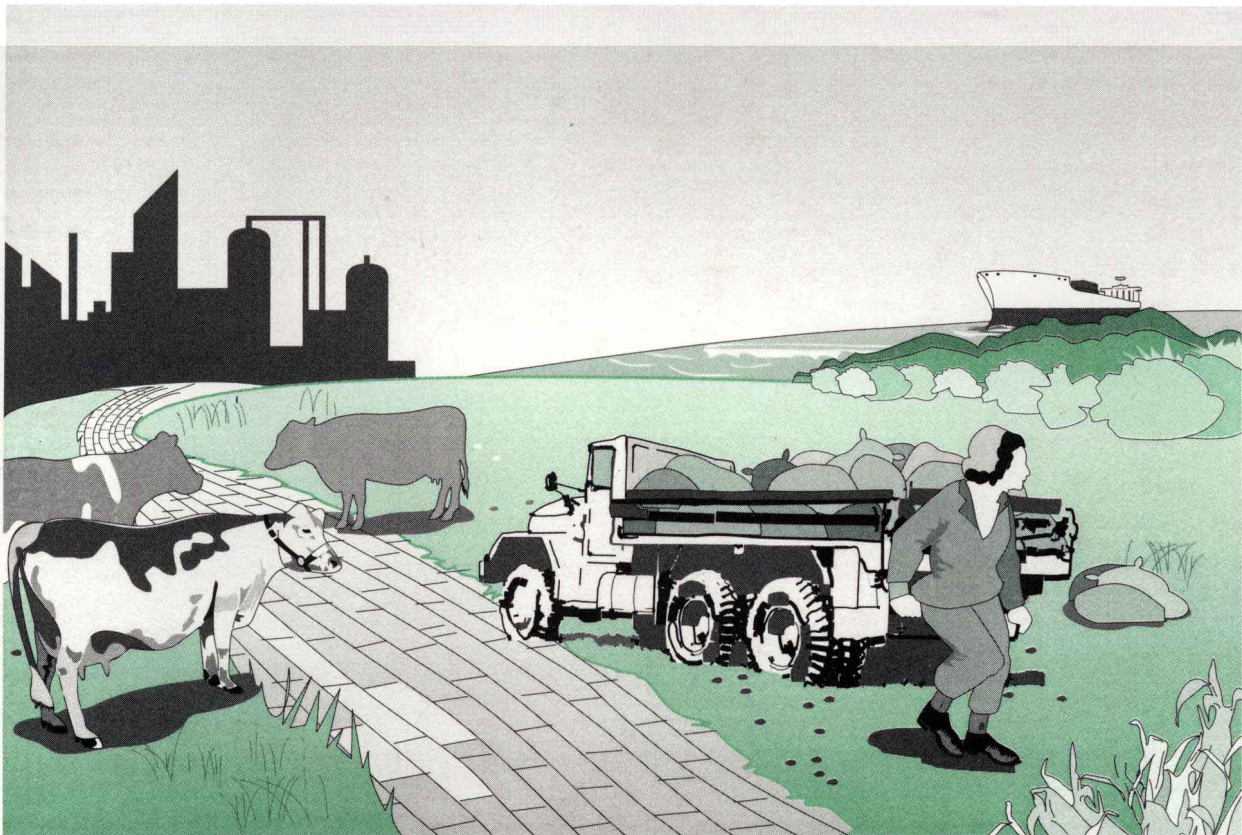




Agriculture in Liberalizing Economies: Changing Roles for Governments

Proceedings of the Fourteenth Agricultural Sector Symposium

Dina Umali-Deininger and Charles Maguire, Editors



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Foreword

Fiscal crisis, which spurred structural adjustment in many developing countries, and the transition of the eastern European countries and the former Soviet Union from planned to market- economies, are two major forces which have driven the reevaluation and consequent readjustment of the roles of the state and the private sector and the ways they interact in the economy. In the agricultural sector, attention has centered on redirecting the state's involvement towards the provision of public goods and addressing market failures in agricultural production, input and output marketing, and the delivery of agricultural support services, while encouraging private sector participation in profitable activities where such involvement could lead to increased economic efficiency.

The theme of the 14th Agricultural Symposium--"Agriculture in Liberalizing Economies: The Changing Roles for Governments"--pursues further the on-going debate of the appropriate role of the state in promoting agricultural growth and development, while at same time seeking to capitalize on important lessons emerging from experiences around the world. The deliberations during the symposium focused on the appropriate design and sequencing of macro-economic and sectoral reforms to promote agricultural growth, agricultural market development, the link between property rights to land and agricultural development, the decentralization of the delivery of agricultural support services, and the role of safety nets in mitigating the adverse consequences of adjustment.

This volume is an assembly of the papers presented during the symposium. In making these papers available in this Proceedings Volume, it is our intention to share the materials with those within and outside the World Bank who did not have the opportunity to participate, as well as stimulate further discussions on the still evolving debate on the appropriate role of government in agriculture within the rapidly changing domestic and global environment.



Alexander F. McCalla
Director
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Abstract

The 14th World Bank Agricultural Symposium held last January 5-6, 1994, pursues further the on-going debate of the appropriate role of the state in promoting agricultural growth and development, while at same time seeking to capitalize on important lessons emerging from experiences around the world. The deliberations during the symposium focused on the appropriate design and sequencing of macro-economic and sectoral reforms to promote agricultural growth, agricultural market development, the link between property rights to land and agricultural development, the decentralization of the delivery of agricultural support services, and the role of safety nets in mitigating the adverse consequences of adjustment.

Deliberations during the symposium highlighted the evolving roles the state and the private sector should play, depending on the structure of agriculture and the political, social and institutional context of each country. The Symposium illustrated the wide variety of issues and the different approaches that have emerged in various countries in redefining the role of government. The papers presented highlight that changing the role of government from market domination towards the provision of a regulatory framework and public goods that provide maximum scope for private sector activity is a continuing process that requires continuous fine-tuning and evaluation, rather than a one-time event. Assisting countries in consolidating the gains from reforms, and adapting to the challenges arising from a rapidly changing international environment, continues to promise large gains in efficiency as well as equity and will be a continuing challenge to the operations of the Bank.

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The Agricultural Symposium and this proceedings volume are products of a team effort and we would like to thank all who contributed their valuable ideas and time in bringing this endeavor to fruition. We especially wish to thank the Symposium advisory committee composed of Andres Abramovich, Charles Antholt, Surinder Deol, Mathurin Gbetibouo, Ian Goldin, William Nickel, and Dirk van der Sluijs; and Hans Binswanger, Klaus Deininger, and Mark Wilson for their valuable contribution to the conceptualization and planning of the Symposium. We are grateful for the assistance of Joyce Sabaya and the training division, particularly Surinder Deol and Elisabet Dennis, for the logistical support. We also thank Gail Miller and Grace Aguilar for their assistance in copy editing. Finally, we express our sincere thanks to all the authors and the countless number of Symposium participants who contributed their valuable ideas and experiences in exploring further the appropriate role of government in agriculture.

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INTRODUCTION

Introduction

Dina Umali-Deininger and Charles Maguire¹

The World Bank Agricultural Symposium is an annual event, organized by the Agriculture and Natural Resources Department in coordination with the Training Division, whose long-standing aim is to provide a forum for Bank staff working in agriculture-related areas to meet, discuss, and exchange ideas on major issues germane to the sector. Following on this tradition, the 14th World Bank Agricultural Symposium held last January 5-6, 1994, explores an issue that remains a subject of continuing debate--the changing role of government in the agricultural sector of liberalizing economies.

Over the last decade and a half, structural adjustment prompted by fiscal crisis in many developing countries and the change in ideological orientation towards more market-based economies in Eastern Europe and the former Soviet Union (FSU) have necessitated a change in the role of government in the economy in general and in agriculture in particular. This transformation has primarily involved a redefinition of the role of the state to providing public goods and addressing other market failures and promoting and transferring to the private sector those activities which the private sector could perform more efficiently.

In the agricultural sector as well as the whole economy, the roles of the public and private sector, however, evolve as the agricultural sector and the economy change. Matching the appropriate combination of reform measures and pace of change with the necessities of the given moment and the distinct country attributes remains a delicate exercise. The Symposium, therefore, seeks to promote a greater understanding of this complex process, to draw lessons from country experiences, and focus attention on issues to be addressed in the future.

The Symposium was opened by Sven Sandstrom, Managing Director of the World Bank. In his remarks, Mr. Sandstrom stressed that the changed role of the state in promoting agricultural development raises a host of new challenges and opportunities for both member countries and the Bank. For the Bank, he points to five elements upon which the Bank's future development strategy in agriculture should be founded: improving productivity, ensuring agricultural sustainability, strengthening stakeholder ownership, fostering partnerships with other development groups, and poverty reduction.

The complexity of issues involved in structural adjustment were highlighted during the first Plenary Session. Hernan Büchi, drawing from his experience in Chile in his keynote speech, drew attention not only to the difficult and delicate process of designing adjustment programs, but also to the need for political support and proper timing of required actions, to take advantage of the often fleeting "windows" of opportunity. Vinod

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Thomas and Yvone Yang investigated country experiences in pursuing different approaches to structural adjustment (gradual or 'big bang'), emphasizing that initial conditions, in particular institutional capacity and available human capital, are crucial factors determining the "optimal" pace of adjustment. Alberto Valdes stressed the importance of the proper sequencing of reforms to achieve agricultural growth, particularly the need for consistent policies.

A broad examination of specific issues in redefining the role of government followed the above discussion. They focused on the link between property rights to land and agricultural development, the decentralization of the delivery of agricultural support services, agricultural market development, and the role of safety nets in mitigating the adverse consequences of adjustment.

Given a consistent policy and institutional framework, the provision of individual property rights to land could provide a powerful tool to create gainful employment, reduce poverty and improve the nutritional status of the poor, and increase output and efficiency (Binswanger and Deininger). The Symposium illustrated that there is no unique formula and that individual country characteristics will have to be taken account in designing the approach to guarantee security of property rights to land. In South Africa, it has been found that opening up of the land market alone will not lead to efficiency enhancing land transfer at the speed required, due to imperfections of inter-temporal markets (Christiansen and Cooper). At the same time, collective forms of agricultural production, in contrast to service cooperatives, have been found to be inefficient, and thus various legal measures have been made to effect the transfer of collectives to individuals in Eastern Europe and the FSU (Brooks and Lerman, Csaki and Lerman). In Mexico, decentralization which empowered local communities to decide on the most appropriate form of land ownership is expected to allow a degree of flexibility which could be more efficient and equitable than uniform land titling (de Anda). In Africa, the ability of communal tenure systems to provide security of land ownership has been underestimated (Bruce, ?).

Decentralization of the delivery of support services to the private sector could free up government resources, increase the efficiency and quality, and promote the sustainability of the delivery of the services provided. In supplying agricultural credit, decentralization could provide a means of reducing the transaction costs (Adams). Water users associations, supported by an appropriate regulatory framework to account for externalities and ensure environmental conservation, could relieve government from the needs of day-to-day management (Solanes). However, the reduction or withdrawal of government financing of essential public goods such as particular types of agricultural research could have deleterious effects, as illustrated by the experience in China (Fan and Pardey).

Market liberalization and the provision of an appropriate legal and regulatory framework within which input and output markets can develop, is a lengthy, complicated process, but essential if agricultural investment and growth are to occur. The complexity

of the process is illustrated by the agricultural market development program in Mexico, which included the privatization of property rights, the phasing out of government subsidies, and the elimination of government control in key sectors, such as the sugar industry (Tellez). In the case of the FSU, on the other hand, the continued subsidization and the maintenance of regulations which propped up state enterprises, combined with the weak infrastructure, prevented the development of integrated markets and the transmission of price incentives to agricultural producers (Gardner). The liberalization of markets of products (e.g. pesticides) whose use involve externalities (health hazards and environmental pollution), however, must be accompanied by the formulation and enforcement of an appropriate regulatory framework, to protect both consumers and producers (Pingali).

In pursuing structural adjustment and economic liberalization, there will be those who will be left out or hurt in the process. The associated reduction or elimination of traditional insurance mechanisms (e.g. employment guarantees, income subsidies) makes it all the more difficult for the vulnerable groups to cope. In agriculture, it is often the rural poor who are adversely affected most. While government policies should still be directed at enhancing agricultural productivity and efficiency, the provision of safety nets to these vulnerable segments of the population is critical, to enable them to weather through this difficult period and provide them the means to take advantage of new opportunities in the long run.

The role of the World Bank in meeting the emerging needs in the agricultural sector in this rapidly changing global environment was the focus of discussion the final plenary session. Odin Knudsen and Kathy Lindert, summarized the Bank experience in structural adjustment lending in agriculture over the last decade and concludes that new instruments need to be developed to address the distinct needs of client-countries. This was further illustrated by Mohinder Mudahar in his presentation of the Russian experience. In conclusion, Messrs. Ismail Serageldin, Vice President for Environmentally Sustainable Development and Michel Petit, Director of the Agricultural Research Department, emphasized that development is a multi-faceted process, which bring forth new challenges for the World Bank and its client countries. There is no magic bullet or simple solution, and for the Bank, building the flexibility to meet these evolving needs of the stakeholders will be one of the major challenges in the future.

In conclusion, the roles of the state and the private sector will vary, depending on the structure of agriculture and the political, social and institutional context of each country. The Symposium has illustrated the wide variety of issues and the different approaches that have emerged in various countries in redefining the role of government. The papers presented highlight that changing the role of government from market domination towards the provision of a regulatory framework and public goods that provide maximum scope for private sector activity is a continuing process that requires continuous fine-tuning and evaluation, rather than a one-time event. Assisting countries in consolidating the gains from reforms, and adapting to the challenges arising from a rapidly

changing international environment, continues to promise large gains in efficiency as well as equity and will be a continuing challenge to the operations of the Bank.

Opening Session

Opening Remarks

Sven Sandstrom*

Introduction: New Opportunities

In his opening remarks to this Symposium last year, Mr. Preston noted that he was not an agricultural expert. Well, the tradition continues! Nevertheless, even as a "non-expert," it seems to me that this is quite a unique moment for the sector. New opportunities are opening up, and new lessons are being learned.

This is first and foremost because of the improving economic environment for agriculture in many developing countries—with the trend toward a more competitive, "market-friendly" approach. Mr. Buchi, as a former Minister of Finance, will provide first-hand insights on the synergies between macroeconomic reform and agriculture in Chile. Also in some of the world's poorest countries—in Sub-Saharan Africa, for example—those which are adjusting strongly have seen their agricultural growth rates improve significantly in recent years.

The momentum toward trade liberalization will also enhance agriculture's prospects. The Uruguay Round, in particular, should help to turn around the anomalous situation whereby agriculture has been heavily *taxed* in the poorest countries, but heavily *subsidized* in the richer nations.

These changes imply a different role for the State in agricultural development—the major topic of this Symposium. There is now a consensus that Governments should intervene *less* where they can (e.g. in production), and *more* where they must (e.g. in environmental protection).

Old and New Lessons

These changes raise a host of challenges for our member country governments—and for the Bank. This year we mark our 50th anniversary, which affords us the opportunity to look back and reflect on the Bank's achievements—as well as to look forward and to accelerate the implementation of lessons learned over the years.

The first loan for agriculture was made in 1948. It was to Chile for an Agricultural Machinery Project. (It seems Chile has always been willing to innovate and take risks—even to try out new institutions like the World Bank!). This was, in fact, the Bank's first loan for development. In the 45 years since then, global food production has more than doubled—with more than 90 percent of this

* Managing Director of the World Bank.