policy Analysis	20
5.2 Tables and Figures	20

6. COMPLEMENTARY ANALYSES 32

REFERENCES

APPENDIX A: GENERALIZED POLICY MATRICES

APPENDIX B: CHECKLIST OF POLICY INSTITUTIONS BY POLICY TYPE

APPENDIX C: CHECKLIST OF IMPACT VARIABLES

APPENDIX D: SCOPE OF WORK FOR AN AGRIBUSINESS POLICY INVENTORY

LIST OF TABLES, FIGURES, AND BOXES

Table 5.1	Some Options for Presenting Components of Policy Inventories	21
Table 5.2	Summary of Key Policies by Issue	22
Table 5.3	Institutional Interaction Chart, After Belize Natural Resource Policy Inventory	23
Table 5.4	Impact Assessment Table from El Salvador Agricultural Sector Policy Inventory	24
Figure 3.1	Components of an Agribusiness Policy Inventory	7
Figure 5.1	Hypothetical Issue-Based Impact Graph	30
Figure 5.2	Hypothetical Issue-Based Policy Presentation: Agricultural Export Development	31
Box 5.1	Policy Inventory Table from Belize Natural Resource Policy Inventory . . .	25
Box 5.2	Example of Natural Resource Policy Mini-Case, Africa	26
Box 5.3	Example of Natural Resource Policy Mini-Case, Asia	27
Box 5.4	Example of Natural Resource Cross-Policy Analysis: Water Quality in Central America	28
Box 5.5	Possible Chapter Structure for Presentation of Analysis in Policy Inventory	29

LIST OF ACRONYMS

APAP	Agricultural Policy Analysis Project
DRC	Domestic Resource Cost
ERP	Effective Rate of Protection
GDP	Gross Domestic Product
IMF	International Monetary Fund
NGO	Non-Government Organization
NRP	Nominal Rate of Protection
PAM	Policy Analysis Matrix
PSE	Producer Subsidy Equivalent
USAID	United States Agency for International Development

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PREFACE

The Agricultural Policy Analysis Project (APAP) has strived to develop practical tools for the analysis of policies affecting the agricultural sector. For this reason, policy inventories were pioneered under the first phase of the project, in the form of the agricultural policy inventory. As the topical interests of USAID broadened to include more of a focus on sustainable agriculture and natural resources, in its second phase (APAP II), the project modified the inventory to suit these new needs. Agribusiness and policy reform have also become abiding interests of the Agency. Thus the agribusiness policy inventory was developed, which supports both the reform process and project development with systematic analysis.

The three types of inventory have common elements and use similar methods. The substantive focus of each, however, is sufficiently different that the details of the methods differ more than in the name of the inventory. For example, because agribusiness spans agriculture and business, and commerce and industry, different sets of policies affect it. The recommended policy matrix has been restructured to present the full range of policies. At the same time, the relevant virtues of the previous inventory methods have been preserved.

The use of an inventory is consistent with the guidance given by the Bureau for Africa in its *Strategic Framework* for promoting agribusiness (USAID 1991). In this document, the Bureau states that in promoting agribusiness, "four of the most important functions A.I.D. can perform are: 1) conduct analysis, 2) support policy and regulatory reform, 3) provide technical assistance . . . to increase analytical . . . capacity in the short term, and 4) provide training . . . to increase analytical . . . capacity in the medium and long term. It also states that "initially, the Mission should conduct a macroeconomic analysis that indicates: 1) to what extent constraints in the agricultural sector are impeding general economic development in the country, 2) what opportunities are available to promote sustainable economic growth through an emphasis on agricultural sector activities, and 3) what aspects of the political economy are relevant." The inventory method is also consistent with guidance given in the action memorandum from the 1992 conference on agricultural marketing and agribusiness of the Bureau (Herlehy, 1992). It says that the Bureau "should continue to provide substantial support for agricultural policy reform and expand its efforts to include regulatory and administrative reform." Missions "should continue to emphasize host country ownership in the design of agricultural reforms and agribusiness programs."

APAP II is coming to a close at this time. Missions will be able to call on the services of APAP III, however, through buy-ins and/or in coordination with other mission projects. APAP III is scheduled to begin on October 1, 1993.

EXECUTIVE SUMMARY

Agribusiness and policy reform are two major current thrusts for USAID. It is important to understand the policies both promoting and hindering agribusiness before either carrying out an agribusiness project or undertaking policy reform. An agribusiness policy inventory is a tool developed under APAP II as an aid to policymakers and project and program developers. It can be an important first step in organizing and understanding complex information about economic and agricultural policies and their impact on agribusiness development. This report describes the agribusiness policy inventory *method*, provides supporting conceptual and empirical material, and discusses implementation and presentation issues. (That is, this document is *not* an *example* of an agribusiness policy inventory.)

The central features of an agribusiness policy inventory are an enumeration and analysis of policies that affect the agribusiness sector. The institutions responsible for these policies are specified. To place the policies in context, the inventory includes a description of the general economic setting and, where possible, an overview of the performance of agribusiness firms. An inventory includes a preliminary assessment of policy impacts and may also include recommended policy alternatives.

1. INTRODUCTION

As most countries develop, the agricultural sector appears to decline as a share of GDP. This is partly a consequence of faster productivity growth in other sectors, and partly a consequence of how "agriculture" is defined. If one used a broader definition of agriculture, what one might call "the food and fiber system" or "agribusiness," one would generally find increases in this share. The share of agribusiness in GDP is difficult to measure, however, because of the way statistics have traditionally been collected.¹

One useful definition of agribusiness is the following:

The agribusiness [commodity] system is composed of operators, supporters, and coordinators. The operating organizations are the farmers, transporters, warehouses, processors and distributors who handle the physical commodity as it flows from the farm to the marketplace. The supporting institutions are the farm suppliers, financial entities, and research centers that contribute to the system's operators. The coordinators are governments, contractors, futures markets, and industrial associations that integrate the various stages of the food-and-fiber system.²

One of the key implications of this definition is that to understand what is going on in an agribusiness commodity system, one has to appreciate the roles operators, supporters, and coordinators play and how they interact. The framework can be especially useful to policy makers by highlighting all the activities that have to take place in a timely and systematic manner to produce, transform, and deliver the products consumers want at a price they are willing to pay.

Agribusiness may have an especially important role to play in development because its growth may lead to the decentralization of jobs and other income-generating opportunities to rural areas. There may be many opportunities for small businesspersons to start agribusinesses because the required investment may be small (e.g., in a fertilizer dealership, small-scale grain mill, or food preparation). Agribusiness also generally has significant backward and forward multipliers; this is especially true of linkages to rural areas and the poor, because agribusinesses require agricultural products produced in rural areas by farmers, many of whom are poor.

¹See Ouédraogo et al. (1993).

²Austin (1981), pp. 4-5. The term "food and fiber system" probably arose because agribusiness cuts across the normal categories that are used to describe parts of the economy. "Sectors" normally include agriculture, industry, and services; agribusiness has elements in each of these sectors, so agribusiness is not properly referred to as a sector. "Industry" is a term referring to the horizontal organization of like firms; "agro-industries" are a subset of both industries and agribusiness. A "subsector" is a vertical grouping of all the firms that produce or handle a particular commodity; agribusiness firms are part of any agricultural commodity subsector.

USAID is involved in a wide range of activities related to agribusiness. Besides agribusiness projects per se, these activities include policy reform, commodity production and/or marketing projects, privatization, development of analytical capability, investment promotion, development of capital markets, commodity imports, infrastructure construction and maintenance, and training.

Agribusiness and policy reform are two major current thrusts for USAID. It is important to understand the policies both promoting and hindering agribusiness before either carrying out an agribusiness project or undertaking policy reform. While general development efforts (like infrastructure and education projects) have helped agribusiness in the past, policies that affect agribusiness have generally not been examined as a group with agribusiness as the focus.

1.1 Justification for Using an Agribusiness Policy Inventory

An agribusiness policy inventory is an important first step in organizing and understanding complex information about economic and agricultural policies and their impact on agribusiness development. There are several specific reasons to prepare an inventory:

- Agribusiness spans agriculture and business, and commerce and industry, so many policies affect it, and the net impact is not obvious.
- An inventory can highlight interactions and inconsistencies among policies.
- An inventory can provide guidance for policy dialogue and reform. Moreover, if both the public and private sectors participate in the elaboration of the inventory, this can be the start of a productive dialogue.
- An inventory can aid in the development of an effective strategy for the promotion of agribusiness.
- An inventory exercise reveals gaps in knowledge, so it is a guide for further analysis.
- Although it is not a rigorous quantitative method, a policy inventory can be carried out in a standard fashion in more than one country, thereby allowing comparisons.
- The inventory method is flexible; depending on the resources and information available, one can conduct an inventory:

As a freestanding exercise or as one component of a sector assessment,

With a scope that is the entire agribusiness sector or focus on one issue, agroindustry, or commodity subsector.

1.2 Goal and Objectives

The goal of this report is to present the agribusiness policy inventory method with justification and supporting materials in sufficient detail that the reader could use this document to prepare a specific scope of work for carrying out such an inventory in a particular country.³

The specific objectives of this report are to:

- Describe the agribusiness policy inventory method.
- Provide supporting conceptual and empirical material.
- Discuss implementation and presentation issues.

Complementary analyses are also mentioned.

1.3 Outline of the Report

The remainder of this report is organized as follows. Chapter 2 explains the uses for an agribusiness policy inventory—the questions it can answer and the uses for those answers. Chapter 3, 3.1 sets out the elements of an inventory. In Chapter 4, implementation of an inventory is discussed, including the steps in the process and the required expertise. Some options for presenting inventory results are described in Chapter 5. Finally, in Chapter 6, some additional analyses that would complement an inventory are given.

³A draft scope of work for conducting an agribusiness policy inventory is included in Appendix D.

2. UTILITY OF AN AGRIBUSINESS POLICY INVENTORY

An agribusiness policy inventory is a useful first step in organizing large amounts of information and beginning to answer questions about policy impact and reform. This information can be critical to program or project design.

2.1 Some Questions An Inventory Can Answer

An agribusiness policy inventory organizes policy information and analyzes it to provide answers to questions such as the following:

- What policies affect the agribusiness sector? What are the key issues and constraints?
- Which institutions set and implement these policies?
- Do these policies promote or hinder the development of agribusiness?
- What are the impacts of these policies (on key economic variables)?
- Which policies should get priority for reform?
- Which areas require further analysis?

By organizing policies into categories, an inventory shows which kinds of policies—macroeconomic, sectoral, regulatory, or the like—have an impact on agribusiness. The inventory's impact analysis includes both the direct, and, to the extent possible, indirect impacts of these policies. The impact analysis, while subjective, points out those policies that probably have the greatest impact and the economic variables on which the greatest impact occurs. If sufficient information can be gathered within the time and other constraints of the fieldwork, the inventory analysis can culminate in general recommendations for policy reform. When data are not sufficient to complete certain parts of the inventory, the process leads to recommendations for further analysis.

2.2 Some Uses for the Answers

An inventory can be used in several ways, namely to:

- Examine the effects of policies on projects.
- Outline a reform program or support a policy dialogue.
- Select issues for further analysis.

- **Monitor overall developments in the policy environment.**

Because an inventory is comprehensive, it is likely to bring to the fore policies that will affect the success of a project, but that may not have been considered because they were not part of the subsector in which the project was being implemented. The organization of the inventory allows some estimation of the overall impact on a project of a large set of policies. By its nature an agribusiness policy inventory is an excellent kind of review to undertake before entering a policy dialogue with a host country government. It can help to outline a (possibly broad, cross-sectoral) policy reform program. The inventory process will not only point out those areas that need further analysis, but also help to prioritize those research questions by providing an overall framework in which to understand the impact of various policies on the agribusiness sector. Finally, an inventory can be used as a guide to those policies that should be monitored when the objective is to maintain an understanding of the policy environment in which agribusinesses are operating.

3. THE COMPONENTS OF AN AGRIBUSINESS POLICY INVENTORY

The central features of an agribusiness policy inventory are an enumeration and analysis of policies that affect the agribusiness sector. A summary of these policies can be conceived as a matrix and is often presented in this way. To place these policies in context, the inventory includes a description of the general economic setting and, where possible, an overview of the performance of agribusiness firms. The institutions responsible for these policies are specified in conjunction with the policy matrix. An inventory also comprises several analyses based on the matrix and accompanying information. These analyses extract key relationships from the information in the policy matrix, including a preliminary assessment of policy impacts. An inventory may also include recommended alternatives. The features of an inventory are elaborated in the following sections. The components of an agribusiness policy inventory are illustrated in Figure 1.⁴

3.1 Description of the General Economic Setting

To set the scene for the subsequent policy analysis, an inventory begins with a brief description of the economy. This description covers the major economic, technological, socio-cultural, and political relationships that affect the agribusiness sector. It delineates the major linkages of the agribusiness sector to the national and world economies.

Some of the data that might be presented and discussed briefly include: inflation; GDP growth; the trade balance; nominal and real exchange rates; public and private investment; unemployment; remittances; major products, exports, and imports; and major agricultural products, exports, and imports.

A key section in this introductory description will be one that reviews recent policy changes. This orients the reader to the current context of policymaking. It also helps to date the snapshot that an inventory inevitably is. Has there been a systematic policy review by the Government? Does the Government look at agribusiness as a sector? Some of the important topics of this section are the trade regime; the investment regime, including the tax code; and the role of parastatals, including any privatization underway or contemplated. The role of the informal sector may also be covered.

When the inventory is focused on a commodity subsystem, the setting should detail the operators of that system, its supporting economic agents, and coordinators (see page 1).

⁴Note that the paragraphs of text in Figure 1 are intentionally illegible. The figure is intended to be only an overview of the inventory.

Figure 1 Components of an Agribusiness Policy Inventory

DESCRIPTION OF SETTING

To set the scene for the subsequent policy analysis, an inventory begins with a brief description of the economy. This description covers the major economic, technological, socio-cultural, and political relationships affecting the agribusiness sector. It delineates the major linkages of the agribusiness sector to the national and world economies. To set the scene for the subsequent policy analysis, an inventory begins with a brief description of the economy. This description covers the major economic, technological, socio-cultural, and political relationships affecting the agribusiness sector. It delineates the major linkages of the agribusiness sector to the national and world economies.

OVERVIEW OF AGRIBUSINESS PERFORMANCE*

A major review of agribusiness performance is not the purpose of an agribusiness policy inventory. Moreover, such a review would often be hampered by a lack of available data. Data permitting, however, important aspects of agribusiness performance can be highlighted. These include the share of agribusiness in output, employment and investment.

	1964	1965	1966
Output	714	865	645
Employment	531	953	486
Investment	486	483	947

SUMMARY POLICY MATRIX

KEY ISSUE	FISCAL	MONETARY	TRADE/PRICING	REGULATORY
AGRIBUSINESS INVESTMENT	Land tax Income tax Public expenditure Deficit External Debt	Land tax Income tax Public expenditure Deficit External debt Exchange rate	Land tax Public expenditure Deficit Wages rate for Internal debt Wages exchange	Land tax Public expenditure Deficit Exportation stamp Internal debt (Add for others)

IMPACT ANALYSIS TABLE

Policy Intervention/ Impact Sector	Purpose	Implementing Institution	Impact Assessment		Explanation of Policy Impact	Principal Alternatives Suggested for Analysis
			Export Revenue	Government Revenue		
MACROECONOMIC POLICIES, FISCAL						
Level and structure of taxation/agribusiness	Revenue generation	Ministry of Finance	.2	+1	These activities from the agricultural system have averaged 10-11% of agricultural value added, 90-95% of the sector's fixed contribution or surplus to the coffee export tax, which at current prices and exchange rates, has strong negative impact	1. Review coffee export tax to more closely approximate 2. Broaden the agricultural tax base 3. Improve tax administration and collection

POLICY ANALYSIS

INSTITUTION(S)

The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies affecting agribusiness. This main body of the report is organized by policy types or around key issues, or

DESCRIPTION OF POLICY

The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies affecting agribusiness. This main body of the report is organized by economic, technological, socio-cultural, and political relationships affecting the agribusiness sector. It delineates the major linkages of the agribusiness sector to the national and world economies. To set the scene for the subsequent policy analysis, economic, technological, socio-cultural, and political relationships affecting the agribusiness sector. It delineates the major linkages of the agribusiness sector to the national and world economies. To set the scene for the subsequent policy analysis

PRELIMINARY ASSESSMENT OF IMPACT

The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies affecting agribusiness. This main body of the report is organized by policy types or around key issues, or in some other fashion that clarifies the presentation (i.e. economic, technological, socio-cultural, and political relationships)

RECOMMENDATIONS

ALTERNATIVES

- The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies affecting agribusiness. This main body of the report is
- Organized by policy types or around key issues, or in some other fashion that clarifies the

FURTHER ANALYSIS

The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies affecting agribusiness. This main body of the report is organized by policy types or around key

* Data permitting.

3.2 Overview of Agribusiness Performance

A major review of agribusiness performance is *not* the purpose of an agribusiness policy inventory. Moreover, such a review would often be hampered by a lack of suitable data.⁵ Data permitting, however, important aspects of agribusiness performance can be highlighted. These include: the share of agribusiness in output, employment, and investment; the shares of large-scale, small-scale, and informal agribusiness activities by sector, gender, or region; indigenous vs. foreign ownership of agribusinesses by sector; the relative importance of different types of agribusiness organizations (corporations, cooperatives, NGOs, family enterprises). The overview may also include information, by industry, on the size of agribusiness units, the degree of competition, and barriers to entry.

3.3 Matrix of Policies

For the purpose of an agribusiness policy inventory, a policy is a rule that influences the behavior of an individual, firm, or organization.⁶ Policies are generally, but not always, made by an arm of the government.⁷ In a particular country, there are likely to be many kinds of policies affecting agribusiness, having many kinds of effects. To glean an appropriate picture of the effects of these policies, they need to be organized in a useful fashion. One way to organize policies is by their scope. Some policies have direct effects on the entire economy, while others are targeted at agribusiness, individual industries, or particular commodity subsectors.

Another way to categorize policies is by economic type. Thus fiscal, monetary, trade and price, regulatory, labor and human capital, and nontraded factors (like infrastructure) are a set of categories that covers many policies affecting agribusiness. Other sets of categories could undoubtedly be conceived.

A matrix of policies by type (fiscal, monetary, regulatory, etc.) and scope (economy-wide, sectoral, subsectoral) is a useful way to organize these policies both for summary presentation (as a text table with cells) and for analysis. If this form of organization is used for the analysis, each cell of the matrix—containing several policies pertaining to one scope and one policy type—would be analyzed separately. The actual text of key laws and other important documents can be included in an appendix.

⁵National accounts data are generally organized so that agriculture, but not agribusiness, can be easily separated. See Ouédraogo et al. (1993).

⁶See Bradley et al. (1990), vol. II, p. 2.

⁷There may be important policies or regulations that do not originate with the government. For example, grades and standards may be established by producer or exporter associations, just as accounting standards may be set by a professional organization. These cases seem to be the exception rather than the rule, however.

Agribusiness sits at the confluence of agriculture and business. Thus policies that affect the agricultural sector and those that affect private businesses all affect agribusiness. It may be useful, then, to break down the sector, part of the policy matrix by the intended scopes of the policies included, namely, agricultural and agribusiness. The analyst should be alert to the effects of agricultural policies downstream on agribusiness. The presentation of such policies with their effects on agribusiness—rather than on agriculture—may be very educational for some policymakers. For example, price policies that make a commodity cheaper (whether they are domestic or trade policies) lower the production of what is an agribusiness input, so less supply is available for processing. Limited allocation of resources to research also results in lower production of such commodities, but in addition it results in lower levels of processing or production technology (used or sold by agribusinesses) being available.

When certain key issues have been specified in conjunction with carrying out an inventory, a visual presentation organized by issue that includes institutions, their roles (policies they control), and the impacts of policies may be the most cogent way to present the material.⁸

It may be advisable to collect and present separately the views of the public and private sectors on the policies that affect agribusiness. The inventory process is one opportunity to begin a dialogue on (further) policy reform. An iterative process that samples the views of both sectors and presents them separately would support a dialogue; if the sponsor feels that this is an important objective of the inventory process, then the resources available must be sufficient to allow for repeated interactions with those being interviewed. Moreover, gaps between the two viewpoints would in some cases highlight areas where policies were apparently reformed but the implementation was lagging.

For reference, generalized policy matrices are presented in Appendix A, and a list of policymaking institutions is given in Appendix B.

3.4 Policy Analysis

The majority of the text of an agribusiness policy inventory is devoted to description and analysis of policies that affect agribusiness. This main body of the report is organized by policy types or around key issues, or in some other fashion that clarifies the presentation. Each policy analysis should describe the relevant policies, who implements them, how effectively they are implemented, what impact they have, and key interactions among the policies in the group. It should be pointed out that the nature of an inventory allows for qualitative assessments of the effects of policies, but generally not for quantitative analysis of their impact. On the other hand, it may be possible to use graphics, e.g., flow charts, to clarify the presentation of complex patterns of interactions and impacts. When impacts are unambiguous, supply-demand graphs may also be used to indicate the direction of changes in prices and quantities.

⁸Chapter 5 contains presentation options. See Figure 3 for one way to present these elements based on key issues. Table 2 also organizes policies around key issues.

The analysis should highlight both the positive aspects of the policy environment and the weaknesses. For example, the analysis of regulatory policies should distinguish between restrictive regulations and those that, when carefully designed and administered, have beneficial effects. Examples of the former are investment licensing and domestic content laws; examples of the latter are commodity grades and standards, and accounting standards. Similarly, where possible, the analysis should distinguish between policies that were well-conceived but poorly implemented, and those that were not well-conceived. The implementation of a policy may not follow the announced plan or objectives. The analyst should also be alert to the effects of policies quite different from their apparent objectives; for example, a subsidy on wheat intended to lower the price to consumers may also lead to the use of wheat in poultry feed.⁹

Whether the inventory is to be used in conjunction with a policy reform program or not, the analysis would be incomplete without mention of any existing or proposed policy reform programs, including those negotiated with donor institutions. This would encompass the Sectoral Adjustment Loans and Structural Adjustment Facilities of the World Bank and IMF.

The analysis may also address some of the following questions:

- Are there informal or customary barriers to entry into certain agribusinesses?
- To what extent can the growth of the informal sector be attributed to certain policies?
- Does the economy show the effects of heavy regulation, including rent-seeking behavior and a tendency to locate industries near the bureaucracies they deal with?
- Are there major gaps in infrastructure and/or insufficient maintenance?
- Are there gaps in implementation or information that make changes in policy ineffective?

The stability of the policy environment is very important to both existing and potential agribusinesses. Whether the development of agribusiness is sustainable in the long run will depend on both the sustainability of production agriculture and on the stability of policies affecting the agribusiness sector. Annual adjustments in import tariffs, for example, can wreak havoc on particular industries' profitability. Government domination of production and/or marketing, moreover, often gives it the power to change prices overnight, thus rewarding or ruining whole industries that were set up under the previous price regime and based their forecasts of future profitability on the continuation of that regime. Agribusiness investment may have been limited in the past because of the Government's latent power to intervene. Ironically, a stable and enabling policy environment is likely to allow the private sector to respond faster and flexibly to changing economic and technical conditions, while the unstable policy environment is likely to constrain potential investors.

⁹This example is from Ender et al. (1992). While this paper is not an agribusiness policy inventory, it is systematic in evaluating financial and agricultural policies and their impact on agribusiness.

In Pakistan, during the *denationalization* of various industries in the early 1990s, the Government devoted considerable effort, including the passage of a law, to convincing the private sector that in the future those same industries would not be nationalized again and that key economic reforms would remain in place. Given the importance of policy stability, it should be discussed as part of a broad perspective on the policy environment and may deserve a separate place in the matrix or other format chosen to present a summary of policies.¹⁰

3.4.1 Agencies Responsible for Policy Formulation and Implementation

As mentioned above, it is useful to organize the discussion of policies and institutional (including non-governmental) roles in policymaking around policy groups or issue areas. In some cases it may be useful to substitute or add a discussion organized around the *scope* of the policies and the institutions that implement them at those levels. For example, the national government (including the ministries of commerce and agriculture) generally has jurisdiction over foreign (agricultural) trade; state or provincial governments may address agricultural production issues; and local governments may tax local movements of agricultural produce. An understanding of how these policies complement or offset one another is important to both coherent policymaking and successful operation of an agribusiness.

While discussing the role of institutions, it may often be important to distinguish between those that make policy and those that implement it, and to describe the interactions among these agencies. On the other hand, finding out who makes certain policies (that is, who really has the power to change them) is not always easy. Those responsible for sensitive policies may not wish to be visible. To the extent that a map of policymaking institutions differs from the actual wielders of such power, the process of policy reform will be retarded and possibly thwarted. Models for summarizing policy and institutional relationships are shown in chapter 5.

The institutional analysis may also address some of the following questions:

- What is the impact of foreign institutions (including donor agencies and international commodity agreements)?
- Do the public and private sectors play complementary roles?
- Are some policies the *raison d'être* for certain institutions and therefore likely to be difficult to change or eliminate?

For reference, a generic list of government and non-governmental bodies responsible for policy formulation and implementation is presented in Appendix B.

¹⁰An example is given in Table A-1 in Appendix A.

3.4.2 Preliminary Assessment of Policy Impact

Policies that affect agribusiness can do so in a variety of ways. To assess the impacts of these policies in a way that will satisfy the sponsor's objectives in carrying out the inventory will generally require agreement on a set of impact variables. For example, one could examine the impact of policies on the income or profitability of the agribusiness sector, on the employment it generates, on agricultural exports, or on the regional or urban-rural dispersion of agribusinesses. One could also evaluate whether there was any gender bias inherent in the policy or its implementation. The reasons for choosing certain variables should be discussed in the analysis. Another form of impact assessment that can be highly useful to an understanding of policy constraints on the agribusiness system is a discussion of impacts on different institutions in the agribusiness system (operators, supporters, and coordinators [see chapter 1]).

By its nature an agribusiness policy inventory does not generally allow for the estimation of quantitative impacts. On the other hand, the question, Which policies individually impose the most severe constraints on the development of agribusiness or on the selected variables, is still a key one. For this reason, a preliminary, qualitative assessment of impact of each policy on the chosen impact variables is an important part of the analysis. These assessments, while somewhat subjective, are based on the data gathered from secondary sources (which may indeed include quantitative estimates of impact) and interviews, and on economic principles. Assessments can be presented through the use of a crude numeric scale (e.g., from -2 to +2) to rate policy impact. These numbers indicate impacts ranging from strongly positive to strongly negative. The analyst may feel, however, that this would imply a level of quantification that is not justified. Another option is to rank the impact in words only as strongly or weakly positive or negative, or zero. Economic variables may be affected differently in the short and long runs, so the analyst may wish to consider these impacts separately.¹¹

For convenience, a list of key economic variables on which policy impact might be assessed is presented in Appendix C.

3.4.3 Analysis of Policy Interactions

An agribusiness policy inventory helps clarify the complex of policies that affect agribusiness and their impacts. One of the complexities that typically needs to be elucidated is the conflicts and complementarities among such policies. Thus the analysis should specifically mention the ways that policies reinforce or offset each other. For example, an overvalued exchange rate and poor market information would reinforce each other to depress agricultural exports. Duty-free, open access to imported packaging materials and research priorities that did

¹¹See Table 5.4 for a scope-based method of presenting the impact on economic variables and Figure 5.1 and Figure 5.2 for issue-based methods. The information in Table 5.4 is part of the summary policy matrix from an actual study of agricultural policies in El Salvador, whereas the diagrams in Figure 5.1 and Figure 5.2 are hypothetical.

not include exportable agricultural commodities would be offsetting factors from the point of view of an agro-industry.

Using a matrix-based format, a systematic look at interactions among policy groups can be provided. For example, a matrix-based section might discuss the impact of regulatory policies on agribusiness at the economy-wide level, including the interactions among such regulatory policies. To complete an analysis proceeding in this fashion, the analyst would also study the interactions among regulatory and fiscal policies, regulatory and labor policies, and so forth.

Analyzing the interactions among all the combinations of policy groups would probably prove very lengthy and dissipate the clarifying power of the analysis. To maintain focus, the analyst should refer to the selected important issues or impact variables (or choose several) and analyze the conflicting or reinforcing policies that affect them.¹²

3.5 Recommendations

In general, an inventory includes two kinds of recommendations. On topics where data permit, it contains broad options for policy reform; where they do not, it makes recommendations for further study.

3.5.1 Potential Policy Alternatives

The policy analysis in the inventory can be the basis for proposing (sets of) potential policy alternatives. Such proposals should benefit from the broad scope of the inventory and its integration of multiple policies and their effects and inconsistencies. As they are not the focus of an inventory and resources are not likely to permit more, alternatives will generally be broadly described, not fully-specified, blueprints for policy change. In some cases multiple alternatives may be suggested, but detailed specification will generally be left to a subsequent exercise.

A recent World Bank analysis of strategies for promoting the development of the private sector provides starting points for considering alternative policies.¹³ The analysis found that country-specific strategies would include the following:

- Incentives (policy reform, including reduction of distortions)
- Deregulation
- Promotion (provision of credit, information, and advisory services)
- Development (creation of infrastructure and human capital)

¹²Chapter 5 contains examples of presentation options. An example of cross-policy analysis is given in Box 4.

¹³Gustafson et al. (1989).

- **Privatization**

Analysts should exercise care in suggesting alternatives, especially those that are "standard" or currently favored by donor institutions. Country-specific alternatives may be very important and/or unique. Moreover, innovative alternatives might be missed if analysts choose to simply propose more of a policy that seems to work or less of one that does not. The private sector may have different views of current policy constraints and different notions of priorities for the future. The analyst should try to elicit such suggestions.

Some examples of potential alternatives to existing agribusiness policies include:

- (Broad) Develop a coherent policy toward agribusiness based on recognition of the unique aspects of the sector and its needs and potential contributions to income and employment.
- (More specific) Subsidize the provision of export advisory services through cost-sharing grants to two or more demonstration firms.¹⁴
- (More specific) Investigate the use of PVOs/NGOs for setting up small business credit programs (see Tendler 1982, pp. 114ff).

It is useful to remember that some constraints to agribusiness development may be in areas that are not necessarily best rectified or supplied by the public sector, such as export advisory services. Even with the best of policies, a "catalyst" of some kind (often foreign) may be required to spark investment in a new area (see Rhee and Belot 1990). A broker, an adviser, or an investor might be such a catalyst.

3.5.2 Further Analysis

An agribusiness policy inventory is a systematic exercise that examines policies affecting agribusiness. Because it is systematic, an inventory can point out gaps in the conceptual policy matrix. These might be gaps in knowledge—what policies exist—or gaps in understanding—how certain policies function. Based on the results of the inventory, the analyst may recommend additional investigation into the most important of these areas.

The inventory results may highlight trade-offs among certain policies that call for more rigorous investigation. There may also be issues of particular interest that, because they were not anticipated, could not be carefully examined.

¹⁴See Hogan et al. (1991)

3.6 Persons Contacted

For reference purposes and to support future policy dialogue efforts, the inventory should contain a list of those persons contacted during the fieldwork.

4. IMPLEMENTATION OF AN AGRIBUSINESS POLICY INVENTORY

4.1 Data Requirements

In many analytical studies, the term "data" means statistics (i.e., numerical data). In some policy studies, data means both numerical and verbal information that together describe a policy or set of policies. An agribusiness policy inventory is an initial policy analysis that relies very little on statistical analysis. Thus the data requirements of the core sections on policies are likely to be almost entirely verbal information. In some cases it will become necessary in the course of an inventory exercise to collect numerical data (e.g., on prices) and analyze them quickly to see what the impact of certain policies is. For an inventory, this would definitely be the exception, not the rule.

While it is not the purpose of this section to list all the data sources for the information required in an agribusiness policy inventory, it may be useful to mention some as examples. Governments often publish annual statements on the state of the economy, with recent policy changes. (This kind of document often includes a set of basic statistics outlining the performance of the economy and various sectors that would be essential for the description of the economic setting.) More specific annual documents might set out adjustments to the trade policy or the income tax code. Private institutions, like accounting firms, might also issue such documents as a service to their clients. In addition to informational documents of this sort, the other major source of published policy information is analyses done by local or foreign researchers or institutions on specific topics, like rice policy or whether the exchange rate is overvalued. Finally, much of the policy information required for the inventory will have to be gathered through interviews with knowledgeable individuals, whether they be in the government or elsewhere.

4.2 Process

As mentioned above, the process of compiling an agribusiness policy inventory is flexible: the scope and process used depend on the resources available and the specific objectives of the study. Nevertheless, there are certain steps common to all inventories. In this section, the key steps are outlined, and some comments are made on the main part of the inventory, the policy analysis.

4.2.1 Key Steps

- *Inventory initiation trip:* An early trip by the team leader is important. It should clarify what the sponsor can expect from the inventory (and, sometimes, what will not be included). The team leader should be available in person to discuss the selection of impact variables and specification of any key issues, agro-industries, or subsectors—based on previous research or other factors. On this trip the team leader can begin discussions with collaborating local institutions and representatives of the private sector.

S/he can also interview local analysts, and may arrange for them to begin collecting certain data.

- ***Home office preparation:*** Gathering secondary materials, working on questionnaire(s), and beginning a work plan before starting the field data collection allows the analyst to study previous work on the topic efficiently—that is, without the competing needs of fieldwork. At the same time, if limited field data collection by the local consultants has begun, the consultants may be able to relate likely data gaps that can be filled better from the home office.
- ***Field data collection:*** This phase of the project will take up most of the time in the field and will be a major part of the exercise. The data will come from secondary sources and structured interviews. This phase of the work—and the seminar/presentation phase—may be particularly important if the inventory process is seen as a beginning to build consensus among private and public sector participants for certain policy reforms.
- ***Preliminary analysis:*** During data gathering, preliminary analysis will continue to refine and redirect the data collection process. At the end of data collection, preliminary analysis prepares the analyst to make a presentation to the sponsor before undertaking the full analysis and writing the report.
- ***Presentation of preliminary findings to sponsor:*** Feedback from the sponsor and other professionals and stakeholders provides guidelines for time allocation and emphasis in the analysis phase.
- ***In-depth analysis*** (See chapter 3, 3.1 and the following section.)
- ***Choosing presentation methods:*** Looking at the analysis from this point of view may result in a particular way of collecting data or in specific types of data being collected. For example, if it is important to understand not only which institutions are responsible for policies but also how those institutions interact with each other, then additional data would be required.¹⁵
- ***Drafting report***
- ***Comments from sponsor(s), stakeholders, and other professionals***
- ***Finalizing report***

¹⁵For a variety of options in presentation, see chapter 5.

- *Presentation of final results in seminar or similar forum:* As in the data collection phase, this phase of the work may be particularly important for building consensus among participants for policy reforms.

4.2.2 Notes on Analysis

Preparation of a performance review for the agribusiness sector may require a separate exercise because of its very specific numerical data requirements. In many countries these data will be difficult to find because the agribusiness sector is not separated statistically in the published national accounts data.¹⁶

When an inventory is designed to focus on a particular commodity subsystem, using the rapid appraisal method in conjunction with the inventory should be considered.¹⁷ A rapid appraisal determines the strengths and weaknesses of the commodity subsystem; some of these weaknesses may be the result of policy constraints that should be investigated for the inventory analysis. In a rapid appraisal, the data gathering stage includes analysis as well. Thus the analysis of the rapid appraisal would be available to the team while it was still in the field collecting policy data for the main part of the inventory and could guide such collection.

Normally the inventory's data collection and analysis phases are separate, and the analysis need not be carried out in the field. However, the direct participation of the analyst in interviews, which is a hallmark of rapid appraisals, should be maintained in the inventory process. The resources available to conduct an inventory are not likely to permit formal surveys with trained enumerators. Moreover, the volume of unstructured information to be organized, analyzed, synthesized, and presented is very large, so there should be as few barriers as possible between the analyst and the data. Much of this process takes place in the course of fieldwork. Thus the analyst must do more than collect data: ongoing analysis and synthesis leads to progressively more focused data gathering.

Some detailed quantitative analysis may supplement the initial analysis if time and other resources permit. It is more likely, however, that the inventory will incorporate relevant analyses done by others. The impact assessment should integrate existing quantitative analyses (e.g., those using NRP/ERPs, DRCs, or PSEs) to examine the economic position of individual commodities.

There should be time set aside to consider policy alternatives separately, after the inventory is compiled and reviewed. In this way the proposals should benefit from the broad scope of the inventory.

¹⁶See Ouédraogo et al. (1993).

¹⁷See Holtzman (1992 and 1993).

4.3 Required Expertise

To conduct an agribusiness policy inventory, extensive knowledge and skills are required, and a team should be constituted accordingly. There should be team member(s) who are familiar with the impacts of agricultural policy on agribusiness and member(s) who can analyze the impact of general economic policies and business-oriented policies on agribusiness. Local knowledge and entrees will of course be very important as well.

For reference, a draft scope of work for conducting an agribusiness policy inventory is presented in Appendix D.

5. PRESENTATION OPTIONS

Because of the large volume of material likely to be presented in an agribusiness policy inventory, it is important to present some type of synthesis of the analysis. This will serve the needs of busy readers, most of whom are not likely to read the entire report, and will ensure that the conclusions of the inventory are readily understood by policymakers. For those readers who do use the main report as a reference, it is important that the entire study be carefully organized. This chapter presents some ways to organize the material in the policy analysis of the inventory. (Note that the tables and figures in this chapter are intended only as examples of methods of presentation; they are not intended to communicate the results of actual policy analyses.)

One point from above bears repeating here. In both the narrative and the tables, it may be important to show public and private sector views of policies separately. This would both register their views in anticipation of a policy dialogue and point up gaps between policy reforms and their implementation.

5.1 Narrative Summaries of Policy Analysis

The complexity of policies dealt with in an agribusiness policy inventory makes carefully placed and more frequent summaries desirable. Some options include:

- A summary at the beginning of the policy analysis chapter(s)
- An executive summary
- A synthesis volume

Executive summaries are commonly placed at the beginning of documents for the reader's convenience and easier understanding of the material in a report. In the same way, a policy summary may be written last, but should be placed early in the chapter to provide the framework for the more in-depth analyses that follow.

5.2 Tables and Figures

Another way to organize complex material for better readability is to use tables, figures, and boxes. A text box looks most like the main body of the report. By isolating the text in the box, however, the presentation can call attention to particular aspects of the analysis, including a summary of one type or another. It can also provide examples of the issues or policies under discussion. See the examples below.

Tables and figures are progressively more graphical forms of organizing text information. Their formats are useful for showing relationships among policies, their impacts, the institutions implementing the policies, and other aspects. Some examples of tables and figures that can be

adapted for use in an agribusiness policy inventory are also given below. Table 5.1 summarizes some of their advantages.

Table 5.1 Some Options for Presenting Components of Policy Inventories

<p>Table 5.2 Extract from "Summary Policy Inventory Framework," in Honduras Natural Resource Policy Inventory</p>	<p>Matrix summarizes key policies by scope and issue</p>
<p>Table 5.3 Institutional Interaction Chart, After Belize Natural Resource Policy Inventory</p>	<p>Shows interactions among policy institutions</p>
<p>Table 5.4 Impact Assessment Table from El Salvador Agricultural Sector Policy Inventory</p>	<p>Presents qualitative estimates of impact, along with key information such as institutions and alternatives</p>
<p>Figure 5.1 Hypothetical Issue-Based Impact Bar Graph</p>	<p>Graph facilitates understanding of cumulative impact of policies in certain impact areas</p>
<p>Figure 5.2 Hypothetical Issue-Based Policy Presentation: Agricultural Export Development</p>	<p>"Cellular" presentation includes policy, institution, impact narrative and impact assessment in succinct format</p>
<p>Box 5.1 Policy Inventory Table from Belize Natural Resource Policy Inventory</p>	<p>Presents qualitative estimates of impact, along with key information such as institutions and topics for research</p>
<p>Box 5.2 Example of Natural Resource Policy Mini-Case, Africa</p>	<p>Summarizes the methods and benefits of a positive intervention in Africa</p>
<p>Box 5.3 Example of Natural Resource Policy Mini-Case, Asia</p>	<p>Summarizes the methods and benefits of a positive intervention in Asia</p>
<p>Box 5.4 Example of Natural Resource Cross-Policy Analysis: Water Quality in Central America</p>	<p>Shows the interactions of different groups of policies</p>
<p>Box 5.5 Possible Chapter Structure for Presentation of Analysis in Policy Inventory</p>	<p>Presents complex material while highlighting important points and breaking up paragraph-based pattern</p>

Table 5.2 Summary of Key Policies by Issue

POLICY SCOPE	KEY ISSUES			
	SUSTAINABLE AGRICULTURE	PRODUCTION FROM NATURAL FORESTS	WATERSHED	WILDLANDS BIODIVERSITY
MACRO/ FISCAL	Land tax Income tax Public expenditure Deficit External Debt	Land tax Income tax Public expenditure Deficit External debt Stumpage fee	Land tax Public expenditure Deficit Water use fee External debt Water surcharge	Land tax Public expenditure Deficit Conservation stamp External debt (debt for nature)
MACRO/ TRADE	Export taxes Import tariff and barriers Pricing policies Export promotion	Export taxes Import tariff and barriers Export controls Pulp, paper import subsidies	Import tariff and barriers Export promotion Export taxes	Export quotas Export control-endangered species Quality control Nontraditional export promotion
SECTORAL/ REGULATORY	Land tenure framework INA policies Land bank Price control policies: consumer Basic grain law BANADESA's structure and management policies IHMA - structure and functioning	Land tenure framework Tenurial issues in forestry (including tree ownership, AMI, and tributary areas) Forestry regulations Role of COHDEFOR in production and marketing Fuelwood policies	Land tenure framework Water law Fisheries law Mangrove Commission Procedures for coastal land concessions Pollution and waste management Plant protection law	Land tenure framework CITES International Conventions Decree 86-87 Accord 001-90 Decree 976, 977-80 Decree 57 (Lake Yojoa) Fisheries law

SOURCE: Johnston and Flores (1990).

Table 5.3 Institutional Interaction Chart, After Belize Natural Resource Policy Inventory

	Ministry of Agriculture	Ministry of Economic Development	Ministry of Energy	Ministry of Health	Ministry of Trade and Commerce	Ministry of Natural Resources	Pesticide Control Board	World Bank
Ministry of Agriculture								
Ministry of Economic Development	+							
Ministry of Energy	+	-						
Ministry of Health	-	+	+					
Ministry of Trade and Commerce		+	+	-				
Ministry of Natural Resources	-		-	+	+			
Pesticide Control Board		-		+	+	+		
World Bank	+	+	-		-	-	+	

+ = cooperative interaction, - = non-cooperative interaction, blank = no interaction

SOURCE: Based on Chart 3.1 in Bradley and Mangum (1990).

Table 5.4 Impact Assessment Table from El Salvador Agricultural Sector Policy Inventory

Policy Intervention/ Impact Sector	Purpose	Implementing Institution	Impact Assessment					Explanation of Policy Impact	Principal Alternatives Suggested for Analysis
			Production	Import Expenditures	Domestic Consumption	Export Revenue	Government Revenue		
MACROECONOMIC POLICIES, FISCAL									
Level and structure of taxation /agriculture	Revenue generation	Ministry of Finance	-1	0	-1	-2	+1	Taxes extracted from the agricultural system have averaged 10-11% of agricultural value added, 90-95% of the sector's fiscal contribution originates in the coffee export tax, which at current prices and exchange rates, has strong negative impact on the profitability of coffee production. Declining coffee output is closely related to falling agriculture employment, income, and consumption.	<ol style="list-style-type: none"> 1. Revise coffee export tax to more nearly approximate an income tax rather than a gross sales tax. 2. Broaden the agricultural tax base. 3. Improve tax administration and collection
Level and structure of expenditures /agriculture	Provide public goods, services, and infrastructure	Ministry of Finance	-1	-1	-1	?	+1	Central government expenditures on agriculture at 6-7% of total expenditures, are now low compared with agricultural sector tax revenues and agriculture's contribution to GDP. Expenditures favor livestock and export crops.	<ol style="list-style-type: none"> 1. As conditions permit, increase real levels of expenditure. 2. Revise intrasectoral allocation of expenditures in light of short- and medium term national objectives.
MACROECONOMIC POLICIES, MONETARY									
Interest rate regulation/ agriculture	Regulate supply and demand for financial resources; influence costs	Monetary Board Central Bank	+1	0	+1	+1	+1	The government has adopted an interest rate structure designed to provide a positive real rate of return to savers and full cost recovery on lending operations agricultural borrowing rates are only modestly lower than in other sectors. Through its impact on savings, this policy should enhance investment and growth over the medium.	<ol style="list-style-type: none"> 1. Implement this policy more actively through more flexible and frequent interest rate revisions. 2. Study interest rate measures to foster the development of long-term financial investments.

-2 = highly unfavorable, -1 = unfavorable, 0 = neutral, +1 = favorable, +2 = highly favorable

SOURCE: Robert R. Nathan Associates (1984).

Box 5.1 Policy Inventory Table from Belize Natural Resource Policy Inventory

PROBLEM: Sustainable Agriculture
POLICY CATEGORY: Regulatory

POLICY: Sugar Industry (Control) (The Laws of Belize Chapter 232) and Sugar Cane Farmer's Association (The Laws of Belize Chapter 256).

PURPOSE: Regulates producer sales of sugar cane by license and quota, manufacture and sale of sugar including import and export.

POLICY-MAKING/IMPLEMENTING INSTITUTIONS: Belize Sugar Board; Belize Cane Farmer's Association; Ministry of Natural Resources and Industry.

IMPACT ASSESSMENT			
SHORT-RUN GROWTH	SHORT-RUN NAT. RES.	LONG-RUN GROWTH	LONG-RUN NAT. RES.
+1	-1	+2	-1

BRIEF EXPLANATION OF POLICY IMPACT

SHORT-RUN GROWTH: By providing stability to the industry and a market for sugar cane, agricultural output is stimulated. Sugar is the major income source for northern Belize.

SHORT-RUN NATURAL RESOURCE: There is deterioration associated with land clearing, annual burning of cane fields and stream pollution from manufacturing.

LONG-RUN GROWTH: The sugar industry has been the major economic stimulus for northern Belize and until recently was the leading foreign exchange earner.

LONG-RUN NATURAL RESOURCE: Extensive land clearing, farming practices and manufacturing negatively affect the resource base. However, sugar cane is not as destructive to soil and water resources as annual row crops.

PRINCIPAL POLICY ISSUES SUGGESTED FOR ANALYSIS

- Research alternative farming systems that can both increase output and conserve resources.
- Research alternative uses for cane by-products and manufacturing residues.

SOURCE: Bradley and Mangum (1990).

Box 5.2 Example of Natural Resource Policy Mini-Case, Africa

Amboseli National Park in Kenya provides the Masai pastoralists with several incentives to help protect the park's resources:

- **A water diversion system to pipe water from the park to artificial swamps outside the park for the Masai cattle.**
- **A grazing compensation fee to cover livestock losses due to wildlife migrating from the park onto Masai lands.**
- **The Masai control hunting and cropping on their land and receive subsidies to accommodate tourist campsites and lodges.**
- **The park headquarters includes a community center, school and medical facilities.**

Results: Net monetary gain to the park from use of Masai lands is about \$500,000/year, and the Masai receive an income that is 85% greater than they would obtain from livestock alone.

SOURCE: Johnston et al. (1992).

Box 5.3 Example of Natural Resource Policy Mini-Case, Asia

Economic incentives for Ban Sap Tai, a village at the edge of Khao Yai National Park, Thailand.

The following package of incentives was established to halt poaching and encroachment into the park:

- **A trekking program using villagers as guides and porters.**
- **Establishment of an Environmental Protection Society (EPS) that functioned as a community-based credit cooperative, education center, and collective business enterprise. The EPS established a revolving fund and a cooperative store.**
- **Training for villagers in management and administration of cooperatives and the revolving fund.**
- **Community woodlots.**
- **Food-for-work program for community development projects.**
- **Technical training in improved cultivation techniques, conservation of forests, soil and wildlife, and basic business skills.**
- **Training of village health volunteers to provide health and family planning services.**
- **A cooperative program between EPS and Khao Yai Park to reforest park lands previously under illegal cultivation and demarcate the park boundary.**

Results: Encroachment on park lands has been halted, existing farms inside the park removed, and poaching greatly reduced. The program has been expanded to adjacent villages.

SOURCE: Johnston et al. (1992).

Box 5.4 Example of Natural Resource Cross-Policy Analysis: Water Quality in Central America

Policies in other sectors generate pressures on water quality that can confound the effectiveness of even the best environmental protection policies. Industrial growth provides an obvious example. Although each source of industrial pollution can be controlled more stringently, increasing the number of sources will outstrip the gains made from better controls at each individual source.

Industrial policy can also affect the success or failure of water quality protection when it determines which production technologies will be promoted or will benefit from various subsidies and concessions. Although there is only limited evidence, manufacturers may migrate from industrialized countries to escape more stringent environmental regulations, and the industries that migrate tend to be more polluting.

Subsidies may come in the form of raw material pricing policies that are advantageous to industry but that result in inefficient allocation of these materials and lead to greater throughput, waste and greater pollution. Chemical and mineral feedstocks are two important raw material categories with important environmental implications. However, the conclusion also extends to water pricing policies for both industry and households. Adjusting water prices to reflect true costs could reduce the magnitude of wastewater generation.

A host of other policies indirectly determine the level of water quality. Population policies that encourage urban migration and growth, increase urban densities and therefore the size of populations at risk. Land use policies that encourage the concentration of industrial facilities heavily tax the ability of surface water bodies to assimilate wastes. Where hydropower is important for electricity generation, flow rates for inland rivers may be adjusted to meet energy needs, with possible negative implications for these rivers' assimilative capacity for either treated or untreated wastewater.

Short-term needs, such as economic growth targets, tend to drive the policy agenda while environmental consequences manifest themselves over the long run. This tendency toward short-term horizons works to the disadvantage of environmental matters until they become acute. The cost of addressing acute problems is often prohibitive, whereas the cost of prevention would have been feasible if instituted at the outset.

SOURCE: Johnston et al. (1992).

Box 5.5 Possible Chapter Structure for Presentation of Analysis in Policy Inventory

TITLE: KEY ISSUE AREA

Subtitle: Key Issue

Key Points

- Key point number 1
- Key point number 2
- Key point number 3

Subhead: Policy number 1: Analysis in paragraph form

Likely Impacts of Policy number 1

Impact variable number 1

- Impact number 1
- Impact number 2

Impact variable number 2

- Impact number 1
- Impact number 2

Subhead: Policy number 2: Analysis in par graph form

Subhead: Policy number 3: Analysis in par graph form

Subtitle: Research Questions

Subtitle: References

SOURCE: Based on Johnston et al. (1992).

Figure 5.1 Hypothetical Issue-Based Impact Graph
 Policy Impact on Exports & Employment

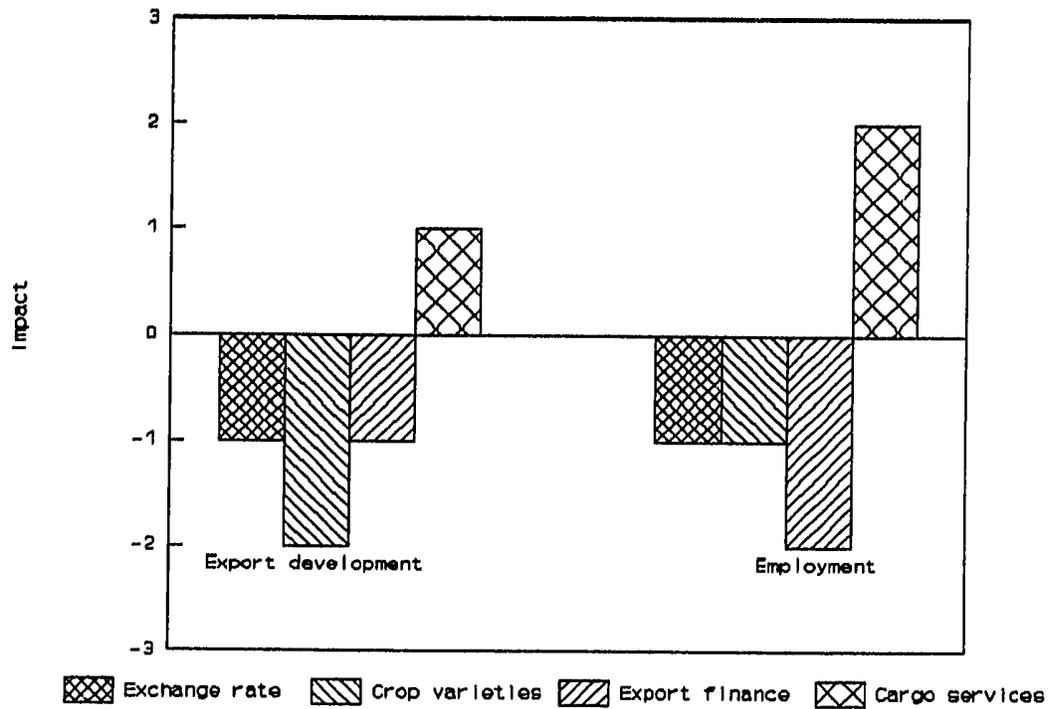


Figure 5.2 Hypothetical Issue-Based Policy Presentation: Agricultural Export Development

Crop varieties
Suitable varieties for target market lacking
-2
Research

Export finance
Slow and inward-biased procedures hamper exports
-1
Commercial banks

Exchange rate
Slightly overvalued exchange rate still hindering export competitiveness
-1
Central Bank

Cargo services
Timely service, attention to perishables, and available space enhance export competitiveness
+1
National airline

Legend:

Policy
Impact narrative
Impact score
Institution

Key to Impact Score:

+2	Strongly positive
+1	Weakly positive
0	None
-1	Weakly negative
-2	Strongly negative

6. COMPLEMENTARY ANALYSES

An agribusiness policy inventory provides a large amount of mostly qualitative information and analysis on policies that affect the agribusiness sector. An inventory is a useful tool for organizing such information in advance of a policy reform effort or project development. To further these same objectives and develop more precise information in certain areas, the following tools will complement the inventory.

If the inventory had a specific commodity focus, then the rapid reconnaissance (RR) method may have been used to study one or more subsectors in detail. If the inventory had no specific commodity focus, then an RR study of subsectors highlighted by the inventory may be useful. RR provides more detail on the structure of an agribusiness subsystem and the constraints that affect it.¹⁸

Because data on the agribusiness sector as a whole are often not available, a separate study of the contribution of agribusiness to income and employment may also be warranted.¹⁹ The results of such a study could help to justify development support to the agribusiness sector.

The Policy Analysis Matrix, or PAM, developed under the Agricultural Policy Analysis Project, is also a systematic way to analyze policy information. It organizes prices and other budgeting data to reveal in numerical terms the distortions created by policies. The results of the PAM can be used to analyze the impact of policy on competitiveness, farm-level profits, economic efficiency, and comparative advantage.²⁰ Since agricultural policies affect agribusiness, both directly and indirectly, such an exercise could also be very worthwhile.

¹⁸See Holtzman et al. (1993) and Holtzman (1986).

¹⁹See Ouédraogo et al. (1993).

²⁰See Monke and Pearson (1989) and Gotsch (1991).

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APPENDIX A GENERALIZED POLICY MATRICES

Table A-1 General Indicators of Policy Environment

Policy Type						
Overall Assessment	Fiscal	Monetary/ Financial	Trade/Pricing	Regulatory	Labor/ Human Capital	Non- traded factors
Public/private sector roles Market/planned orientation	Fiscal (inter- nal) balance Policy stability	Inflation/ growth of money supply Policy stability	Openness of economy/Anti- export bias Policy stability	Complexity, transparency, and certainty of regula- tions Enforcement of regula- tions Policy stability Privatization program?/ possibility of nationaliza- tion	Policy stability	Policy stability

26

Table A-2 Policies Having an Economy-Wide Impact on Agribusiness

Intended Policy Scope	Policy Type					
	Fiscal	Monetary/ Financial	Trade/Pricing	Regulatory	Labor/ Human Capital	Non-Traded Factors and Services
Economy-wide	<p>Taxes on income, dividends, capital gains</p> <p>Sales, value-added tax (national, state, local)</p> <p>Income tax incentives (new vs. old investment, regional)</p> <p>Subsidies on investment, feasibility studies</p> <p>Foreign (double) taxation treaties</p>	<p>Fixed/controlled interest rates (vs. T-bill auctions for reference rate), incl. subsidies</p> <p>Directed credit</p> <p>Nationalized banks</p> <p>Method of deficit finance</p> <p>Foreign aid</p> <p>Loan rediscounting</p> <p>Credit bureau</p> <p>Islamic banking</p>	<p>Import duties, quotas, bans, subsidies</p> <p>Export duties, quotas, bans, subsidies</p> <p>Exchange rate regimes (valuation and access)</p> <p>Trade licensing and fees</p> <p>Minimum or maximum trade prices</p> <p>Duty drawback</p> <p>Domestic price controls</p> <p>Utility rates, subsidies</p> <p>Barter and bilateral agreements</p> <p>Export processing zones</p>	<p>Investment licensing (local, foreign, ownership/co. size limits), other restrictions of business establishment</p> <p>No-objection certificates</p> <p>Trademark protection</p> <p>Truth-in-labeling</p> <p>Go-public regulations tied to paid-up capital</p> <p>Banking regulations (reserve requirements, lending requirements, removing working capital)</p> <p>Securities regulations (share issue price restrictions, disclosure, broker regulation/insider trading)</p> <p>Accounting standards</p> <p>Repatriating capital, profits</p> <p>Conditions on production: domestic content, required exports, technology sharing</p> <p>Anti-trust laws</p> <p>Liability laws/awards (cf. ag. chemicals)</p> <p>Dispute settlement procedures</p> <p>Regulatory fees</p>	<p>Migration policies</p> <p>Provision of education</p> <p>Access to training, especially management and project analysis</p> <p>Minimum wage</p> <p>Labor restrictions</p> <p>Labor relations services</p> <p>Housing</p> <p>Health</p>	<p>Land use/zoning</p> <p>Government trucking</p> <p>Road, rail, air, port availability and access (incl. regional)</p> <p>Transport subsidies, taxes</p> <p>Trade, investment promotion</p> <p>Access to information, via phone, fax, etc.</p> <p>Water, gas, power availability, permits</p> <p>Transport restrictions</p>

51

Table A-3 Policies Having a Sector-Wide Impact on Agribusiness

Intended Policy Scope		Policy Type					
		Fiscal	Monetary/ Financial	Trade/Pricing	Regulatory	Labor/ Human Capital	Non-Traded Factors and Services
"Sectoral"	Agriculture	Income tax exemption Land tax Tax on land transactions Market taxes	Subsidized credit (explicitly or implicitly through liberal forgiveness) Specialized banks	Input subsidies (seed, fertilizer, machinery, pesticides) Government production and/or marketing of fertilizer, pesticides	Pesticide and environmental regulations Quarantine laws and regulations	Minimum wage	Restrictions on size of land holding, land reform programs Research, extension Irrigation Subsidized public land rental Government-provided land improvement, cultivation, custom harvesting
	Agribusiness	Income tax incentives (new vs. old investment) Market taxes Subsidies on investment, feasibility studies	Subsidized credit Specialized banks Directed credit (e.g., cold storage) Limits on working capital against collateral of perishable inventory	Import duties, e.g., on packaging materials, processing equipment Export duties, quotas, bans, subsidies Trade licensing and fees Access to imported raw materials Access to foreign exchange Duty drawback Domestic price controls Barter and bilateral agreements Multi-tier exchange rate Margin, mark-up controls Input subsidies Price controls Utility rates, subsidies	Proprietary rights laws Investment licensing (incl. foreign) Regulatory exemptions (e.g., environmental) Domestic content laws (deletion program) Preferential access to raw materials for parastatals	Minimum wage Labor restrictions, exemptions	Industrial estates (Air) freight subsidy Cold storage operation Access to information, via phone, fax, etc. Subsidized public land rental Trade, investment promotion Water, gas, power availability

Table A-4 Major Impacts of Policies on Key Economic and Agribusiness Variables

Impact Variable	Policy Type					
	Fiscal	Monetary/- Financial	Trade/Pricing	Regulatory	Labor/ Human Capital	Non-traded Factors and Services
Government Revenue and Expenditures	Taxes increase revenue; projects and programs increase expenditures		Trade taxes are often a major source of revenue; consumer and agricultural input subsidies are often major expenditures		Education requires outlays	Investments increase expenditures
Inflation		Excessive growth of money supply and credit policies that lower interest rates increase inflation	Price policies that increase the price of key goods (like staple foods) may increase inflation			
Agribusiness Investment and Output	If agribusinesses normally pay taxes, high tax rates will discourage investment. If they do not, tax-based incentives (including to locate in rural areas) will be ineffective.	Directed credit, credit subsidies and related policies and restrictions can promote or hamper investment in particular sectors	Trade and price policies can restrict access to or raise the costs of inputs, dampening investment and output; overvalued exchange rates discourage foreign investment; low prices in agriculture lead to less production of agribusiness raw materials; subsidies on imported inputs dampen investment in input industries	Regulations can raise the cost of doing business or present barriers to investment	Lack of education results in lower quality labor, precluding or diminishing some kinds of investment	The availability of information and infrastructure are key factors in an investment decision and in continuing production
Agricultural Exports	Adequate income tax collection can relieve the need for more-distorting trade taxes	Export credit subsidies or restrictions affect the volume of exports	Export duties and overvalued exchange rates lower the competitiveness of exports	Phyto-sanitary and other regulations may present significant barriers to exports; a smooth quality control system is a boon to exports		Specialized infrastructure and current information are crucial for many agricultural exports

62

Table A-4 Major Impacts of Policies on Key Economic and Agribusiness Variables (cont'd)

Impact Variable	Policy Type					
	Fiscal	Monetary/- Financial	Trade/Pricing	Regulatory	Labor/ Human Capital	Non-trad- ed Factors and Ser- vices
Agribusiness Employment	Asset taxes (depreciation allowances) raise (lower) the cost of capital, raising (lowering) the labor-intensity of the technology chosen	Low interest rates lower the cost of capital and the labor-intensity of the technology chosen	Overvalued exchange rates can favor the importation of capital goods and result in less labor-intensive production		Lack of education and training opportunities will put many jobs out of reach; labor laws like the minimum wage may also lower the level of employment	
Domestic Competition			Quotas can limit competition by limiting access to raw materials	Lack of anti-trust/anti-monopoly laws can lead to unfair competition and concentration of assets		
Agribusiness productivity			Price policies (quotas) can distort (restrict) factor or resource use, leading to the use of inferior technology		Lack of education and training opportunities and labor rigidities stemming from regulations can keep productivity low	

Table A-5 Major Effects of the Policy Environment, Including Common Constraints to Agribusiness Development

Impact Variable(s)	Policy Attribute			
	Free Markets (vs. Government Intervention, Planning)	Policy Stability	Openness of Economy	Enforcement of Regulations
Agricultural Exports	Free markets allow exporters to respond more quickly and appropriately to new opportunities	Stability is necessary for exporters to establish working relationships with importers	Directly promotes trade	Quality standards enhance the reputation of a country's products, so exports should increase; licensing and other restrictions may reduce trade
Agribusiness Investment and Output	Competition with parastatals is one of the most important constraints to agribusiness development in many countries	Instability of policy, and the accompanying uncertainty, is another key constraint to investment	Openness enlarges the potential market and allows new ideas and new technology to enter the domestic market	Investment licensing and other restrictions lower or can misallocate investment
Government Revenue and Expenditures	It is not clear whether net government expenditures would be higher with free markets or with intervention; however, heavy intervention has often led to substantial inefficiency and/or subsidies to public enterprises	Policy stability is likely to make government revenue more predictable	If trade taxes are a substantial portion of Government revenue, the latter may be less predictable with an open economy	Better enforcement requires more expenditure, although for items like grades and standards, the costs are probably low with respect to the potential benefits
Inflation	Planned economies may seem to have less inflation, but there is often much hidden inefficiency		An open economy may import more inflation (see "Free Markets")	
Competition	Free markets maximize competition and the resulting efficiency and consumer satisfaction	Policy instability is often accompanied by rent-seeking (non-competitive) behavior; stability alone would not necessarily lead to more competition	Openness forces firms to compete at the international standard	Enforcement of anti-trust (anti-monopoly) regulations would promote competition
Agribusiness Productivity	Free markets generally lead to more efficient use of resources in any particular sector	Policy stability can promote higher productivity, since firms can focus on learning to produce and market certain products efficiently	Openness allows more new technology to enter the economy, from which appropriate ones can be chosen	Investment licensing and other restrictions can misallocate investment, leading to lower productivity

APPENDIX B CHECKLIST OF POLICY INSTITUTIONS BY POLICY TYPE

National Government

All Policies

Legislature
Cabinet

Fiscal Policies

Ministries/Departments (National, state, and local)

Finance
Subsidiary or autonomous agencies
Internal Revenue

Monetary Policies

Ministries/Departments (National, state, and local)

Finance
Credit and Investment Organizations
Monetary Board/Central Credit Consultative Committee
Central Bank
(Nationalized) Commercial banks
Export-Import Bank
Agricultural Development Bank
Industrial Development Bank
Non-bank financial institutions

Trade and Pricing Policies

Ministries/Departments (National, state, and local)

Agriculture
Commodity-based ministry-like bodies
External trade/Commerce
Subsidiary or autonomous agencies
Agricultural Prices
Customs
Export Promotion
Fair Trade, International
Prices and Incomes

Parastatals

Marketing organizations
Producing corporations

Regulatory Policies

Ministries/Departments (National, state, and local)

Commodity-based ministry-like bodies
Environment/Interior
Industries
Planning
Science/Technology
Subsidiary or autonomous agencies
Animal & Plant Health Inspection
Consumer Product Safety
Environmental Protection
Fair Trade, domestic
Food and Drug
Interstate Commerce
Investment Promotion
Occupational Safety & Health
Patents
Privatization
Science and Technology
Small Business
Standards

Organizations controlling credit and investment

Monetary Board/Central Credit Consultative Committee
Board of Investment
Central Bank
(Nationalized) Commercial banks
Export-Import Bank
Securities and Exchange Commission (Registrar, Controller of Capital Issues)
Agricultural Development Bank

Industrial Development Bank

Labor and Human Capital Policies

Ministries/Departments (National, state, and local)

Education

Labor

Subsidiary or autonomous agencies

Labor, Management Training

Non-Traded Factor Policies

Ministries/Departments (National, state, and local)

Agriculture

Commodity-based ministry-like bodies

Economics

External trade/Commerce

Industries

Planning

Science/Technology

Transport, Communications

Subsidiary or autonomous agencies

Agricultural Research

Agricultural Prices

Investment Promotion

Science and Technology

Transport, communications, and utilities

Gas, electric utilities

National airline

Port trust

Railroad

Water

International

Development banks

World Bank

Regional development banks

International Monetary Fund

Bilateral donors

International NGOs

Domestic NGOs

Producer associations

Industry/Trade associations

Labor unions

Issue-oriented non-profit organizations

Professional associations

APPENDIX C CHECKLIST OF IMPACT VARIABLES

Note: Many of the variables listed below may be affected differently in the short and long runs, so the analyst may wish to consider these impacts separately.

<u>Output/income</u>	Total Rural Agribusiness
Agricultural Agribusiness Rural Total	<u>Labor-intensity of production</u>
<u>Trade</u>	Total Agribusiness
Total Exports Agricultural exports Total Imports Agricultural Imports Net trade, total Net trade, agricultural	<u>Income distribution</u> Total Rural-Urban Distribution of assets
<u>Investment</u>	Competition
Total Agribusiness	<u>Corporate profits</u>
<u>Savings</u>	Total Agribusiness
Public Private	<u>Technological improvement/productivity</u>
Consumption	Agricultural Agribusiness Rural Total
<u>Government budget</u>	
Government revenue Government expenditures Government fiscal balance	
Inflation	
<u>Employment</u>	

APPENDIX D SCOPE OF WORK FOR AN AGRIBUSINESS POLICY INVENTORY

Introduction

USAID missions are active in many areas related to agribusiness, including policy reform, privatization, development of analytical capability, investment promotion, development of capital markets, commodity imports, and infrastructure. Government policies have important impacts in all these areas, so an understanding of these impacts is crucial to good project and program design.

APAP II has developed a new tool—the agribusiness policy inventory—that can serve those missions interested in the agribusiness sector. The agribusiness policy inventory compiles and analyzes those policies that have an impact on the sector, improving understanding of the overall impact. An inventory analysis can answer several kinds of questions, including the following. Do policies promote or hinder agribusiness development? What are the main impacts of these policies? Which policies should get priority for reform? The answers to these questions can be used to examine the effects of policies on project objectives, to outline a policy reform program and support policy dialogue, or to select issues for further analysis.

Policy Inventory Method

The agribusiness policy inventory has several standard components. The heart of the analysis is the identification of policies that affect agribusiness. Accompanying the policy information are a catalog of the public and private institutions making and implementing policies and a preliminary qualitative assessment of the impacts of these policies. The inventory report also specifies broadly policy alternatives and possible reforms. An inventory covers all policies that have a significant effect on the agribusiness sector. Fiscal, monetary, trade, regulatory, and other policies (pertaining to labor/human capital or other non-traded factors) may be included. They are examined at the economy-wide, sectoral, and subsectoral level. Sectoral policies can be broken down into agricultural and agribusiness; subsectoral policies into commodity- and industry-specific.

Inventory coverage is usually broad, but target issue(s) or subsector(s) can be specified. If sufficient data are available, the inventory can include a brief description of the importance of the agribusiness sector. Finally, the inventory can focus attention on the impacts of policies that affect agribusiness on particular areas. Common areas to examine are production, consumption, and trade; others are employment, inflation, and competition.

Objectives

The immediate objective of this activity is to conduct an agribusiness policy inventory that will provide the analytical background for the development of an agribusiness project in (country). It will also help shape an agribusiness policy reform agenda.

Tasks

This activity will be carried out in five phases.

- **Phase 1: Inventory initiation trip**

In the first phase, the team leader travels to the country sponsoring the inventory to:

- a) Clarify what the sponsor can expect from the inventory (and, sometimes, what will not be included).
- b) Discuss the selection of impact variables and specification of any key issues, agro-industries, or subsectors.
- c) Interview local analysts, and possibly arrange for them to begin collecting certain data.

- **Phase 2: Literature Review and Preliminary Data Collection**

In the second phase, the home office team in the United States will:

- a) Collect information in the United States, and
- b) Prepare a work plan for the fieldwork.

- **Phase 3: Fieldwork and Preliminary Analysis**

The third phase will encompass the fieldwork.

- a) The full team will discuss with the Mission its preferences for preferred target issues/sectors and any particular areas of impact in which it has an interest.
- b) After refining its work plan, the team will conduct interviews with the Mission, government officials, and private sector agribusiness individuals and gather further secondary information. The team will review laws and regulations as necessary.
- c) The team will analyze the information gathered and begin organizing it into an inventory matrix.
- d) Preliminary findings will be presented to the Mission for comment.

- **Phase 4: Analysis and Report Preparation**

In the fourth phase of the activity, the U.S. team members will return to the United States to:

- a) Complete the analysis.
- b) Write the report.
- c) The report will be sent to the Mission for comment. These comments and others from internal and other reviews will be incorporated into the final report.

- **Phase 5: Presentation of Results**

In phase five, the U.S.-based members of the team will return to (country) to make a formal presentation of the findings to the Mission, the Government, and the private sector.

Deliverables

At the end of this activity, the contractor will present to the Mission a final report. The report will be an analysis of agribusiness policies in (country), based on an agribusiness policy inventory. The report will consist of two volumes: a synthesis volume (of approximately 20-30 pages) and a volume containing the detailed agribusiness policy inventory (of about 50-100 pages).

The report will:

- Describe the current economic setting in (country).
- If statistically possible, assess the performance of the agribusiness sector.
- Identify policies that affect agribusiness, presenting them in matrix form and analyzing policy interactions.
- Catalog the institutions making and implementing policies.
- Make a preliminary qualitative assessment of the impacts of these policies.
- Specify broadly policy alternatives.

The team will present the preliminary findings of the inventory analysis to the Mission before the U.S.-based individuals depart. The report will be finalized in the United States after receiving comments from the Mission. The team will return to (country) to present the final report.

Personnel and Timing

Two people from the APAP team will work with two local counterparts to conduct the agribusiness policy inventory. The following qualifications are required for the APAP team members:

1. Experience and knowledge in one or more of the following areas:
 - Agribusiness policy analysis
 - Agribusiness analysis
2. Experience with government institutions and private organizations involved in policymaking and implementation of policies that affect agribusiness.
3. Excellent interviewing and verbal communication skills.
4. Ability to work well on a team, meet deadlines, and work under pressure.
5. Educational degree at the MBA/MS/PhD level in the relevant field of specialization.

The following qualifications are required for the local counterparts or consultants:

1. Experience and knowledge in one or more of the following areas:
 - Agribusiness policy analysis
 - Law, especially business law
 - Regulatory analysis
2. Knowledge of and contact with government institutions and private organizations involved in policymaking and implementation of policies that affect agribusiness in (country).
3. Excellent interviewing and verbal communication skills.
4. Ability to write well in English is highly desirable.
5. Ability to work well on a team, meet deadlines, and work under pressure.
6. Educational degree at the BS/MS level in the relevant field of specialization.

