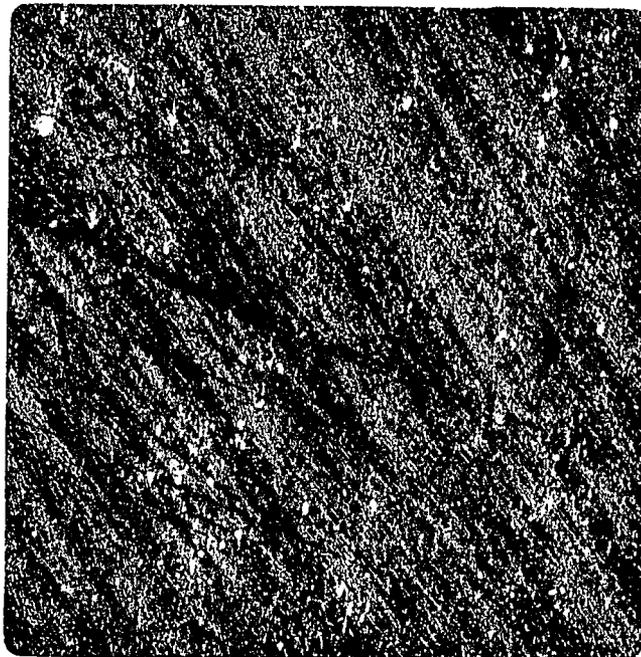


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# APAP Staff Papers



## AGRICULTURAL POLICY ANALYSIS PROJECT

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**FORMULATING AGRICULTURAL  
POLICY IN A COMPLEX INSTITU-  
TIONAL ENVIRONMENT: THE CASE  
OF SRI LANKA**

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## FOREWORD

This publication is one of a series of staff papers that are part of the continuing effort of the Agricultural Policy Analysis Project (APAP), sponsored by the Office of Agriculture in AID's Bureau of Science and Technology, to disseminate the experience it has been accumulating in the area of agricultural policy analysis. Through interaction with policy makers, country analysts, and AID missions in Africa, Latin America and the Caribbean, the Near East, and Asia, APAP has identified and concentrated its technical resources on the following themes:

- Developing agendas for an informed mission-host country dialogue on economic policies constraining progress in agriculture.
- Defining food aid strategies and programs that foster and support economic policy reform measures.
- Identifying input and output price reform programs that stimulate agricultural production and productivity.
- Fostering private sector participation in input supply and product marketing and redefining the role of parastatal institutions.
- Developing the indigenous capacity of host country institutions to provide the information needed to analyze, formulate, and implement policies conducive to agricultural development.

In the present case study, Dr. Jiron and Mr. Tilney illustrate how a USAID mission was able to set in motion a process that achieved many changes both in the host-country's agricultural policies and, perhaps more importantly, in the host-country's perception of the development role of its agricultural sector. These changes were attained for a relatively small amount of money and within a reasonable time frame. Among the factors that contributed to this success, the following are notable: the right implementing agency; an emphasis on a participatory process; good technical management; a clear agenda; and, most importantly, the government's interest and support of policy reform. Dr. Jiron served as a long-term technical advisor, and Mr. Tilney provided short-term technical assistance under the auspices of the Agricultural Policy Analysis Project.

We hope this and other APAP Staff Papers in the series will provide useful information to all those involved in the continuing agricultural policy dialogue between AID and host country governments. We welcome comments, criticism, questions, and suggestions from our readers.

## ABSTRACT

For two and one-half years, the National Planning Division of the Ministry of Finance and Planning of Sri Lanka, with the support of USAID and other donors, was engaged in the formulation of an agricultural development strategy in collaboration with the ministries concerned with development in the country. This exercise afforded the government the opportunity to explore new avenues for accelerating the pace of agricultural development in the country. Carried out on each subsector of the agricultural economy, the review critically examined the existing situation, identified the constraints to achieving identified development goals, and offered proposals for overcoming these limitations. The planning strategy was developed with the participation of large, complex ministries engaged in such diverse activities as research; extension; farm management; processing; marketing; and the provision of fertilizer, credit, water and other inputs. The organizational structure, which required the active participation of the implementing ministries, was a key ingredient of its success.

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## 1.0 INTRODUCTION AND SUMMARY OF LESSONS LEARNED

In Sri Lanka, numerous ministries, semi-autonomous agencies and development authorities are concerned with the agricultural sector. These institutions have narrowly defined areas of influence, making the analysis, formulation, and implementation of general policies and programs a difficult exercise. In this environment, agricultural ministries and related agencies are so engrossed in the day-to-day problems of implementing their development programs that little or no attention is given to the impact of macroeconomic and sectoral policies. There is also little incentive to engage in policy analysis; rather, attention is focused on short-term problem solving and on identifying new projects that have an immediate pay-off.

In 1982, the Government of Sri Lanka (GSL), with the support of USAID and the Government of the Netherlands, decided on a comprehensive effort to address these problems. It initiated a long range policy analysis effort called the National Agricultural, Food and Nutrition Strategy (the Strategy), which was designed to produce a set of consistent policies and programs to promote the growth of the agricultural sector. It was also designed to improve the capacity of the government to deal with policy issues that cut across the agricultural sector; to promote interagency linkages; and to bolster interaction between decisionmakers and analysts. The Strategy was successful in many of these objectives and therefore represents a possible model to be followed in other countries with similar problems. Limited assistance in this exercise was provided initially by USAID and subsequently by the Netherlands. The total cost of the Strategy to the foreign donors was approximately \$700,000 (USAID--\$500,000; Government of the Netherlands--\$200,000). In addition, the GSL made a contribution to the project in the form of government officials' time preparing studies and reports, organizing and running meetings, and many other activities connected with the Strategy exercise. While this contribution was mainly in-kind and, therefore, difficult to estimate, it was at least \$100,000 over the two and one-half year period.

There are many reasons for the relative success of this exercise. The major ones are listed below:

- This was a collaborative effort between the Government of Sri Lanka and the donor community. The government was interested in rethinking its agricultural development strategy at the same time the donor community was looking for some guidance on future programs and policy directions.
- The aims of the Strategy were highly pragmatic. From the outset, emphasis was placed on defining a development strategy which consisted of an implementable set of policy reforms and development objectives endorsed by all principal actors.
- The right ministry was selected to direct the Strategy. The ministry selected was effectively at a higher hierarchical level than other ministries, which gave it the authority to lead the process.
- The GSL and the AID Mission also made good choices about the individuals to manage the Strategy. The Project Director ran the GSL's major economic planning department and was a recognized figure in government, which meant that the Strategy would be taken seriously by senior decisionmakers in participating ministries. The Technical Director (on the Strategy) was also a senior official and worked full-time, providing continuity and direction.
- Workshops and task forces proved to be extremely useful vehicles for communication and interaction. Analysts and decisionmakers rarely work together in the large complex institutions which oversee the agricultural sector. In the task forces and workshops set up as part of the Strategy, analysts and decisionmakers worked together to develop policy reform recommendations and action plans. The workshops also provided a forum for interchange between key decisionmakers in different ministries.
- The Strategy was product oriented. Each of the task forces was required to produce a report outlining policy changes and programmatic reforms for their subsector. Once the reports were finished, they were printed and distributed widely within and outside government.
- A long-term advisor provided by the AID Mission was used effectively. An important part of his effectiveness was that he worked with the Technical Director in the GSL. This allowed him to be considered a part of the process, rather than an outsider, and kept him focused on the Strategy itself.

- The Project Director and Technical Director developed a realistic time frame for the Strategy and then adhered to it. Milestones were also clearly set forth at the beginning which helped to keep the project on track.

The Strategy represents a case where an AID Mission was able to set in motion a process which achieved a great deal of changes both in agricultural policies and, perhaps more importantly, in the host country's perceptions and approaches to development for a relatively small amount of money and within a reasonable time frame. The right choice of implementing agency, emphasis on a participatory process, good technical management, and a clear agenda all contributed to its success, but the single most important factor was probably the government's support of and interest in policy reform.

## 2.0 BACKGROUND

The U.S. Government has provided Sri Lanka with wheat, powdered milk, and other commodities under the PL 480 program since the early 1950s. Certain conditions had always been placed on this form of assistance. In the early 1980s, USAID saw the need for the GSL to develop a long-range food and nutrition strategy, and this was included as a "self-help" measure under Title I beginning with the FY 1981 program.

When the idea of the Strategy was proposed to the Government of Sri Lanka by USAID, key elements of the GSL were also keenly interested in assessing the future direction of the agricultural sector. The country was then approaching self-sufficiency in rice, which had been a central GSL goal since independence in 1948. The near attainment of this goal provided the impetus to take a fresh look at the sector. An equally important factor was that the post-1977 government sought to reduce the role of the state in the agricultural sector and increase the private sector's role, but a consistent implementable strategy to do this had not yet been formulated. The Strategy was conceived of as the instrument whereby the numerous ministries concerned with agriculture would develop a common policy and a unified approach for agricultural development over the next ten years.

The objectives of the Strategy as formulated by the GSL and endorsed by USAID were:

- to review the country's nutrition and agriculture situation with a view to understanding the main obstacles to better nutrition and agricultural growth;
- to examine the development prospects of the agricultural sector in order to identify opportunities for growth and expansion; and
- to define priority policy changes and investment opportunities.

## 2.1 The Institutional Context

There are numerous government agencies involved in the agricultural sector, which is an important feature of the Sri Lankan public sector. Nine of the most important ministries involved in the agricultural sector are shown in Exhibit 1. These large complex ministries are engaged in such diverse activities as research, extension, farm management, processing, marketing and the provision of fertilizer, credit, water and other inputs. While they are all large, there is considerable range in the size of these institutions ranging from the Ministry of Rural Industrial Development, with a staff of over 2000 employees, to the Ministry of Agricultural Development and Research, with a staff of over 30,000.

In addition to their large size and diverse activities, these ministries are extremely complex institutions. Each ministry encompasses a number of different entities, including state-run corporations, boards, authorities, and departments. These entities tend to be semi-autonomous, and some even have sources of funding separate from the ministry's budget.

This multiplicity of ministries with influence over the agricultural sector had concerned international donors for many years. The situation had arisen not only from the government's preference to set up individual ministries to implement large development projects, but also as a result of domestic political considerations. The World Bank and other donor agencies tried unsuccessfully to tie their assistance to some "rationalization" in the number of institutions servicing the sector. This was not accomplished because of

Exhibit 1

AGRICULTURAL MINISTRIES IN SRI LANKA

- Ministry of Agricultural Development and Research - is responsible for promoting the growth and development of the food crops sector (rice, sugar, etc.) and minor export crops subsector (cocoa, coffee, spices, etc.) It is involved in many aspects of the production and marketing of these crops including research, price supports, provision of infrastructure, promotion, processing of certain crops, provision of certain inputs such as seed and fertilizer, and a number of related activities.
- Ministry of Coconut Industries - is responsible for overall development of coconut plantation agriculture and associated processing and industrial activity. The Ministry plans, sets policies, regulates, and implements programs for the coconut sector.
- Ministry of Finance and Planning - reviews and approves budgetary requests and individual projects of all of the Ministries involved in the agricultural sector.
- Ministry of Fisheries - is responsible for the overall development, regulation, and control of marine and inland fisheries, fisheries harbours, and coast conservation.
- Ministry of Lands and Land Development - oversees the design, planning and management of irrigation projects, handles forestry management, and manages land use planning, particularly related to settlement issues.
- Ministry of Plan Implementation - has responsibility for food and nutrition policies and programs, in addition to monitoring expenditures across all other ministries.
- Ministry of Plantation Industries - has responsibility for smallholder production of tea, rubber, silk, and allied products.
- Ministry of Rural Industrial Development - is responsible for the overall development of livestock as well as small industries, such as traditional handicrafts.
- Ministry of State Plantations - is responsible for the large estate plantations of tea, rubber, and coconut which have been under government control since nationalization.

strong political resistance. This complex institutional structure had, therefore, become a fact of life in Sri Lanka and represented the institutional context in which USAID and the Government of Sri Lanka set out to define a National Agriculture, Food and Nutrition Strategy.

### 3.0 PROJECT COORDINATION AND ORGANIZATIONAL STRUCTURE

The selection of the agency to coordinate the Strategy represented the single most crucial decision for the success of this project. The AID Mission urged broadening the scope to include food and nutritional considerations as well as agriculture. The Food and Nutrition Policy Planning Division (F&NPPD) of the Ministry of Plan Implementation was one candidate for the coordinating role because the Strategy involved nutrition as well as broader food policies. Although this ministry was supposed to monitor and evaluate the country's investment programs, most ministries retained the power to set their own investment priorities. Thus, it became clear that the Ministry of Plan Implementation could not exercise its authority to influence other participating ministries in the definition of their development and investment priorities.

The Ministry of Agricultural Development and Research (MADR) was also a possible lead coordinating agency for the formulation of the Strategy. The MADR had appeal because the AID Mission and other donors had traditionally worked with this agency. There were several reasons, however, for not selecting this agency to coordinate the project. The first was that it would be difficult for the MADR to provide leadership to ministries at the same hierarchical level. Second, there was concern that most of the MADR officials were already overextended, and there was no assurance that they could devote the level of attention required to implement the Strategy.

The GSL finally selected the National Planning Division (NPD) of the Ministry of Finance and Planning as the coordinating agency for the Strategy. The U.S. Agency for International Development endorsed this decision because, while it had little prior experience working with NPD, it was believed that participating ministries would more likely accept the leadership from the agency whose approval was needed for new projects and new investments. The Ministry of Finance and Planning plays a crucial role in deciding annual budget allocations and, therefore, has considerable influence over other institutions. The National Planning Division of the Ministry of Finance and Planning

had little previous experience in implementing donor-funded projects of this nature, but it did have considerable prior experience in defining investment priorities, as reflected in the Public Investment Program it formulates and publishes every year.

### 3.1 Participating Ministries and Organizational Structure

The decision about which ministries to include in the formulation of the Strategy was based upon whether the ministries had already recently undertaken a policy review or investment plan. Agencies dealing with large tea and rubber holdings, for example, were excluded because an investment strategy had previously been developed under the auspices of the World Bank.

The Strategy was eventually formulated with the participation of the following ministries: Ministry of Agricultural Development and Research (food crops); Ministry of Lands and Land Development (irrigation); Ministry of Fisheries; Ministry of Rural Industrial Development (livestock); Ministry of Plantation Industries (smallholder tea and rubber); Ministry of Coconut Industries (smallholder coconut); Ministry of Plan Implementation (food and nutrition); and Ministry of Finance and Planning (overall coordination).

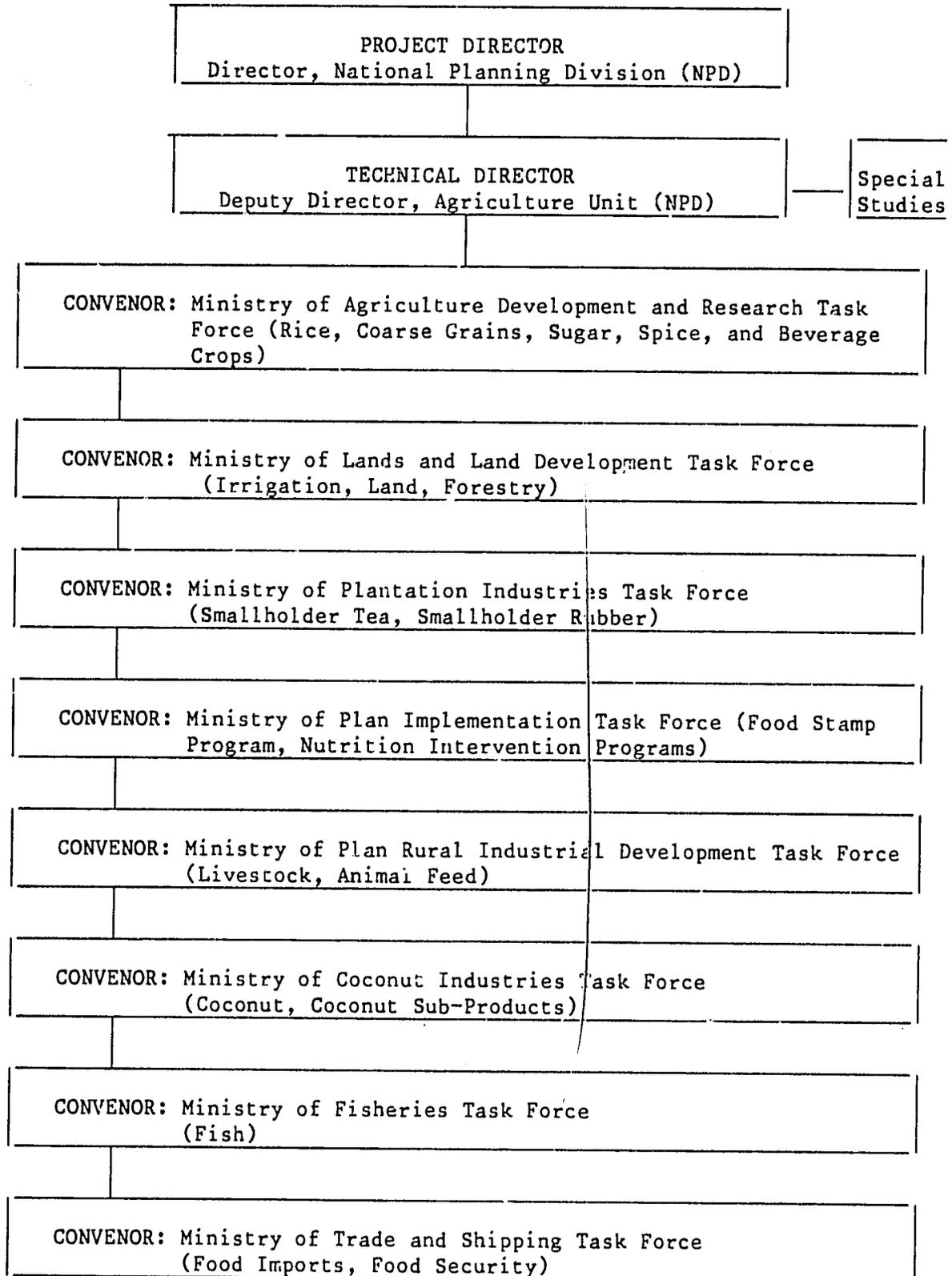
The organizational structure of the Strategy was a key ingredient of its success. It required the active participation of the implementing ministries. To maximize participation, a task force was organized within each ministry concerned (see Exhibit 2). The task force was entrusted with producing the development strategy of the agricultural sub-sector falling under its purview. Each task force had an appointed convenor, who in most cases was the Additional Secretary or a high ranking official appointed by the Permanent Secretary of the Ministry.

### 3.2 The Use of Long- and Short-term Technical Assistance

The project design called for one long-term advisor to collaborate with the National Planning Division. The core tasks of the advisor were: (a) to serve as a technical resource for the task forces; (b) to advise on the utilization of appropriate quantitative methods to analyze agricultural production constraints, marketing, prices and nutritional needs; (c) to assist the National Planning Division in integrating the results of the task forces and

Exhibit 2

ORGANIZATIONAL CHART OF THE STRATEGY



short-term studies into an overall strategy; and (d) to provide access to a broad range of policies and program options and interpret experience in other countries relevant to Sri Lankan problems and alternatives. A scope of work for the advisor is included in Appendix A.

Initially, it was envisioned that the long-term advisor would be an "expert" in the field with an international reputation and many years of experience in the field. The GSL felt, however, that they would prefer a young, dynamic individual with strong training and without particular preconceptions, who would want to work on the many different issues involved in the Strategy. With some reservation, USAID agreed, and the GSL felt that the results justified their decision.

The single most important strategic function performed by the long-term advisor was to assist each task force in the development of the terms of reference for their sub-sector review and strategy document. This activity built uniformity and compatibility into the analytical approach. Development of the analytical framework for the task forces' reviews also helped establish the long-term advisor as the essential link between the National Planning Division and the task force members.

Short-term technical assistance was provided by experts from the U.S. and other parts of the world. These outside experts worked on a series of special studies on topics such as rural credit, agricultural pricing, agricultural research, and the export potential of rice and selected spice and beverage crops (see Appendix B for a detailed description of the studies). A number of short-term advisors came to Sri Lanka to work on these studies for a period of approximately six weeks each. The outside advisors were normally paired with local counterparts who had pulled together background material prior to the advisor's arrival and worked with the advisor during their in-country assignments. This proved to be a successful structure for short-term assistance.

#### 4.0 IMPLEMENTATION

While there was a general idea of what the Strategy should consist of, considerable design and planning work was required at the beginning of the project. With the assistance of an advisor, the Project Director and Technical Director (both from NPD) were able to shape the direction of the work.

Under the work plan of the Strategy, each ministry was responsible for analyzing the appropriate future direction of its subsector and defining the necessary possibilities for institutional restructurings. These different elements were to be incorporated into a report which was to be published and distributed widely.

In addition to the analyses of subsectors, the Strategy was designed to address sector-wide, inter-ministerial issues, including agricultural research, agricultural credit, and agricultural pricing. The NPD identified studies to pinpoint improvements in the country's ongoing programs and policies.

The formulation of the Strategy was scheduled to take place over a two-year period. At the suggestion of AID, it included a set of inter-ministerial workshops, as well as task force meetings, preparation of subsector reports, special studies, and the formulation of action plans and investment programs. The scheduling of these activities is shown in Exhibit 3.

A three-day workshop on the Strategy was convened at the outset. The workshop had three purposes:

- 1) to officially begin formulating the Strategy;
- 2) to clarify the scope and objectives of the Strategy;
- 3) to provide a forum for the dissemination and discussion of the analytical approach proposed by each task force.

An important outcome of this workshop was the identification of analytical areas that required inter-institutional coordination. The need for such coordination stemmed from overlapping data requirements and from the recognition that collaboration was required to properly address some topic areas.

The workshop participants endorsed the idea that a series of special studies were needed to complement the work of the task force. Short-term technical assistance was used to carry out these special studies.

#### 4.1 Preparation of Sub-Sector Reports

It was agreed at the inaugural strategy workshop that the task forces would present interim reports six months later. The process of preparing these task force reports varied considerably across ministries. In general, these task forces met on a regular basis to frame the scope of the work and to

discuss aspects of it. A representative from NPD and the long-term advisor attended these meetings and helped to focus the analysis. The task forces then assigned someone within the ministry to draft the report, usually the Director of Planning for each participating ministry.

These meetings were significant in that they brought together representatives from the diverse divisions of these large complex ministries to discuss substantive issues. This happened rarely, if ever, within these ministries and was one of the reasons why long-range policy analysis took place infrequently. Senior decisionmakers also took part in these meetings as their concurrence was needed to the suggested policy reform options.

Each of the eight task forces were able to produce draft reports six months into the project. These reports varied greatly in quality and completeness, but nonetheless they proved to be valuable as working documents. Revisions were made where necessary through internal dialogue between NPD and the task forces.

After the draft task force reports were finished, they were submitted to the National Planning Division (NPD), which reviewed the reports with the convenors of the task forces. The review process aimed at reaching consensus about the desirability and feasibility of proposed reforms rather than achieving conceptual elegance. Because of the nature of the process itself, some analytical gaps resulted. It is believed, however, that the benefits achieved with this approach outweighed the defects it brought about. Following the incorporation of needed changes in the task forces reports, a new round of meetings was organized, this time with the Permanent Secretary of each ministry. Much of the work at this stage involved identifying areas of disagreement and working out solutions acceptable to both the National Planning Division and the line ministry involved. The completion of these meetings gave the seal of approval to the task forces reports.

Summaries of each of the task force reports then became part of the Ministry of Finance and Planning Strategy report. This report outlined the development strategy for the agricultural sector as a whole and set policy and funding priorities for each ministry. It was distributed to the donor community at the yearly Sri Lanka AID group meeting. By placing this document in the hands of the donor community, the government acknowledged acceptance of the development objectives and the policy reforms contained in the report.

#### 4.2 Policy and Technical Workshops and Action Plans

Once the task force reports, special studies, and Ministry of Finance and Planning report were completed, the recommendations were finalized and presented to a larger audience. Up to this time, each of the task forces had worked independently, so two workshops (a policy level and a technical level workshop) were organized to share information and to discuss issues cutting across the agricultural sector.

The policy level workshop brought together senior decisionmakers of the ministries involved in the Strategy to agree on agricultural sector policy reforms. It also served to disseminate the individual strategies being proposed and to resolve certain inter-ministerial differences.

Subsequently, the Project Director and Technical Director organized a technical workshop, which brought together both analysts and decisionmakers. This workshop was of longer duration and had the explicit purpose of putting together detailed ministerial action plans to implement the Strategy. To prevent the action plans from becoming overly ambitious, the analysts and decisionmakers had to set priorities and define concretely how the recommendations would be carried out. The action plans became the basis for the government's Public Investment Programme and also identified areas where foreign technical assistance was needed.

#### 4.3 Policy and Programmatic Recommendations

Some of the major substantive recommendations for policy reforms and programmatic changes are listed below:

- Revise investment priorities. Reduce emphasis on the largest irrigation development project, which was absorbing close to fifty percent of the government's development expenditures, and accelerate other agricultural production activities.
- Design programs and projects to reform the rural credit structure, integrating the formal and informal channels of credit.
- Change the rice marketing system. Further reduce the role of the Paddy Marketing Board (government marketing agency) and promote private trade through special credit lines for product disposal.

- Establish a Price Policy Monitoring Unit to ensure that adequate returns are afforded to domestic producers.
- Finance feasibility studies and detailed subprojects for agro-industrial development. Define price, credit, taxation, and tariff policies conducive to agroindustrial development.
- Privatize the two state sugar factories. Base sugar production on a combination of outgrowers and nucleus estate holdings by the private sector.
- For irrigation, shift from new facility construction to rehabilitation and finance rehabilitation through user fees.
- Move production and processing of milk from the state (National Livestock Development Board) to the private sector.
- Redesign the subsidy scheme for smallholder tea production to promote infilling rather than replanting.
- Index the value of food stamp allocations and link the food stamp program to the rice surplus disposal system.

Each ministry built these recommendations and policy reforms into their action plans for later implementation.

#### 4.4 Ongoing Activities

Activities on the Strategy continue. The most recent events include additional work on the action plans meant to detail specific programs and projects, which are now receiving priority attention in the budgetary allocations for the implementing agencies. The Strategy action plans have also become important components of the self-help measures of the PL-480 Title I agreement for Fiscal Year 1986 and are being incorporated into the GSL's public investment program.

Like any planning document, the Strategy has to be constantly updated and reviewed. Under an upcoming Agricultural Planning and Analysis Project activity to be funded by USAID, the strategy exercise will be redone. The project calls for a review of the Strategy several years into the planning project after the capacity in the various planning units has been improved.

## 5.0 PROJECT IMPACTS AND ACCOMPLISHMENTS

Capacity-building impacts were a major result of the Strategy. The Strategy had a strong impact on the analysts who participated in its formulation. Analysts' time is often consumed by administrative responsibilities or compilation of statistics. The Strategy provided the opportunity to analyze those issues which senior decisionmakers both within and outside a particular ministry had identified as being of tantamount importance. The exercise, therefore, strengthened the analytical abilities of technical officers in ministries.

More importantly, the formation of task forces brought together the many disparate parts of these ministries and formed working relationships that had not existed before. One of the problems of these large cumbersome institutions is that there are few incentives to resolve differences of opinion and arrive at a consensus on new directions. The Strategy exercise revealed to each ministry that they had the capacity to make these changes. It is still too early, however, to tell how these task forces will be used in the future and whether the long-range capacity for coordination has been improved.

The Strategy exercise clearly improved the working relations between decisionmakers and analysts. In the workshops, the senior decisionmakers were brought together with analysts to develop the action plans. Over a three-day period, they worked together in groups of six or seven people to make policy and programmatic decisions. This sort of working relationship rarely, if ever, takes place in the normal working environment of these ministries.

On completion of the Strategy, USAID proposed the implementation of an Agricultural Planning and Analysis Project to address the lack of technical expertise in the participating ministries. This project idea found an extremely receptive audience, as the Strategy exercise had served to highlight existing deficiencies in the GSL agricultural planning capabilities.

The Strategy also had a strong impact on interinstitutional interaction. The Strategy succeeded in promoting a great deal of interaction among participating ministries. Technical officers working in the different ministries seldom have the opportunity to look beyond their own ministry's area of concern. What is more, outside officials do not usually discuss actions and policies with the technical officer of another ministry. The Strategy's use of task forces and workshops made this possible and exposed analysts to con-

cerns and issues that transcended their own ministries. It forced analysts to work together and arrive at a consensus with analysts and decisionmakers in other ministries.

The presentation of the Strategy also improved the relationship between the donors and line agencies. In the past, many programs and projects initiated by the government were really conceived of and promoted by the donors. As a result, the scarce resources of line agencies, used as counterpart funds on donor financed projects, were fragmented and unfocused. The Strategy helped the government define the fields, programs, and projects where it felt the donor resources would do the most good for the country and where such donor funds would be in accordance with government priorities. In this way, it helped organize the areas of concern and priorities of both line agencies and the donors' aid program.

The Strategy exercise also clearly had an impact on decisionmakers in these ministries. The improved working relations between decisionmakers and analysts has already been cited. More importantly, the Strategy forced decisionmakers to take a long-term policy perspective, which for many reasons is rarely done in this environment, and to take action on these recommendations. Inertia is a powerful force within large governmental agencies and even powerful senior administrators have difficulty in shifting courses of action and analyzing critically the performance of their own ministry's performance.

Impacts on policies and programs may be the most important outcome of the Strategy. Implementation of the Strategy is still underway, but it is possible to point out some definite accomplishments. The major policy and programmatic recommendations that were generated in the strategy process have already been highlighted, but there are several others worth noting. In the past, donors have sold project ideas to line ministries (those responsible for implementing policy) that were mainly of interest to the donor. When accepted, the projects would be analyzed and evaluated (in most cases by project teams fielded by the donors themselves) and brought to the Ministry of Finance and Planning for approval. At this stage, it was practically impossible to reject the projects because they were at such an advanced stage of preparation. With the Strategy completed and priority programs and projects identified, it is now possible to guide donors to projects that fit within GSL established programmatic priorities.

From its inception, the Strategy directed a lot of attention to identifying constraints on agricultural production. Because of the Strategy, it became evident that limited marketing for certain foodgrains was a major constraint on agricultural production. The government then started looking into ways and means to support market development. Credit programs were developed to facilitate entry of individuals into marketing activities. The extension system, which previously had been charged solely with transmitting production information, was asked to communicate and deliver information on marketing prospects and other information that could help farmers make more informed production decisions.

The Strategy strengthened the idea that the private sector should play a larger role in the agricultural sector of the economy. Although the present government believes in more private sector participation, the Strategy made evident the areas where state intervention had not delivered the expected results. It then became easier for the government to effect desired changes.

#### 6.0 CONSTRAINTS AND POSSIBLE REMEDIES

The Strategy accomplished many of the objectives it set out to achieve. Certain constraints were encountered, however, as described below.

Workload management. The coordinating body (i.e., The National Planning Division) experienced a significant increase in responsibilities and workload because of the Strategy. The technical and administrative capacity of the National Planning Division proved to be insufficient at peak times of activity. Some issues were not studied as closely needed because of lack of staff. This situation can be avoided if potential implementation bottlenecks at key agencies are identified at an early stage and steps taken to reinforce those agencies.

AID procurement regulation. Unnecessary delays were experienced because implementing agencies did not completely understand USAID financial and procurement regulations. As a result, they planned for technical assistance and commodity procurement to occur much earlier than USAID could provide them. In retrospect, it would have been valuable to set up seminars on USAID regulations and procurement practices early in the Strategy exercise for the benefit of local project managers.

Project preparation conflicts. In this particular exercise, some project preparation activities were initiated, based on agricultural research and pricing recommendations made at the early stages of the Strategy. These tended to divert the attention of senior managers on the Strategy and made it more difficult to complete the exercise. It would have been preferable to start these project preparation activities after the Strategy was finished.

## 7.0 LESSONS LEARNED

The Strategy has been one of the few successful attempts in Sri Lanka to overcome the complex, cumbersome institutional structure and to develop a coordinated set of policies and investment plans. It is also a rare instance when a critical examination of existing policies and programs has been made, and a consensus reached about reforms and changes to the existing system.

There are many reasons for the relative success of this exercise. Most importantly, it exactly matched the perceived needs of the GSL and was led entirely by the GSL staff. The U.S. Agency for International Development and other donors provided encouragement and support for what was essentially a GSL endeavor.

The right agency was selected to direct the Strategy. The Ministry of Finance and Planning was the only agency with sufficient influence to direct the many other ministries involved. This is because the Ministry of Finance and Planning has the power to review and approve the budgets of the other ministries and so is effectively at a higher hierarchical level. This minimized the amount of "turf fighting" during the Strategy process.

The Project Director and the Technical Director of the Strategy were responsible for many of the accomplishments. The full-time involvement of the Technical Director of the Strategy provided continuity and direction for the project. The involvement of the Project Director, who also runs the National Planning Division of the Ministry of Finance and Planning, virtually guaranteed that the Strategy would be taken seriously by senior decisionmakers in the participating ministries. These two individuals were also committed to making the Strategy work and to bringing about changes within the agricultural sector.

The product-oriented structure of the Strategy also accounted for its success. Each of the task forces were required to produce a specific product or report which had been defined by the Technical Director. Once the reports were finished, they were printed and distributed widely. Each of the ministries were, therefore, on record as to their future direction and policy and programmatic changes.

A time frame for each part of the Strategy was also presented and then adhered to. Each task force was held to its six-month deadline to produce its report. This meant that the task forces could not afford to procrastinate and haggle over procedural issues indefinitely.

Workshops proved to be extremely useful vehicles for communication and helped to reach closure on the final recommendations. Analysts and decision-makers rarely work together in the large complex institutions which oversee the agricultural sector. In these workshops, the analysts and decisionmakers were paired together to work on the action plans and make decisions on major issues. The workshops also provided a forum for interchange between key decisionmakers in different ministries in a relaxed, open atmosphere.

The Strategy was a good mechanism by which the line ministries were drawn into the policy and program formulation stages. Previously the GSL had formulated a number of development plans with little input from implementing agencies. These usually made the plans hard to carry out. The fact that the implementing agencies participated in the Strategy formulation process removed this problem and mobilized the extensive knowledge of those working closely with the sub-sector.

The long-term advisor served mainly as a communication link between the National Planning Division and the task forces as well as a technical resource person. An important aspect of his effectiveness was that he worked for the Technical Director in NDP. This allowed him to be considered a part of the process rather than an outsider and kept him focused on the Strategy itself. His ability to work with all the task forces provided uniformity and consistency across the sub-sector strategies. The policy review aims of the Strategy were also best served by the behind-the-scenes working style of the long-term advisor. His low-key style became important when identifying a policy suggestion as having a "local origin."

The special studies prepared by inter-ministerial taskforces provided the base for the agricultural sector-wide strategies. There were, however, a host of sub-sectoral issues that were considered despite somewhat deficient data. In this respect, the Strategy succeeded in focusing the attention on these issues and forced the definition of acceptable "ranges" of decisions. It also identified the need for policy studies that would feed directly into policy decisions.

The Strategy represents a case where an AID Mission was able to set in motion many agricultural policy changes with relatively few resources and within a reasonable time frame. The right choice of implementing agency (National Planning), emphasis on a participatory formulation approach (task forces), good technical management (the long-term advisor), and a clear agenda with well defined landmarks (the study terms of reference), all combined to make this undertaking a major achievement.

**APPENDIX A**

**SCOPE OF WORK FOR LONG-TERM ADVISOR**

## APPENDIX A

### SCOPE OF WORK FOR LONG-TERM ADVISOR

#### A. Objective

The objective of this contract is to provide the services of an Agricultural Economist who will assist the National Planning Division, Government of Sri Lanka (GSL), in the formulation of a National Agricultural, Food, and Nutrition Strategy (NAFNS) involving production, consumption, and nutrition objectives. The Strategy will recommend priority policies, programs, and projects, and also suggest ways to strengthen the existing institutional framework and capabilities of the GSL to undertake projects in agriculture and food production and consumption.

#### B. Scope of Services

1. Serve as a technical resource for inter-ministerial task forces. (Inter-ministerial task forces have been formed to carry out baseline sub-sector assessments in their assigned areas of responsibility. Each of these task forces is led by the ministry most responsible for the subsector).
2. Advise on the utilization of appropriate quantitative methods to analyze agricultural production, marketing, food demand and consumption, prices and nutritional needs.
3. Assist in integrating the results of the task forces and short-term studies into an overall strategy and in identifying priorities for policies, programs, and projects.
4. Assist the technical team in the National Planning Division in its collection, analysis, and utilization of information.
5. Provide access to a broad range of policies and program options and interpret experience in other countries relevant to Sri Lankan problems and alternatives.
6. Advise the Director of National Planning and the Technical Director of the National Agriculture, Food, and Nutrition Strategy effort on the organization and management of the strategy formulation process.
7. Assist in the identification of data and information needs and in processing the required information.
8. Identify needs for short-term consultants and assist in preparing scopes of work for their services.
9. Perform on-the-job training for personnel of NPD and other ministries involved in agricultural, food, and nutrition planning and policy analysis.

10. Collaborate with GSL agencies, USAID, and other donors involved in the NAFNS formulation.

11. Recommend to GSL and USAID priorities for improving the institutional framework and analytical capabilities for agricultural and nutritional planning and policy formulation and implementation.

C. Reports

The contractor will provide the National Planning Division and USAID with quarterly reports showing progress made and problems encountered, and stating work objectives for the next quarter. In place of the final quarterly report, the contractor will prepare a comprehensive end-of-assignment report covering all major elements of his/her scope of work and showing accomplishments.

**APPENDIX B**  
**SPECIAL STUDIES FOR STRATEGY**

## APPENDIX B

### SPECIAL STUDIES FOR STRATEGY

#### Rice Self-sufficiency and Beyond: Export Prospects

With the prospects of Sri Lanka becoming self-sufficient in rice production by 1991, this study attempted to provide an answer to the most pressing question at the moment: If and when the economy does produce a rice surplus, what are the alternative means of its disposal? After concluding that Sri Lankan rice did not have, at the moment, the quality, standard levels, and price competitiveness for the world market, the study examined three alternatives. Alternative one, was to increase domestic rice consumption and diversify production in the major irrigation schemes. Alternative two was the implications of doing nothing to check rice production. Alternative three was to improve the quality of domestic rice milling and thus keep the rice export option open.

#### Opportunities for Coconut Intercropping With Special Reference to the Coconut Triangle

The Coconut Triangle is an area of about 200,000 acres of coconut plantations in Sri Lanka. With the increasing pressure on agricultural land, the government wanted to review the potential for inter-cropping in coconut plantations to increase land use intensity. The study concluded that close to 50% of the coconut triangle was suitable for intercropping. In addition, it identified the crops that could serve as inter-crops based on their agro-ecological suitability. Measures to promote inter-cropping in the coconut triangle were proposed.

#### Development and Export Potential of Selected Spice and Beverage Crops

This special study evaluated the development potential for producing, marketing, and exporting increased quantities of selected spice (cardamom, cinnamon, clove, nutmeg/mace, pepper) and beverage crops (cocoa and coffee). The study identified the unreliable nature of the exportable volume of these crops as the main obstacle for Sri Lanka to maintain and expand its markets for spice and beverage crops. The study recommended the refocusing of the replanting subsidy scheme on a reduced number of these crops and to directly orient it towards medium size holdings to bring about more stable supply. The study also called the attention to marketing improvement needs in the form of establishment of local product standards and closer interaction between traders, producers, and lending institutions.

#### Rural Credit: Trends and Prospects

Since 1911 successive governments had been experimenting with a number of different strategies to supply Sri Lanka's agricultural credit needs. Most of these experiments ended up with disastrous loan recovery performance and the condonation of the debts they created. Institutional credit was estimated to supply less than twenty-five percent of the all small farmer credit, and

banks' retreat from rural lending continued progressively. This study concentrated on evolving new strategies for supplying credit to the rural sector. It suggested a rural network of regional banks, capital injection, and refinancing support to Primary Credit and Thrift Societies from the Central Bank, an innovative system to integrate the nontraditional or informal sector (landlords, factory owners, professional money lenders) into efforts to channel credit to the rural sector, and the pilot testing of a marketing lending program to reverse the adverse effect that insufficient marketing opportunities have on loan recovery.

#### A Review of the Agricultural Research System

This study focused on two broad areas. It analyzed the current situation in all institutions, with special concentration on the research structure, manpower resources and the conditions of service, the administrative and financial structure of research institutes, and the definition of priority and research policy guidelines. It also examined the linkages between research institutions and national and international bodies, possible changes in the national research structure and organizations, and the degree to which national research priorities were reflected in the research programs of research agencies. On completion of the study, changes were suggested on increasing the funding for agricultural research from its present low level of 0.77 percent of agricultural gross domestic product (AGDP) to a recommended level of 2 percent. The study proposed the creation of a forum for the discovery and determination of national research priorities (The Council for Agricultural Research Policy), the development of a long term research manpower plan, the establishment of new specialized laboratories to avoid duplicative purchase of expensive equipment, and more extensive use of program/ project budgeting in research institutes.

#### A Review of Prices and Agricultural Incentives

The main objective of this study was to review prices and producer incentives trends in the rice, coarse grains, dairy, tea, rubber and coconut sectors. The study noted that post-1977 agricultural pricing policy had pivoted on an overall scheme of economic liberalization. Subsidies on fertilizer and domestic consumption were reduced and a replanting subsidy scheme for plantation crops was aimed at mitigating the declining trend in production and productivity. In rice, the study recommended the definition of a new role for the Paddy Marketing Board, whose effective participation in rice marketing and distribution had virtually disappeared since 1977. This same study analyzed the potential for management of the rice to wheat price ratio in order to affect foodgrain imports and the composition of domestic foodgrain consumption. A case was made for consolidating the floor price scheme for coarse grains on a narrower group of commodities and for better coordination between production and trade policies. To afford some degree of protection to the domestic dairy sector, the study recommended the imposition of a protective tariff on subsidized milk exports from developed countries. In tea, rubber, and coconut, the export tax burden was singled out as having a disincentive effect on replanting and on productivity. The study recommended more extensive studies on the impact of export taxes on these commodities in order to determine suitable changes in the tax structure.

### Livestock Marketing and Poultry Development

Cultural practices and religious beliefs exert a powerful influence on the structure and characteristics of the livestock marketing system in Sri Lanka. To accommodate these strong cultural and religious beliefs, a great number of intermediaries participate in the marketing chain. The study suggested policy measures to develop new marketing chains through a government promoted credit program. Other suggested changes included the development of aggregation/processing/storage points close to centers of production. For poultry, the development of small scale semi-intensive and backyard poultry farms was concluded to be the most promising alternative. Supportive services required for poultry development were disease surveillance and efficient quarantine regulations. It was suggested that the poultry feed industry, which hitherto had been mainly a government monopoly, be privatized as a means of improving quality, distribution, and reliability of the poultry feed supply.

### Production and Marketing of Other Field Crops

The prospects of self-sufficiency in rice gave this study the mandate to define profitable and attractive alternative uses for riceland. The study made evident the weakness of the production and marketing data base for these alternative crops and pointed out priority areas for statistical update. It also recommended strengthening the support services, including research, extension, and price support, for these alternative crops.