BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Administrator, Agency For International Development

Africa's Agricultural Policies--A More Concerted Effort Will Be Needed If Reform Is Expected

Assisting developing countries to reform policies which inhibit greater food production is a primary objective of the U.S. development assistance program. At the Washington level, AID has promoted policy reform through policy papers, country strategy guidance, and congressional testimony.

At the country level in Sub-Saharan Africa, AID missions have generally not taken substantial actions to promote policy reform, even though these policies contribute to declining food production. Planned and ongoing reform efforts are minimal in many countries. GAO recommends that missions identify developing country agricultural policies which inhibit food production and distribution and develop plans to address them. GAO also recommends that AID appropriately reward missions and staffs for their policy reform efforts.

GAO/NSIAD-83-36
SEPTEMBER 8, 1983

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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-206850

The Honorable M. Peter McPherson
Administrator, Agency for International
Development

Subject: Africa's Agricultural Policies--
A More Concerted Effort Will Be Needed
If Reform Is Expected (GAO/NSIAD-83-36)

Dear Mr. McPherson:

We have reviewed the Agency's efforts to reform host-government agricultural policies in Sub-Saharan Africa. Our conclusions and recommendations are included in this letter and our findings are presented in appendix I.

Even though there are a number of reasons for the current agricultural crisis in Sub-Saharan Africa, host-government policies are recognized as a major cause. Agricultural producers are not provided with either appropriate incentives or suitable economic environments to make it worthwhile to produce beyond the subsistence level.

Both AID and GAO have long maintained that sound country policies are fundamental to agricultural growth and to effective economic assistance. AID's 1978 policy paper on Food and Agriculture supported reform of economic policies to ensure that adequate incentives exist for increasing agricultural production. Likewise, in a series of reports dating back to 1975 (see appendix II for a partial list of these reports) we have repeatedly concluded that a major reason why developing countries have not had greater agricultural production has been the existence of certain governmental policies which either act as disincentives or provide insufficient economic incentives.

AID and its Africa Bureau, in establishing and publicizing the importance of policy reform, have prepared a number of policy and strategy papers, developed guidelines for preparing country development strategies, and testified before congressional committees. We believe these actions to foster policy reform are commendable. However, at the country level, AID

often does not have an ongoing viable program in place which recognizes the inherent difficulties in realizing policy reform and the potential long-term effort involved.

If AID is to have effective mission policy reform programs in Sub-Saharan Africa, it must first provide an adequate foundation for such programs. Most missions have not yet fully identified and put in order of priority the key host-country economic policy constraints. Neither have they been involved in the development of national food strategies, which would not only contribute to the host country's understanding of its food problems but also help AID better define its reform programs. AID has made some attempts to upgrade the economic analysis capability of mission staff, but further improvements are needed.

Few missions have better than minimal reform programs underway. Only half of the missions currently have programs to improve host-government analysis capability, and reform cannot succeed without host-government understanding of the need. Some missions have questioned their ability to effectively carry out policy dialogue with host-government officials.

Since AID is not a major donor in most Sub-Saharan African nations, it must take full advantage of all opportunities to influence policy change. Many missions are not fully coordinating their reform efforts with other donors and other U.S. agencies or fully using Public Law 480 concessional agricultural commodity programs to influence reform.

RECOMMENDATIONS

To further assist AID in carrying out its established policy, we recommend that the Administrator require a definitive policy reform plan from the mission in each country, including an assessment of the probability for policy reform. Each plan should recognize the difficulties in motivating the country to make needed reforms and the potential and likely long-term nature of such an effort. Such a plan should provide actions that can be taken immediately and over the longer term and actions to be pursued if the country fails to respond or to make adequate progress.

In conjunction with preparing each plan, we believe that certain actions are required, perhaps as part of the regular budgeting and programing process, including:

--A micro- and macro-analysis of the economy of the country, reflecting its particular political, economic, and cultural situation.

--An analysis identifying country policies considered to be constraints to agricultural development.

--A rank listing of policies considered to be the most constraining and yet addressable through the U.S. assistance program.

--An analysis showing how all components of AID assistance (i.e., Development Assistance projects, Economic Support Fund programs, Public Law 480 programs, etc.) will support the action plans and a justification if all program elements are not being fully used.

--A program to upgrade the policy analysis capability of the AID staff.

In drawing up program and project proposals, consideration should be given, where appropriate, to:

--Establishing and maintaining a framework for policy dialogue with the host government.

--Improving the ability of the host government to analyze policies and to plan, implement, and evaluate policy reform projects.

--Rewarding, through future assistance, those countries that actively engage in reforming policies.

--Providing assistance to the host country in preparing a national food strategy.

We further recommend that the Administrator establish appropriate incentives for rewarding missions and staffs for their efforts in:

--Effectively carrying out policy reform programs.

--Enlisting the support of other donors for a more unified donor approach to policy reform.

--Involving the Departments of State, Treasury, and Agriculture in AID's policy reform effort by soliciting their views and input on both regionwide and country-specific AID documents generated.

AGENCY COMMENTS AND OUR EVALUATION

We received formal comments from AID and the Department of State on this report (see appendixes III and IV). AID stated that our conclusions and recommendations are sound. It acknowledged the validity of our analysis but said that, since it was made, the missions have made progress on policy reform plans and efforts. AID presented an analysis of and examples from the reform strategies contained in the fiscal year 1985 Country Development Strategy Statement (CDSS) submissions which show increased ongoing and planned mission reform activities. It also noted that, at the Washington level, it has drafted an African Bureau Strategic Plan which gives highest priority to policy reform. It has taken steps to increase the effectiveness of Public Law 480 programs in promoting policy reform. AID stated that it will require each African mission, as part of its annual CDSS submission, to prepare a flexible 5-year policy reform strategy and action plan.

The State Department stressed that the AID agricultural policy reform effort needed to be placed in the context of overall U.S. foreign policy objectives; although important, agricultural policy reform is only part "of the larger economic/financial and, ultimately, political stabilization picture." Furthermore, the U.S. role in African policy reform is less than that of the World Bank or the International Monetary Fund. We believe these comments accent our findings on the need for better coordination between AID and other U.S. agencies. State provided some information on coordination among U.S. agencies, which we have incorporated in appendix I.

We received informal comments from an official of the Department of Agriculture and from the International Food Policy Research Institute. The Agriculture official's overall comments were favorable and specifically endorsed our conclusion that, without proper incentives, AID mission staff will not give policy dialogue proper attention. The official also said that AID should do more to help host governments develop national food strategies.

The International Food Policy Research Institute saw the report as potentially leading to increased AID staff capabilities, better trained African officials, and improved agricultural statistics. It expressed concern that the report underemphasized the difficulties of policy reform and the need for in-depth and situation-specific research in agricultural policy analysis by highly qualified people working together. We believe these concerns, as well as State's concerns with political

sensitivities, underscore the difficult task AID faces in its efforts to bring about agricultural policy reform.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review was directed toward evaluating how AID envisioned its role in a policy reform effort and how it intended to carry out what apparently would be a long-term and sensitive effort with potentially far-reaching economic and political implications. Our original review plan called for fieldwork in selected African countries; however shortly after we began, we obtained copies of responses by 26 AID missions to a cable that had been sent out by the Africa Bureau's Office of Development Planning independent of our review. These responses answered many of the questions we had intended to ask, so we eliminated our fieldwork.

We analyzed the responses for

--identification of policy constraints;

--enumeration of past, present, and planned approaches to addressing these constraints;

--donor coordination; and

--chances for success of these efforts.

We interviewed officials of AID's four geographic bureaus and the Bureaus for Science and Technology and Program and Policy Coordination; the Departments of Agriculture, Treasury, and State; the International Food Policy Research Institute; and other individuals knowledgeable in the policy reform area. Pertinent policy papers, directives, and guidance issued in the area of policy reform as well as the current body of literature on the subject were reviewed. We made our study in accordance with generally accepted Government auditing standards.

Although the scope of our review was mainly concentrated on the efforts of the Africa Bureau, we believe our conclusions and recommendations have potential relevance to any similar efforts of the Agency's other geographic bureaus.

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As you know, 31 U.S.C. §720 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committee on Appropriations with the agency's first request for

appropriations made more than 60 days after the date of the report.

We are sending copies of this report to appropriate congressional committees; the Director, Office of Management and Budget; and Secretaries of Agriculture, State and Treasury.

Sincerely yours,

Frank C. Conahan
Director

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ABBREVIATIONS

AID	Agency for International Development
CDSS	Country Development Strategy Statement
GAO	General Accounting Office

AFRICA'S AGRICULTURAL POLICIES-- A MORE CONCERTED EFFORT WILL BE NEEDED IF REFORM IS EXPECTED

COUNTRY POLICIES HAVE CONTRIBUTED TO AFRICA'S AGRICULTURAL CRISIS

Africa contains 22 of the 36 poorest countries in the world. In most countries of Africa, at least 3 out of 5 people work on farms, most of which are small, with 5 to 15 acres under cultivation. Agricultural output accounts for 30 to 60 percent of the gross domestic product of Africa's non-petroleum and non-mineral exporting countries, so the performance of these small farms is the key to African agricultural development. Their performance over the past two decades has not been good, and as a result, Africa has a severe agricultural crisis.

The World Bank's 1981 report, Accelerated Development in Sub-Saharan Africa[1] - An Agenda for Action, described the crisis as follows.

> "Export crop production stagnated over the past two decades. A 20-percent increase in production registered during the 1960s was wiped out by a decline of similar proportions in the 1970s. * * * As for food crops, while data are uncertain, they leave no doubt about general tendencies. Total food production rose by 1.5 percent per year in the 1970s, down from 2 percent in the previous decade. But since population was rising rapidly--by an annual average of 2.5 percent in the 1960s and 2.7 percent in the 1970s--food production per person was stagnant in the first decade and actually declined in the next. Imports of food grains (wheat, rice, and maize) soared--by 9 percent per year since the early 1960s--reinforcing food dependency. Food aid also increased substantially. Since 70 to 90 percent of the population earns its income from agriculture, the drop in production in this sector spelled a real income loss for many of the poorest * * *."

Similar views were expressed in the Department of Agriculture's 1981 report, Food Problems and Prospects in Sub-Saharan

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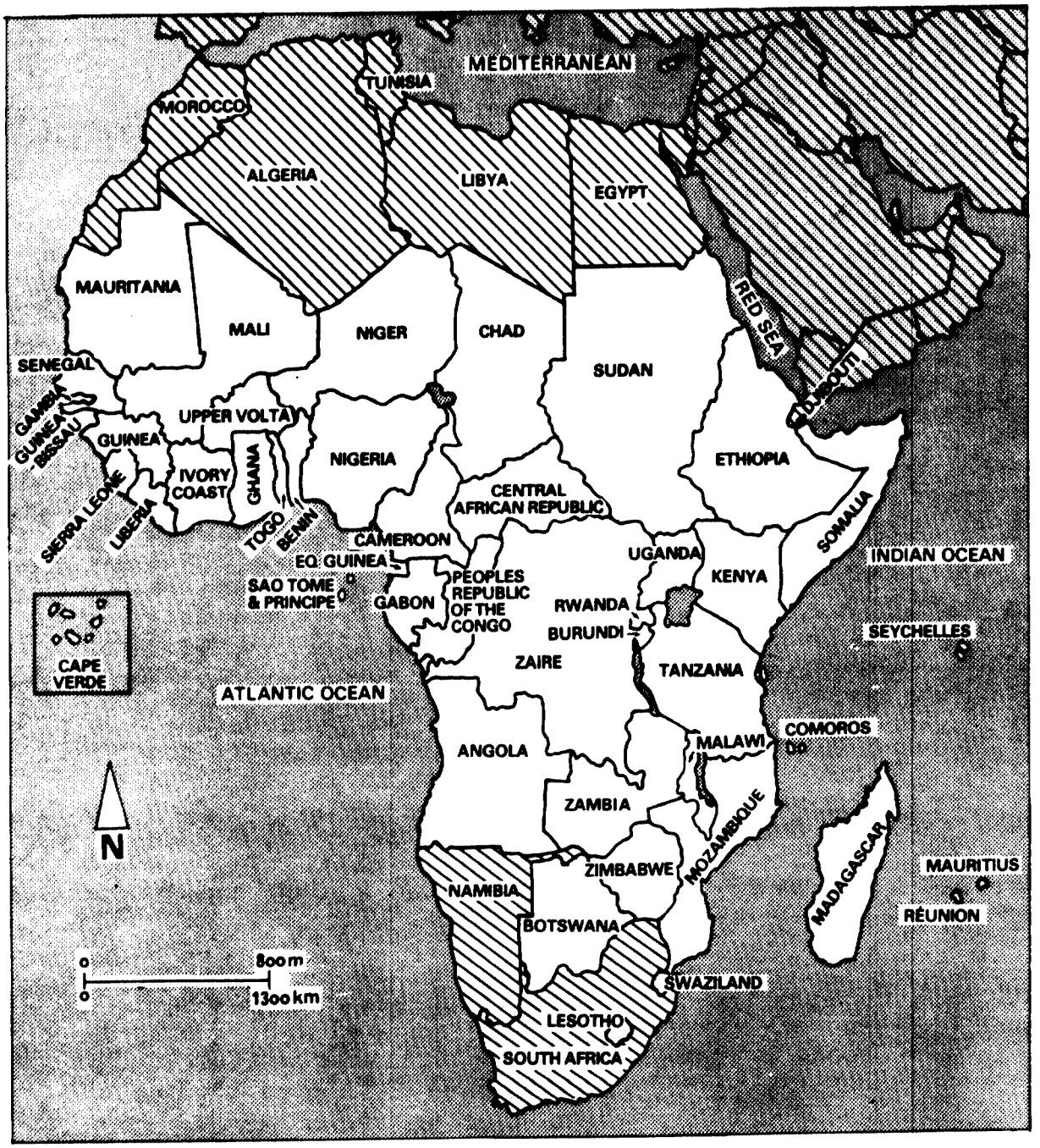
[1]Sub-Saharan Africa includes 45 countries south of Morocco, Algeria, Libya, and Egypt and excludes Namibia and South Africa.

SUB-SAHARAN AFRICA



Adapted from map by
Martin Greenwald Associates, Inc.

Africa-The Decade of the 1980s and by the U.N. World Food Council at its 8th ministerial session in Mexico in mid-1982.

In testimony before Congress in March 1983, the Agency for International Development (AID) described the current situation in Africa in similar terms.

Much of Africa lacks adequate distribution systems for necessities like fertilizer and seeds, adequate institutions, and trained work forces. Natural constraints also abound, such as tsetse flies, which cause disease and preclude the use of approximately one-third of the continent, including some of the best watered and most fertile land.

Despite these problems, it is commonly held that even more basic and crucial problems are largely responsible for the agricultural crisis. The 1981 World Bank report noted that the "internal 'structural' problems and the external factors impeding African economic growth have been exacerbated by domestic policy inadequacies." Producers are not provided with appropriate incentives or suitable economic environments to make it worthwhile to produce beyond the subsistence level. Sound country policies are fundamental to agricultural growth and effective economic assistance. The existence of policies that overvalue exchange rates, encouraging imports and discouraging domestic production; pricing that undervalues agricultural products; artificial controls on agricultural necessities like fertilizer or seeds by inefficient marketing boards; and restrictions on the sale of farm products; all shackle productive energies and dry up incentives, perpetuating the continent's agricultural stagnation and decline.

POLICY REFORM WILL REQUIRE SENSITIVE AND LONG-RANGE EFFORT

Developing countries face inherently difficult economic and political problems in attempting to reform existing policies. Obtaining a consensus within a government that a policy needs to be reformed can in and of itself be an arduous, long-term, and sensitive process. This difficulty, however, is further increased when the direction, scope, degree, and timing of such policy changes are introduced.

The economies of many developing countries are based on a limited number of sectors; therefore, consequences of a wrong policy decision may undermine the political or economic structure of the country. This is at least partially responsible for the reluctance of many developing country governments to undertake reforms.

Although the long-term effects of a policy change may be expected to be positive, the short-term results of such a change

can be serious. For example, in 1971, according to Krueger and Ruttan,[2] Ghana greatly needed to devalue its currency. The government was eventually convinced of this need and took measures to do so; as a result, the government was overthrown and the devaluation reversed within a few months. Similarly, donors urged the government of India to devalue its currency during the mid 1960s. India did so, to a limited degree, but even this was enough to cause resentment among the populace and to raise charges of foreign interference.[2]

In motivating countries to reform policies, AID faces such problems as:

--Identifying and implementing appropriate policies and forseeing their likely results.

--Political in-fighting among country officials.

--Political repercussions of necessary, but unpopular, policy reforms.

--Possible lack of apparent or immediate results.

--Incongruous objectives among U.S. agencies.

--Overriding U.S. political objectives which may preclude any counteraction in the absence of reform efforts.

POLICY REFORM IS ONE OF FOUR MAJOR AID THRUSTS

Policy reform has been designated by the Administrator as one of AID's four priority thrusts for delivering development assistance. In his statement accompanying the 1984 Congressional Presentation, the Administrator pointed out that, in pursuing its overall mission of improving the human condition, AID seeks to strike a proper balance between present and future activities; such a balance rests upon four pillars which are means, not ends, for AID's helping people to help themselves. These are policy reform, private enterprise, technology transfer, and institutional development. In discussing policy reform, he stated that:

> "Governmental policies set the rules-of-the-game for institutions as well as individuals; and, consequently, progress depends upon suitable policies in developing countries. Misguided

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[2]Krueger, Anne O. and Ruttan, Vernon W., The Development Impact of Economic Assistance to LDCs; University of Minnesota, for AID and Dept. of State; Mar. 1983.

policies blight development. Wise policies speed development. Agricultural pricing policies are a clear example: farmers tend to revert to subsistence production in the absence of fair prices. Feeding the poor, however, requires more than subsistence production. Fair competitive market prices are needed for farmers to maximize production. Governmental policies should adjust to that practical reality."

"AID has a history of concern not only with the efficacy but also with the equity of governmental policies; and this entails a concern for policy reforms through policy dialogues. These dialogues are collaborative rather than adversarial. Sovereign governments must be persuaded and assisted rather than hectored if they are to follow through on developmental efforts in the long run * * *."

AID policy and strategy papers

AID has been involved in the area of policy reform for a number of years, but over the last 2 years its importance has been emphasized. For example:

--In May 1982, AID's policy paper on Food and Agricultural Development set forth an objective of improving country policies to remove constraints to food and agricultural production, marketing, and consumption.

--In October 1981, the Africa Bureau's Food Sector Assistance strategy paper provided a clear statement of the framework within which AID missions in Africa were to prepare their country-specific assistance strategies for agricultural and rural development. One of the three major components it identified was assistance in creating national policies and programs that give farmers adequate incentives to expand agricultural output, especially of food.

--In January 1983, a draft on AID Priorities for Research In Agriculture identified food and agricultural policy as one of six crosscutting concerns representing either new opportunities for research or current research that should be enhanced at the expense of lower priority activities.

--The fiscal year 1985 Country Development Strategy Statement guidance issued in October 1982 specifically established policy reform as one of four major topics to be addressed by a mission in preparing its CDSS. The CDSS is generated to provide an agreed upon programming strategy

which the mission can use to guide development of projects and budgets and which AID headquarters can use to assess mission proposals, guide choices among alternatives, and measure progress toward goals.

Although AID has advocated policy reform for a number of years, it has only recently begun to provide guidance to the field on how policy reform efforts should be undertaken.

--A December 1982 draft of AID's strategy paper for the Food and Agriculture Development Assistance Sector describes three sub-elements that missions should pursue in attempting to improve developing countries' policies.

1. Critically examine country policies that affect food and agriculture development and concentrate assistance in countries which have appropriate policy frameworks or which are committed to improvement.

2. Analyze constraints to improved policies and engage in dialogue with countries on changes in policies to improve agricultural incentives and opportunities.

3. Provide technical assistance and training to improve country policy analysis and planning capacity.

--In July 1982 the Africa Bureau's Food Aid Policy and Programming Guidance, as general Public Law 480 guidance for use by field missions, endorsed the use of food aid as an important, multifaceted tool in pursuing policy reform initiatives. Some modes outlined to do this included cushioning the temporary disruptive effects of reforming or adjusting policies, providing a forum during negotiations for surfacing reform issues, rewarding countries for introducing policy reform, inducing countries to undertake needed reforms, or sanctioning countries for failing to adopt or adjust appropriate policies.

--In December 1982, AID's policy paper, Approaches To The Policy Dialogue, outlined and discussed a comprehensive framework for systematic AID interaction with other donor institutions and with developing countries' governments to support economic policies when they are deemed effective and to promote their improvement when they are deemed defective. Some determinants of a dialogue's effectiveness included close coordination with other U.S. government agencies, selectivity on policies to be discussed, commitment to a sustained, long-term effort, and a competent and knowledgeable staff.

LACK OF VIABLE PROGRAMS AT COUNTRY LEVEL

The importance that AID attaches to policy reform has yet to be reflected in substantial action at the mission level in Sub-Saharan Africa. We found that there are four main reasons for this:

1. In many countries, the necessary foundation has not been laid which would allow for the rational formulation of a policy reform strategy.

2. Only limited efforts have been made to implement a reform program.

3. Reform efforts have not been adequately coordinated with other U.S. agencies and other donors.

4. All components of U.S. assistance have not been fully used to promote reform.

FOUNDATION NOT IN PLACE FOR POLICY REFORM

Before AID can expect to see much success from its policy reform program in Sub-Saharan Africa, it must have an adequate foundation upon which to base and devise a successful program. Specifically, AID needs to improve the ability of its staff to better analyze the host-country's economy and plan what it can best do to improve the policy climate and to help host countries determine their own problems and plan strategies to solve them.

Improvements needed in staff expertise

Policy reform can be very complex and the consequences of a poor decision can be severe. It is in this context that concern has been raised about the ability of the AID staff to analyze host-country policies and formulate reform strategies. The concern centers on the types of skills required and the number of qualified staff.

AID staff involved in planning and implementing a policy reform program generally should have ability to perform macroeconomic or micro-economic analyses; knowledge of the host-country's culture and economic systems, and tenure that allows it time to gain the trust and respect of host-government officials.

Four missions in their response to the AID cable stated that, because of inadequate staff capabilities, they found it

difficult or impossible to identify key policy constraints in the host economy. Furthermore, one AID official noted that very few missions have the capability to analyze macro-economic policy and that, at the micro-economic level, AID may lack the technical ability needed to effectively influence reform. Another AID official questioned how serious the AID policy reform effort is when the agency lacks prominent staff economists. An official of an agricultural research organization stated that AID needs a core of highly skilled staff to be a focal point for the reform effort. Finally, the staff's 2- to 4-year assignments limit their knowledge and understanding of the country needed for effective reform.

Some AID staffmembers may not be inclined toward policy reform activities. The agricultural research organization official noted that the staff is not used to performing activities leading to policy reform and will resist doing so. Only one mission was especially optimistic about its ability to effect policy reform; 11 missions thought they had some chance for success and 13 thought they had little or no chance. Although these opinions could be realistic, they might also demonstrate staff pessimism regarding the reform effort.

AID's ability to influence policy reform is also limited, according to AID reports, because most of its Sub-Saharan Africa missions are understaffed. One problem that surfaced during the May 1982 meeting of AID agriculture and rural development officers in Africa was that missions lack sufficient full-time, direct-hire agriculture and rural development personnel to achieve country program objectives. A study of agriculture and rural development staffing requirements showed that, as of the end of October 1981, the Africa Bureau missions were authorized 96 such positions but only 80 were filled. The study concluded that 145 positions were needed.

Some AID officials have noted that staff ability to analyze policy is unimportant because AID can contract for economists, if needed. Unfortunately, finding an economist knowledgeable about the policies, culture, political climate, etc., of some Sub-Saharan African countries is difficult.

AID has attempted to upgrade staff ability to conduct policy reform programs. The Administrator has expressed a desire to restore AID's economic analysis capacity by increasing the proportion of staff capable of dealing with policy issues at both the national and sector levels. The Africa Bureau, for its part, has recently hired several agricultural economists, sent half a dozen teams of economists to assist missions with their reform strategies, and contracted for assistance from a university and the U.S. Department of Agriculture. The Bureau for Science and Technology has proposed a project that, among other things, upgrades mission policy analysis capability; 18 Sub-Saharan Africa missions have expressed interest in participating

in this project, which has been approved by AID, but has not yet been implemented.

These are all steps in the right direction, but they may not go far enough. Visiting teams of economists may lack sufficient understanding of the host country. Furthermore, the Science and Technology Bureau project is budgeted for only $10 million total worldwide, over a multi-year period, likely benefiting only a few missions. Reform, according to an AID policy paper, can best be achieved by "in-country resident expertise."

Reform strategy requires better in-country planning

Before an AID mission can effectively undertake a policy reform effort, it must identify the policy constraints present in the host country, select the most important and/or addressable of the constraints on which to concentrate assistance, and set priorities among these key constraints to get maximum effect from the mission's program. On the basis of recent reporting, few missions in Sub-Saharan Africa have achieved this level of strategy formulation.

Of the 26 missions in our analysis, only 9 (35 percent) had identified the policy constraints in their host countries to an appreciable extent; 9 other missions had done so to a lesser extent and 8 had done so only minimally or not at all. Key constraints had been selected from among those presented by 16 missions, but only 4 missions indicated priorities among the constraints.

The Lesotho mission was one of those that identified and prioritized key policy constraints. It identified the government's policy of grain self-sufficiency as the most important policy problem and identified five other major constraints to a healthy agricultural economy. The Mauritania mission identified four constraints on the agricultural sector, and although it did not explicitly prioritize them, it has assigned resources to address each constraint.

The missions that have done the least in terms of in-country planning have, in most cases, simply not identified the constraints. One posed questions that would have to be answered in order to properly analyze policy constraints; another listed the problems caused by unspecified policies. One mission limited its list to constraints identified by other donors.

Formulating national food strategies can strengthen AID's program

Because of the food problems facing many developing countries, the U.N. World Food Council has encouraged each interested developing nation, with donor assistance, to develop a food

sector strategy. A food strategy presents a picture of a nation's current food situation and a strategy for improving it, including formulation of appropriate food policies. Although AID believes that food sector strategies have value and has encouraged their development, its assistance to complete such strategies in Sub-Saharan Africa has been limited.

Since the World Food Council presented its food strategy approach in 1979, 9 Sub-Saharan Africa nations have completed and implemented strategies, 1 nation is currently preparing a strategy, 8 are in the preliminary stages of strategy efforts, and 10 have expressed interest in preparing strategies but have made little further progress. Several bilateral and multilateral donor organizations, including AID, have provided assistance in food strategy preparation.

AID's Africa Bureau has encouraged its missions to help host governments in developing food strategies "to provide them with the basic planning and policy guidelines to begin to view development in terms of food needs." Thus far though, AID has helped only Mali to complete a food strategy. AID has agreed to help three additional countries, but they have yet to begin strategy preparation. AID offered help to Kenya, but Kenya sought assistance from the European Economic Community instead.

Only the Mali mission included development of a national food strategy as one of its reform efforts. The other missions did not list such an activity as completed, ongoing, or planned. World Food Council officials said that the U.S. effort has been less than expected; an AID official said that AID would like to assist more countries, but the countries must show an interest. Both host governments and AID missions sometimes have higher priorities for their limited funds than developing food strategies. As noted by the World Food Council, a national food strategy requires a political commitment by the host government to implement the strategy and willingness by an external donor to provide the necessary support.

LIMITED EFFORTS MADE TO IMPLEMENT REFORM PROGRAM

Completed, ongoing, or planned policy reform activities by the missions are often limited in number or scope and, in some cases, activities that exist are not directed toward the identified constraints. Furthermore, several missions have no activities to improve host-country policy reform capability, despite the importance of this to the successful implementation of a reform program. Also, AID missions may be hindered in their ability to carry on policy dialogue with the host government--a key element in program implementation--by limited host-government or mission staff expertise, mission staff turnover, lack of incentives to mission staff to undertake dialogue, host-country political or cultural constraints, and low or uncertain AID assistance levels.

Mission reform programs still in preliminary stage

Serious ongoing reform efforts were reported by 9 of the 26 AID missions, and 2 of these had what could be considered extensive ongoing reform efforts. One of these missions has activities aimed at each of the constraints identified, including a commodity import program, Public Law 480 Titles I and II programs, technical assistance projects, and dialogue with high-ranking, host-government officials.

The other 17 missions had no programs or, at best, minimal programs. Some of them had a few projects or programs aimed at policy reform, some were conducting policy dialogue with government officials, and a few made no mention of ongoing programs. For example, one mission has two current activities--an agricultural sector analysis and training and technical assistance to the Ministry of Agriculture staff--that only partially address the five mission-identified agricultural policy constraints.

Proposed future programs of at least moderate significance were reported by 13 missions and 3 of these have extensive plans. One of these missions lists in detail what actions are expected from the host government to reform certain agricultural policies and what the mission will do in return, such as making a 5-year commitment under the Public Law 480 program. Another of these missions has planned activities aimed at each of the three identified policy constraints, including a Public Law 480, Title II, Section 206 program aimed at restructuring cereal marketing, a technical assistance and training program to improve host-government capabilities, and project assistance to expand the role of the private sector in the host economy.

Of the other 13 missions, three made no mention of future projects or programs, and 10 had, at best, minimal plans. One, for example, has two planned projects aimed at alleviating one constraint on private sector expansion, a second constraint is partially addressed and the third constraint is not addressed.

A comprehensive plan for policy reform would reasonably require that a mission not only identify the key constraints to policy reform in the country but also specify what current or future actions the mission is taking or plans to take to address these constraints. Of the missions which, at least to some degree, both identified constraints and also reported ongoing or planned reform activities, only one matched reform actions to constraints in an extensive manner, while eight did so moderately and three minimally.

Host-government capability for analyses must be strengthened

The importance of the host-government's policy reform skills to an overall reform effort is widely recognized. In

fact, the Africa Bureau's Food Sector Assistance Strategy Paper states that the most important contribution AID can make to changing host-country policies is to help create or improve the country's policymaking capabilities. One Africa Bureau official noted that influence to change policies can best be exerted through improving host-country capability for policy analyses. This would enable governments to see the impact of their policies and to make decisions accordingly.

Nevertheless, only half of the missions have projects directed toward improving host-country policy reform capability even though African governments are limited in this respect. An Africa Bureau official testified in August 1982 that 16 of AID's 32 missions in Sub-Saharan Africa had ongoing or planned policy/planning projects--a finding comparable with our analysis.

Below are examples of how AID missions are attempting to improve host-government policy analyses capability.

--Assisting a ministry of agriculture to collect and analyze data and formulate food study proposals. One study has shown the difficulty of remaining self-sufficient in food with an increasing population, especially in cities.

--Funding three projects involving policy research on the effect of exchange rate policies and training of host-government officials.

--Setting up budgetary and project monitoring procedures for commodity import program and Public Law 480 counterpart use, which the mission hopes will become a planning/budgetary model for the entire host government.

On the Agency level, the Bureau for Science and Technology project mentioned earlier is not only aimed at improving mission capability but also at improving the policy analyses capability of host-country staff.

Hindrances to effective dialogue

The Administrator has cited policy dialogue as one of his major themes, and AID has issued a separate policy paper on this aspect of policy reform. Policy dialogue is an exchange of viewpoints with the aim of convincing the aid recipient that policy changes are truly in its own economic interest. The policy paper points out that dialogue must be based on mutual respect and open mindedness and that a prerequisite of any dialogue is an assessment of the host-country's economy that requires "understanding not only of the economic situation, but

also of the political and cultural setting, including the historical evolution."

There are indications, however, that AID missions may not always be able to effectively carry out policy dialogue with the host government. Mission and host-country limitations and low U.S. assistance levels were cited as constraints. Concern over their ability to conduct policy dialogue was expressed by 15 missions; 6 of them stated that they lacked staff expertise to properly conduct dialogues or that successful dialogues were constrained by the fact that they usually must be conducted over sustained periods of time. Continuity can be disrupted by the reassignment of mission staff members to other countries every few years.

Generally, a constructive policy dialogue requires patience, steadiness, and a gradual build-up of knowledge and contacts. With the myriad of other demands placed on mission staff and the perception of many that their operating atmosphere emphasizes greatest concern for starting new projects, the development of this type of approach among mission staff will have to be fostered through management incentives and sanctions.

Host-government capability to participate in policy dialogue or host-country political or cultural limitations were cited as constraints on dialogue by six missions. Swaziland, for example, has a land-tenure problem, but this tenure system is so ingrained in the culture, the mission commented, that dialogue would probably be pointless.

Effective dialogue was unlikely, according to four missions, without additional levels of AID assistance. These missions take the pragmatic view that countries will pay little heed to AID's advice if it is not backed up with some type of assistance. For example, the mission in Tanzania noted that AID is only the 15th largest donor there and must focus its dialogue on areas that it is funding. A fifth mission commented that dialogue was hampered by the uncertainty of future AID assistance levels. Public Law 480 assistance in that country, for example, is expected to drop 76 percent between 1981-84, after increasing over 500 percent between 1978-81.

REFORM EFFORTS COULD BE FACILITATED THROUGH BETTER COORDINATION

AID's efforts to reform host-country economic policy could be enhanced if missions took full advantage of all of their opportunities. Better coordination with and support from other donors and U.S. Government agencies would add strength to AID's reform efforts.

Donor coordination

Coordination among donors is important because donors working together to achieve a policy reform are likely to have more influence on the host government than a donor acting alone. Since AID accounts for only about 7 percent of total donor assistance in Sub-Saharan Africa, its ability to unilaterally influence policy change is limited. Furthermore, coordination is needed because the more than 50 bilateral and multilateral donors active in Sub-Saharan Africa often strain the host-country's ability, with its limited financial and human resources, to effectively participate in all donor projects and programs.

Despite the need that exists, donor coordination is not strong in many Sub-Saharan African countries. Only 10 missions said that donor coordination was better than minimal in their country and only 3 of these indicated that coordination was excellent. One mission noted that, even though informal coordination through the U.N. Development Program takes place, formal donor conferences have been unsatisfactory because the other major donors are not supportive of AID's policy reform efforts. Another mission reports that, even though donor coordination meetings take place, the mission's relationship with other donors and the host government has been hurt by the fact that the mission is pushing harder than other donors for policy reform.

AID has made efforts to coordinate its program with other donors. It is currently working with five consultative groups in Sub-Saharan Africa, including Cooperation for Development in Africa, the Club du Sahel, and the Southern Africa Development Coordination Conference. In addition, AID mission programs are normally in line with World Bank and International Monetary Fund programs.

AID's coordination efforts have been made more difficult by a number of factors. First, since AID is not the major donor in most African countries, it is difficult for missions to take the lead in donor coordination for fear of offending the principal donor(s). Second, host governments often are reluctant to allow donor coordination because of the strength a united donor front could wield. One host government discourages even informal donor coordination beyond that required for cooperation on specific projects.

U.S. agency coordination

Improved AID coordination with other U.S. Government agencies may be as important as coordination with other donors. The Departments of State, Treasury, and Agriculture have an interest in host-government economic policies. However, the routine involvement of these other agencies in AID's efforts to reform policy is not extensive.

To coordinate agencies' activities on a limited, country-specific basis, the Africa Bureau of the State Department chairs an informal working group which, although not permanent, has representatives from several agencies, including AID, Agriculture and Treasury, as well as the U.S. delegations to the World Bank and International Monetary Fund. The group was established to improve U.S. and other donor efforts in the Sudan and has recently begun a similar effort in Kenya.

AID may seek Agriculture's expertise in preparing country strategy or in implementing a particular project, but Agriculture is not routinely involved in determining AID strategy for reforming policy in a particular country. According to one official, Agriculture often does not learn of AID's decision to target a policy for reform until Agriculture is asked to help implement the reform, by which time protest may be in vain.

Treasury will sometimes attend CDSS discussions and monitors AID's efforts to reform policy. However, because it has a small staff assigned to this function, it is forced to concentrate on balance-of-payments problems in the major countries in Sub-Saharan Africa and on other countries receiving assistance from the International Monetary Fund. Therefore, Treasury is not likely to be routinely involved in AID's efforts to reform agricultural policy in a less-important African country.

The State Department participates in AID's CDSS sessions, but its ability and willingness for further participation are limited. In many African nations, the economic capability of the AID staff may be more extensive than that of the State Department staff. And, according to State officials, despite the importance of policy reform, many Ambassadors do not always assign it an appropriate priority with other U.S. country objectives. Instead, they prefer issues that are less controversial and more immediate and that show results in a shorter time. State's main concern is with the overall relationship between the United States and the host government--policy reform is seen as a component of this relationship. For example, for economic reasons AID recently discontinued a project in a Sahelean country although State feared that such an action would irritate host-government officials and damage relations.

Fuller participation by other U.S. Government agencies would not only allow the Government to make a more comprehensive analysis but also would result in a broader perspective than AID alone could provide. Furthermore, it would minimize the possibility of conflicting actions by AID and other agencies. Finally, a joint strategy would give the U.S. Government a single voice and prevent a host government from resisting policy changes by playing one U.S. agency against another, which according to one AID official, has happened in the past.

FULLER USE OF ASSISTANCE COMPONENTS WOULD ENHANCE REFORM EFFORTS

AID mission programs in Sub-Saharan Africa typically include several assistance components. All missions offer project assistance, most have some type of food aid program, and a few have commodity import programs. These components, taken separately or together, give AID an opportunity to discuss reform with host-government officials. We found, however, that AID missions are not fully using all aspects of their programs to bring about policy reform.

Leverage, in its purest form and in the context of policy reform, means that a donor can dictate changes to the host government. As AID officials readily admit, however, AID rarely can dictate change, even in countries where it has a strong presence, such as Sudan and Liberia. Nevertheless, if it chooses, AID can place conditions on its assistance and can use all the types of its assistance as opportunities for making its views on policy known to host-government officials. This would likely require closer cooperation with other U.S. agencies, as discussed previously.

Our analysis shows that some missions are using only one or two components of their program to influence policy reform. One mission, for example, is engaged in policy dialogue with the government and has ongoing and planned projects aimed at certain aspects of policy reform; however, its cable response does not mention using its Public Law 480 Title I and Title II programs for reform.

Title I of Public Law 480 provides for the concessional sale of agricultural commodities financed by long-term, low-interest dollar repayable loans. Title II authorizes the donation of agricultural commodities to combat malnutrition or other extraordinary relief requirements and to promote economic and community development. Title III is designed to strengthen the linkage between food aid, specifically that provided under Title I, and agricultural and rural development and to go beyond the often unenforced self-help provisions typically included in Title I agreements. To induce Title I food aid loan recipients to undertake development efforts, Title III authorizes a multi-year food aid commitment and a forgiveness of the debt if certain conditions are met.

Public Law 480 assistance appears to be the most underused policy reform tool among the Sub-Saharan Africa missions. Missions having Title III programs use them to influence host-government reform, but only 6 of the 9 missions having Title I programs use or plan to use Title I assistance as a policy tool, and only 8 of the 23 missions having Title II programs use or plan to use such assistance in regard to policy reform.

AID has set forth guidance on the use of Public Law 480 assistance as a policy reform tool. The Administrator has instructed all missions to enhance food aid effectiveness by seeking policy dialogue with host governments and better integrating Public Law 480 programs with total mission development programs.

The Africa Bureau has issued a food aid strategy paper that notes that assurances of timely food supplies during the policy reform transition period or using food sales revenues to help finance the costs of reform can strengthen the host-government's political resolve to undertake the necessary reform measures. Food aid can also be used to bring about policy dialogue between missions and host governments. Furthermore, the Bureau comments that missions may increase or decrease food aid depending on host-country performance in reforming policy.

The Bureau paper adds that food for development programs (Title II, Section 206 and Title III) offer good opportunities for enhancing the policy reform aspects of food aid. The Bureau requires that Title III proposals contain sectoral analyses which identify food problems and ways that Title III resources will help to solve these problems. Countries receiving Title II, Section 206, grants may sell grant commodities and apply the profits to agriculture and rural development projects which alleviate the causes of the need for food aid. Since food problems are frequently policy-related, AID can often use these programs to influence policy change.

Although Title I programs and the direct distribution components of Title II programs (such as maternal-child health centers and food-for-work projects) are not often thought of in terms of economic policy reform, the Africa Bureau paper states that such programs can be used for reform purposes. Title I, although its allocation is often influenced by foreign policy considerations, can be used to influence host-country economic policy. Commodities can be programmed for more than 1 year, with future allocations conditioned on satisfactory host-government performance, including changes in economic policy. Even though Title II direct distribution programs largely serve a humanitarian need, community level Title II projects can focus the attention of the host government on its food and agricultural policies.

Mauritania provides an example of how AID can use Public Law 480 assistance, specifically Title II, Section 206. Mauritania has in the past kept food prices low, which has acted as a disincentive for producers. AID convinced the Mauritanian Government to bring its food prices in line with world prices over a 5-year period. To provide for more efficient food aid distribution, the mission persuaded the government to allow an agency to handle distribution other than the agency which normally did

so. AID has assured certain levels of food aid to Mauritania over the 5-year period, dependent on Mauritania's ability to bring its food prices in line with world prices.

SELECTED GAO REPORTS ADDRESSING AGRICULTURAL POLICY REFORM

"Disincentives to Agricultural Production in Developing Countries," (ID-76-2, Nov. 26, 1975).

"Providing Economic Incentives To Farmers Increases Food Production In Developing Countries," (ID-76-34, May 13, 1976).

"Restrictions on Using More Fertilizer For Food Crops in Developing Countries," (ID-77-6, July 5, 1977).

"Coordinating U.S. Development Assistance; Problems Facing the International Development Cooperation Agency," (ID-80-13, Feb. 1, 1980).

"Food for Development Constrained by Unresolved Management and Policy Questions," (ID-81-32, June 23, 1981).

"Food Conservation Should Receive Greater Attention in AID Agricultural Assistance Policies and Programs," (GAO/ID-82-29, June 3, 1982).

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

July 7, 1983

Frank C. Conahan, Director
National Security and International
Affairs Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

We have reviewed the General Accounting Office (GAO) proposed report titled "Africa's Agricultural Policies -- Their Importance Has Been Recognized; A More Concerted Effort Will Be Needed If Reform Is Expected" and have the following comments.

The GAO is to be commended for a thorough, well-reasoned analysis of a serious problem A.I.D. has been wrestling with for some time -- the reforms needed in sub-Sahara Africa's agricultural policies along with macroeconomic policy changes before significant improvement can be expected in the region's agriculture. Your analyses of this situation and the difficulties A.I.D. faces in addressing it parallel our own.

In your report you noted A.I.D.'s recurring efforts to come to grips with the problem. The most recent of which (in a formal sense) as cited in your proposed report comprised Africa Mission responses to the Africa Bureau's (AFR) cable to the field in September, 1982 requesting data on Mission efforts in this area, plus the Agency-wide requirement for Mission reporting on actions and plans as part of the FY 1985 CDSS guidance sent to the field in October, 1982. While your analysis of the responses to the cable query did not differ importantly from our own, your report does not cover significant progress on policy reform efforts and plans reported by many of the AFR Missions in their FY 1985 CDSS submissions as a result of these and other actions A.I.D. has since taken. In addition, the recently drafted African Bureau Strategic Plan places policy reform as its highest priority -- the sine qua non for revitalization of sub-Saharan economies. We fully expect to see more vigorous policy reform efforts and substantive results from our Missions over the next few years.

The cables received from the field Missions represented only an initial, preliminary analysis of policy reform problems and possibilities in AFR countries. However, a check of 31 AFR FY 1985 CDSS submissions shows that substantive analyses of agricultural policy reform was done by 20 of the 23 Missions where significant attention to this issue could be expected (we have basically little more than a token presence and program in the other 8).

Of the three remaining countries, one is considered to have a good agricultural policy environment without the need for major change; another is where A.I.D. is not pursuing an agricultural development strategy because of the country's lack of agricultural potential; and in the other the USAID is concentrating its efforts on the larger macroeconomic policy issues that must be resolved before agricultural development can proceed.

The extent of these analyses varied somewhat, depending mostly on staff capability. However, at least four of the Missions already have well structured strategies/plans of action for dealing with policy reform (principally agricultural) in their host countries -- in the case of Zambia, a four-man team spent one month in the field to provide a complete analysis of agricultural policy reform requirements. Twelve Missions reported a substantive, effective dialogue taking place with the host government. In eleven cases, our assistance was being conditioned to a much greater degree than previously by host government performance in policy reform. Three other Missions have definite proposals for stiffening aid conditions. The above efforts are being carried out through both project and non-project assistance. At least 15 projects directly address one or more aspects of agricultural policy reform, and in at least ten cases program assistance terms (mostly PL 480) aim clearly at reform.

Much attention of late has been directed to the problem of price policies. In line with this, eleven Missions reported major reform efforts underway in agricultural pricing/marketing policies, all reflecting a significant impact on host government attitudes and actions. Three Missions have plans for specifically addressing this issue. In addition, the private sector aspects of agricultural policy reform are being effectively addressed by at least seven Missions. Other Mission initiatives are also being taken which relate to policy reform, including five which are clearly addressing the problem of host country incapacity to deal more effectively with policy reform issues. Moreover, a majority of the Missions have recently or will soon perform sector assessments which more precisely identify the kinds of policy constraints that impede improved performance, and will permit us to focus and guide our policy reform efforts.

Regarding PL 480, steps have also been taken by FVA agency-wide to increase the effectiveness of PL 480 assistance as a vehicle for promoting policy reform. Title III program guidance issued in 1982 requires that a strong host government commitment to policy reform be demonstrated as justification for program approval. Draft Title II, Section 206 program guidance now being reviewed calls for policy commitment as well. FVA is also carefully reviewing the adequacy of Title I self-help measures to ensure that policy dialogue is incorporated, as appropriate, to maximize Title I developmental impact. FVA believes that PL 480 assistance offers much potential for furthering agricultural policy changes in Africa, and will continue to place a high priority on using U.S. food aid toward this end.

The foregoing serves only to illustrate the movement that is taking place in AFR Missions vis-a-vis agricultural policy reform -- it is not the whole story of what is being accomplished.

Although your analysis and the report's conclusions and related recommendations are based primarily on the situation as it existed in late 1982, and therefore does not fully reflect the above actions and progress that have been taking place, we still consider the main thrust of the report's conclusions and recommendations to be valid. In short, much of what your recommendations call for is already underway, although possibly structured somewhat differently from what you recommend, and the rest we propose to put into effect insofar as possible -- as described below -- although again perhaps in a somewhat different manner than you may have envisaged.

In particular, we agree that more firm Mission commitments to attacking the problem of agricultural (and related) policy reforms in A.I.D. recipient countries in the sub-Sahara, and firmer and more specific Mission plans for helping to bring about change, are very much in order -- as we have repeatedly indicated in recent documents and statements. We propose to take the following approach, in line with your proposed recommendations.

The situation in sub-Sahara Africa vis-a-vis agricultural policy and the needs and possibilities for reform vary widely from country to country. Equally significant, they vary over time as the political and social dynamics at work in each country continually alter the prospects for change, sometimes quite suddenly. Consequently, we feel that a pro forma, static set plan and implementing guidance for each country would not be appropriate or workable. Rather, we propose to use the concept of a "rolling" plan for each Mission in order to provide essential flexibility and timeliness to Mission initiatives in this matter. It could be a five year plan, for example, subject to annual change to accommodate the dynamics of host country attitudes, conditions, and policy reform progress. In this way, a requirement for developing and maintaining a policy reform strategy for each AFR Mission could be most appropriately included in the AFR Supplemental Guidance for the annual CDSS exercise. The process of Mission planning aimed at host country policy reform was begun with the FY 1985 CDSS. We are proposing a strengthened version of AID/W FY 1985 CDSS Guidance to the field for addressing the problem of host country economic policy reform (viz. agriculture and related policies), adapted to deal realistically with additional GAO proposed recommendations. The requirement would need to be flexible, however, to permit each Mission to tailor its plan to the circumstances peculiar to that Mission -- country situation, program size, and most importantly, the serious constraint of insufficient number of appropriately trained Mission staff for the task, as noted in the proposed GAO report. Thus, while we are building this additional requirement into our annual CDSS submission, the problem of too few trained

field staff to carry it out remains with us. This may compromise plan implementation in some Missions from time to time, as is implicit in the Report's analysis.

A.I.D. needs your support, as well as that of the Congress and the OMB, if we are to make any significant progress in overcoming this fundamental problem of staff limitation.

In sum:

-- we agree with your analysis of the agricultural policy reform problem in A.I.D. recipient countries in the sub-Sahara;

-- however, in our view, A.I.D. is making more progress toward a solution than your proposed report indicates, mostly because such progress has taken place subsequent to the time-base of your report;

-- nonetheless, we agree that even more may need to be done and, accordingly, propose to increase Mission attention to the problem by requiring a "rolling" five-year Mission policy reform strategy and plan of action -- in line with GAO proposed recommendations -- as part of AID/AFR annual CDSS submissions.

Sincerely yours,

Alexander R. Love
Acting Assistant Administrator
Bureau for Africa

COPY OF STATE DEPARTMENT COMMENTS DATED JULY 5, 1983

We appreciate the opportunity to review the draft GAO report on reform of Africa's agricultural policies. While we agree with the need for more emphasis on agricultural policy reform and on the need for better inter-agency coordination in formulating these objectives, we believe this needs to be put in a broader and political setting.

Agricultural policy reform is not an end in itself. Rather it is a part, albeit a key one, of the larger economic/financial and, ultimately, political stabilization picture. Whatever agricultural sector goals are identified must be carefully integrated into a pattern of macro- and micro-economic reforms. As noted in the report, the United States bilateral aid accounts for only a small proportion, perhaps 10%, of the total flow of external resources which reach African countries. The largest sources of such aid are the World Bank and IMF and, for this reason as well as the political sensitivities involved, the basic pattern of stabilization and reform is negotiated between these multilateral organizations and recipient countries. Whatever reforms the USG promotes, either through the self-help provision of PL480 programs or through setting of conditions precedent to ESF or DA disbursements must take into account this reality.

By the same token, while rewarding countries which perform well in the agricultural policy sector [p. 6] is a laudable goal, it can only be accepted as one small element in determining assistance levels which will reflect our real political and security as well as humanitarian/developmental interests in the region.

We heartily agree with your points on [p. 13] that better coordination among USG agencies is needed. It is precisely for this reason that the inter-agency Wheeler Group was created to deal with the full assistance and reform package in countries of importance to the U.S.

We agree that AID's (and other agencies) economic analysis capabilities could be improved but we think you are drawing far too sweeping conclusions from your surveys of replies from AID missions. Where the United States plays a major role as a donor it is our experience that USG (including AID) analysis is first rate. In a large number of other African countries where U.S. interests and presence are smaller our analytical skills are admittedly weaker but this is balanced at least in part by drawing on the expertise of lead bilateral and multilateral donors.

More generally, I am concerned about the report's rather mechancial stress on analysis. This appears to be based on the implicit assumption that the sheer weight of our intellectual brilliance will determine the policies of African countries which they see as vital to their existence. The process of inducing reform is not one of teacher and student but one of negotiations, compromise and patience. We need to know in which direction we want to move but getting there is an art, not a science.

I would also caution against expecting too much in the way of policy reform, from the modest amounts of assistance the U.S. supplies to Africa. Even in cases where our national interests loom large we are not the largest bilateral donor. Attempts to leverage what are in effect major social changes, e.g., speedy devolution of parastatal marketing boards, for a few million dollars in DA or PL480 assistance are almost inevitably doomed to failure in Africa.

Finally, I would note a basic difference of philosophy with regard to provision of U.S. assistance. Your comments [p. 15] would seem to imply that the basic purpose of U.S. assistance is to induce policy reform and that political factors are a secondary or less worthy consideration. They are both parts of what must be viewed as a coordinated attempt to protect U.S. national interests. Neither is complete without the other, and both must be given appropriate weight in the decision making process.

If you have any questions or wish to discuss our comments further, I or my staff would be pleased to meet with you at a mutually convenient time.

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