



SYNTHESIS OF PROCEEDINGS AND CONCLUSIONS OF THE SEMINAR

STRUCTURAL AND SECTORAL ADJUSTMENT PROGRAMS:  
IMPLICATIONS FOR THE REACTIVATION AND  
DEVELOPMENT OF AGRICULTURE

November 30th-December 2nd, 1987  
San Jose, Costa Rica

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INTER-AMERICAN INSTITUTE FOR COOPERATION ON AGRICULTURE  
ECONOMIC DEVELOPMENT INSTITUTE

AGRICULTURAL POLICY ANALYSIS AND PLANNING  
PROGRAM I

## **WHAT IS IICA?**

The Inter-American Institute for Cooperation on Agriculture (IICA) is the specialized agency for agriculture of the inter-American system. The Institute was founded on October 7, 1942 when the Council of Directors of the Pan American Union approved the creation of the Inter-American Institute of Agricultural Sciences.

IICA was founded as an institution for agricultural research and graduate training in tropical agriculture. In response to changing needs in the hemisphere, the Institute gradually evolved into an agency for technical cooperation and institutional strengthening in the field of agriculture. These changes were officially recognized through the ratification of a new Convention on December 8, 1980. The Institute's purposes under the new Convention are to encourage, facilitate and support cooperation among the 31 Member States, so as to better promote agricultural development and rural well-being.

With its broader and more flexible mandate and a new structure to facilitate direct participation by the Member States in activities of the Inter-American Board of Agriculture and the Executive Committee, the Institute now has a geographic reach that allows it to respond to needs for technical cooperation in all of its Member States.

The contributions provided by the Member States and the ties IICA maintains with its twelve Permanent Observer Countries and numerous international organizations provide the Institute with channels to direct its human and financial resources in support of agricultural development throughout the Americas.

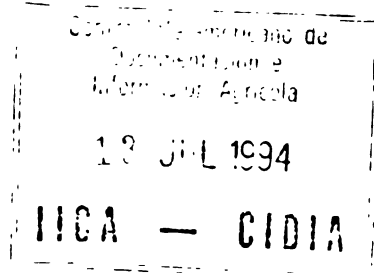
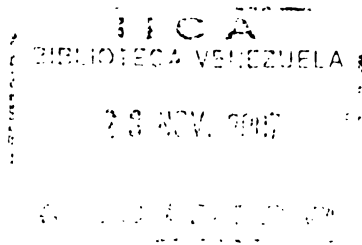
The 1987-1991 Medium Term Plan, the policy document that sets IICA's priorities, stresses the reactivation of the agricultural sector as the key to economic growth. In support of this policy, the Institute is placing special emphasis on the support and promotion of actions to modernize agricultural technology and strengthen the processes of regional and subregional integration.

In order to attain these goals, the Institute is concentrating its actions on the following five programs: Agricultural Policy Analysis and Planning; Technology Generation and Transfer; Organization and Management for Rural Development; Marketing and Agroindustry; and Animal Health and Plant Protection.

These fields of action reflect the needs and priorities established by the Member States and delimit the areas in which IICA concentrates its efforts and technical capacity. They are the focus of IICA's human and financial resource allocations and shape its relationship with other international organizations.

The Member States of IICA are: Antigua and Barbuda, Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominica, the Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, the United States of America, Uruguay and Venezuela.

The Permanent Observer Countries of IICA are: Arab Republic of Egypt, Austria, Belgium, Federal Republic of Germany, France, Israel, Italy, Japan, Netherlands, Portugal, Republic of Korea and Spain.



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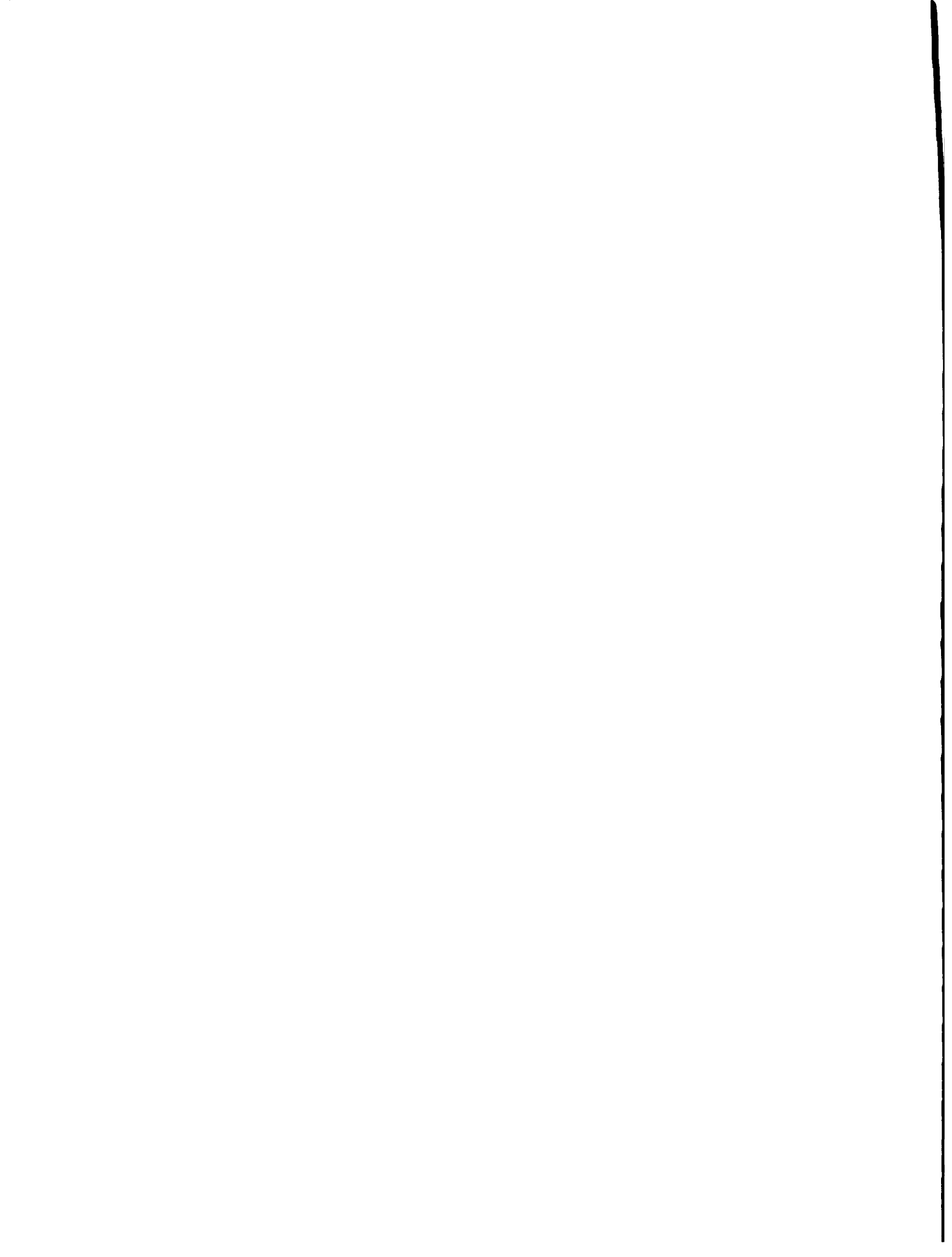
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### III. SYNTHESIS OF THE WORKING SESSIONS



## SESSION 1: AGRICULTURE AND MACROECONOMIC POLICY

Main ideas of the presentation

The lecturer spoke about the future of agriculture in the world, in the context of the main changes affecting the international economy, and the effects thereof upon the developing countries.

He underlined the following changes:

- a. The growth of international trade, which has caused the national economies to become more fully integrated into the world market than they were in the past; an indicator of this circumstance is the tendency of international trade to grow more rapidly than the gross domestic product, which puts the national economies ever more beyond the reach of the countries' economic policies.
- b. The growing integration of the capital market in the world, which draws the national economies closer to the economic policies of the countries.
- c. The international financial system, which subjects currencies to fluctuations, a situation which is further aggravated by the fact that many developing countries peg their currencies to currencies backed by large reserves, such as the U.S. dollar. As a result, the fluctuation of some currencies has an impact on profits or losses of the trade of the developing countries, particularly the Latin American countries. In addition, these countries are affected by the macroeconomic policies of the industrialized countries due to the effect the latter have over the exchange rates of the former's currencies.
- d. The greater vulnerability of agriculture with respect to the changes produced by international financial instability. This affects the value of the national currencies as a consequence of the massive transfer of capital from one country to another.
- e. The dramatic changes in comparative advantages of both the industrial and the agricultural sectors.
- f. The foreign debt crisis, and the effects that further increases of the U.S. foreign debt could have on the world economy.

It was felt that, notwithstanding the presence of such factors, the agricultural sector will be an effectively source of growth in the future. The central role of technological change in this process was underlined. Mention was also made of the great potential there is for further increasing international trade, and the participants were urged to remain optimistic concerning the future of the sector while being aware of the paramount importance of opportunities in their own domestic markets. However, a warning was voiced concerning the need to be careful vis a vis the increasing instability of the agricultural products market, which could

worsen. Lastly, it was indicated that there was some hope that the next GATT round of negotiations will lead to a greater opening for the agricultural sector.

### Comments and Discussion

1. The outlook for agriculture is good, but basically as regards the growth of demand within the countries. With respect to the influence of exchange rates, it was expressed that the countries of the region would be able to increase exports by virtue of the opportunities arising from the handling thereof; however, most of the opportunities are provided by domestic agriculture through import substitution.
2. Certain doubts were expressed concerning the "adjustment" processes, which must be viewed rather as permanent adjustments. The example provided to illustrate this point was the policy with respect to exchange rates, which are modified fairly frequently.

If the adjustments are made by means of a sharp devaluation, the fall in real salaries, together with other contractive effects, result in painful processes for large social groups. These negative aspects become intensified if, on account of the ongoing unbalance of the international economy, the countries of Latin America must enter into permanent adjustment processes which will inflict increasing "pain," and consequently bring about social and political instability. In order to deal with this situation it was suggested that a more integrated adjustment approach be employed, as opposed to traditional type "adjustments."

3. Attention was drawn to monetary and financial "adjustments," to point out that they can be effected more rapidly, but that in the case of agriculture this implies a readjustment of the agricultural economy, which is a rather slow process.
4. A question was posed concerning the magnitude of a future increase demand of the international markets. Reference was also made to the possibilities of increasing intra-zonal trade, that is, among the countries of the region.
5. Another main subject under discussion was the search for means to combat instability. Certain doubts were expressed concerning price stabilization schemes, and the need to evaluate adequately the implicit cost thereof was stressed. Other more optimistic points of view were presented in referring, for example, to insurance schemes, and to reducing risks to farmers.
6. Certain questions were raised with respect to the reactions of the European Economic Community and the United States of America to prevailing conditions. Are they willing to adjust their own levels of production and protection? If not, any adjustment at the international level will be a difficult task.



7. With respect to technological change in the developing countries, doubts were expressed as to whether such change would benefit farmers, or whether the benefits would be passed on to the consumers by means of lower prices.
8. The subject of adjustments and shocks in developed economies was mentioned. Is it not possible that a decline in the aggregated demand of the developed countries may occur on account of the wealth effects deriving from the recent adjustments in the stock market quotations?
9. Certain more general doubts were also expressed concerning the optimism displayed by the speaker in his presentation, especially as regards the impact of the growth of the developed economies on agricultural exports from developing countries. The latter will probably not increase significantly unless protectionism is reduced and the forthcoming GATT negotiations improve the opportunities for Latin American exports.
10. In response to some concerns, the speaker asserted that certain comments pointed to the prevalence of a "fixed-exchange-rate" mentality, and to the lack of sufficient recognition of the importance of the capital markets as sources of maladjustments and disturbances. On the other hand, he agreed with the comment that the adjustment of the U.S. trade and fiscal balances was more important than any measures that the countries may adopt internally. Today, the world is highly interdependent, and the capital markets force adjustments.
11. Some of the participants expressed that, without any doubt, devaluation and adjustment produce pain and sorrow. Certain of these adjustments originated in the recycling of petrodollars; the developing countries borrowed large amounts during the decade of the 1970s. In the 80s, both the developing and the developed countries tried to avoid the adjustment. The result was very painful. In any case, the countries must design mechanisms of direct compensation for the poorest sectors of the population.
12. Many international monetary developments arise from the fact that the United States of America serves, essentially, as the world's Central Bank, but without the rules observed by real central banks. This is very dangerous since the United States of America manages monetary policy on the basis of considerations of a domestic nature. In view of this situation, the urgency of changing the international monetary system, and the need for international coordination of monetary and fiscal matters was pointed out. However, when a country which participates in this possible coordination faces a serious problem, it addresses its own needs; it does not actually believe that an alternative exists for establishing a true international monetary authority, or modifying existing ones (whether through the Monetary Fund, or another mechanism) to induce the necessary monetary shocks in the world.

13. Another subject discussed focused upon the following questions: Is it feasible to develop further the import-substitution process? Why increase imports? Is it a growth induced by technology? The speaker felt that import-substitution process will take care of itself. There are, however, good arguments for "infant industries...", but infants often never grow up to become adults. The Latin American experience exposes import-substitution essentially as a deterrent to development rather than as an activating factor.
14. Lastly, references were made to the implications of the wealth effect deriving from managing exchange rates. There are, doubtlessly, constant pressures in favor of devaluation. This is yet another reason to propose flexibility in exchange rates. Logically, substantial devaluations imply substantial wealth effects.

**SESSION 2: STRUCTURAL ADJUSTMENT AND AGRICULTURAL SECTORAL PROGRAMS:  
CONCEPT, PURPOSES AND SCOPE**

Main ideas of the presentation

The presentation included a summary of the main elements contained in the report entitled "Agricultural Issues in Structural Adjustment Programs" (document e.), which was distributed in the Seminar. It was expressed that the presentation was an approximation to the first steps which would have to be taken for the design of structural and sectoral adjustment programs.

It was stressed that two concerns of a macroeconomic nature underlie almost all adjustment programs: the balance of payments and the fiscal budget deficits.

It was pointed out that, at the same time, the programs generate concerns at the microeconomic level, since they encourage growth through the reallocation of resources to more productive uses.

It was hoped that the sector will contribute to the achievement of the previously-stated general objectives, and improve its own performance. It could improve the sectoral balance of payments, reduce fiscal expenditures, improve resource allocation, and improve productivity.

It was explained that the meaning of lack of adjustment at the sectoral level is not clearly understood. A negative sectoral balance of payments does not necessarily represent a lack of adjustment, because it depends upon exogenous and historical factors such as the availability of arable land, population density, etc. Similarly, a slow sectoral production growth rate does not necessarily represent a lack of adjustment. These phenomena could be symptoms of the problem, but not the problem itself.

In order to clarify the meaning of lack of adjustment, it was expressed that sectoral production and marketing depend upon five elements:

- the technologies employed by the producers - the functions of production;
- restrictions on resource availability;
- the decision-making rules of producers, which can include different elements such as aversion to risks;
- the setting created by the government's economic policies; and
- the nature of domestic and external markets, which could be, for instance, incomplete (lack of storage facilities), oligopolistic or monopolistic, etc.

Then there are structural problems when:

- productive resources are available which are not being fully used;

- in spite of the fact that the productivity of a given resource is greater than its marginal cost, it continues to be scarce;
- current prices of products and factors are not balanced; and
- marketing channels are not complete.

As examples of lack of adjustment at the sectoral level the following were mentioned: underemployed irrigation systems; underemployed arable land on account of tenure or proprietorship problems; underemployed agricultural machinery; credit with productivity higher than its cost but in short supply; etc.

The sum of these effects could become a factor of the lack of adjustment at the macroeconomic level.

The following were mentioned as agricultural contributions to macroeconomic objectives: substitutions for imported foodstuffs; increase in the production of goods of highly domestic content; fiscal reform; softening of the effects of the program on unemployment and income distribution; reallocation of resources; and improving the efficiency in the use of resources.

With respect to the likely effects of adjustment programs, it was indicated that they can be classified into two categories:

Positive effects: improvement of the terms of intersectoral trade; import-substitution; reduction of the agricultural prices of importable (vs. exportable) goods while both experience an increase vis a vis non-agricultural prices; improvement of the sectoral balance of payments; institutional improvement; and advancement toward "greater parity" in relative prices vs. relative international prices.

Negative effects: reduction of both aggregate demand and subsidies to inputs and products; reduction of credit availability and funds for fixed investments; and rising food prices.

It was stressed that sometimes not all of these effects will occur, but that normally most of them will occur as a consequence of adjustment programs. An analysis of the sector's distributive effects could also be based upon the study of these effects.

A summary was presented next on the elements which are the essence of any overall view of a pricing policy, to wit: exchange rate policies; tariff policies; trade policies (quotas, subsidies on exports); guaranteed and fixed consumer prices; input subsidies; interest rates; taxes (primarily export taxes); price policies of government-controlled agroindustries; and wage policies.

It was also expressed that there are certain subjects which have been discussed, and on which it has not been possible to reach a consensus, such as the following: a) tariffs are not "substitutes" for quotas; however, there is much variation in international prices, as well as shortcomings in

tariff management; b) subsidies in international markets: international prices are no longer economically efficient prices; c) nominal vs. effective protection: the cost of inputs and structural problems set the limits to the reductions in nominal protection; d) liberalization of domestic (not only external) prices; there are other measures for ensuring food supply; e) the need to implement the programs focusing on subsidies for consumers; the lower economic strata are generally the hardest hit by adjustment programs; f) the practical necessity of finding substitutes for imports to improve the balance of payments; etc.

As far as the design of adjustment programs is concerned, emphasis was placed on the need to obtain greater involvement on the part of national technical teams, and to develop working programs at the country level, providing for preparation of a series of ongoing and timely economic indicators; research on the structure of subsidies, the tax structure, the impact of prices on product distribution and sectoral income, and seminars for the exchange of experiences.

Finally, with the purpose of encouraging reflection, a list of the main factors which affect the growth of the sector is provided below. It was mentioned that, although it is not a comprehensive list, it includes many aspects which are not included in the adjustment programs.

Elements of the function of production: information on technology; producer equipment and inputs; marketed inputs (availability thereof); and credit for purchasing equipment and inputs.

Constraints: access to land (tenure); investment to overcome certain restrictions; storage capacity (on and off the farm); and availability of improved technology.

Incentives: physical and financial risk; prices of products (absolute and relative); prices of inputs; interest rates; marketing information; and storage systems (silos).

Institutional issues: farmers' organization in order to facilitate access to inputs; improvement, through organization, of information on available technologies; and institution building that could accelerate the process to develop new technology.

### Comments and discussion

1. The possibility of introducing tax reform that changes the ways the sector is taxed without changing the total amount collected by the sector, that is, a tax reform "within the sector" that does not change the tax burden, was mentioned as one possible contribution of the agricultural sector to structural adjustment.
2. A discussion was held on whether it would be convenient or appropriate to use as a reference effective international "border prices" or to correct them as per subsidy production policies that favor production surpluses. There was no final answer in this regard. The concept of relative prices was emphasized.

3. It was indicated that the use of the concept of comparative advantages is limited by the distortions caused by the fiscal and monetary policies of developed countries, through the movement of capital. The technological supply, among other variables, is a factor that has contributed to changing the comparative advantages of regions and countries.
4. The unequal application of tariffs and subsidies to imports and exports (elimination of subsidies to exports as part of the adjustment program while maintaining import tariffs) turns the terms of trade against the sector, and has a negative effect on its profitability. It also maintains the anti-export bias.
5. Sectoral adjustment programs have shown, among other things, that the lack of physical investment is not the only obstacle to growth. The efficient use of both available resources and existing investment makes it possible, at least initially, to compensate for the lack of investment which normally goes together with sectoral adjustment programs.
6. Mention was made of the disparity between the adjustment periods of supply and demand, the former being greater than the latter.
7. Mention was also made of the frequently-observed difficulty of reconciling short and medium-term objectives when implementing adjustment programs. Thus, for instance, the liberalization of foreign trade may, in the short term, increase imports and intensify the balance of payments crisis, while in the medium term it will increase the offer of exportable goods and, thereby, reverse the initial effect.
8. Agricultural structural adjustment programs should place greater emphasis on improving the effectiveness of the service sector, which in many cases absorbs a disproportionately high percentage of the final price of agricultural products.
9. The participants also referred to the importance of evaluating the level of capitalization of the sector before deciding upon the application of a sectoral adjustment program, since the execution thereof will probably entail a drop in the rate of investment, with a corresponding fall in the rate of production. This means that an adjustment program applied to a decapitalized sector will most probably have a negative effect on production.
10. The advisability of allowing the agricultural authorities of the governments of the region to play a more active role in the formulation and analysis of macroeconomic policies was also stressed, in view of the increasing importance of such policies in the development of the agricultural sector. The same may be said of the design of sectoral adjustment programs.
11. Adjustment programs have often been biased against the lower-income strata of the population, and have had the effect of concentrating wealth and income. This would make it necessary to think of selective food support programs as the central elements of adjustment programs.

12. In Latin America, the effective protection rate for agriculture has been lower than that for the manufacturing industry. The sectoral adjustment programs have not significantly changed this situation. It was also mentioned that the disparities in effective protection at the intra-sectoral level pose another obstacle to the efficient allocation of resources in the agricultural sector.
13. It also became evident that the SAPs and ASAPs should, ideally, be designed simultaneously in order to establish and clearly see the advantages of their complementary elements. For instance, the reduction of inflation (a frequent SAP objective) helps improve the distribution of income, and allows for a reduction (elimination) of subsidies to foodstuffs. In like manner, the reduction of the fiscal deficit increases the availability of credit, including medium and long-term sectoral credit.
14. Structural adjustment proposals should include the provision of resources to allow for the training of human capital, plus research and agricultural extension components; the reduction of obstacles to foreign trade; the reconversion of public corporations, and food security programs, among others; they should place less emphasis on making changes in price policies, given their volatile nature.
15. It was also pointed out that, in order to allow for the introduction of technologies that would, in turn, make it possible to increase production, the adjustment programs should have a minimum duration, in order that they might act as stabilizers of the economy.
16. In designing the ASAPs, careful consideration should be given to the wide variety of clients who will be affected by them. The interest of small-scale farmers lie basically within the sector, while this is not necessarily the case with medium- and large-scale producers, whose portfolios are more diversified; this means that the decision-making processes are different in each case.
17. The problem of transition inherent in the ASAPs was likewise mentioned, as well as the advisability of studying a system of compensatory measures to mitigate it.
18. Finally, it was noted that the ASAPs could contribute to the transformation of the sector, but that the accomplishment of such an objective would be subject to the development of designs based on more thorough study.

SESSION 3: THE AGRICULTURAL STRUCTURAL AND SECTORAL ADJUSTMENT PROGRAMS:  
RESULTS FROM AN EXPERIENCE

Main ideas of the presentation

The origin of the Structural Adjustment Programs (SAPs) has to do with the need to accelerate the transfer of resources toward the underdeveloped countries in the context of the external debt problem. At the same time, however, this is only one aspect of the broader discussion of the development strategies of the underdeveloped countries (UDCs). While during the decades of the post-war period, development theory tended to stress the domestic market, industrialization, the role of the State and planning, and the volume of investments, the basic approach to the SAPs is mainly outward-looking, with an emphasis on enhancing the role of agriculture, seeking greater support in the market system and price mechanisms, and investment efficiency.

The SAPs and the ASAPs must be distinguished from Stabilization Programs (of the type executed under agreements with the International Monetary Fund), as well as from traditional investment projects. On the basis of an analysis of several adjustment projects carried out in Latin America, a discussion was held on different matters related to the complete cycle of such programs: identification, preparation or design, negotiation, implementation or execution, and analysis of impacts and effects.

These programs consist of a loan to the requesting country (which is normally disbursed in two tranches), conditioned to the implementation by the country of the following: a) changes in economic policies; b) institutional reforms; and c) studies which may serve as a basis for changes in policies and institutions. In some cases, these programs have included small investment and credit components for specific activities.

In general, it was deemed that these programs could play a very positive role, since they could lead to a more rapid transfer of resources toward the UDCs, and also because they help focus discussions on macroeconomic and development policies on important aspects relating to growth and efficiency. It was considered, however, that there were still weaknesses throughout the entire cycle of these programs, ranging from the stage of identification to that of evaluation of their impact and effects, which might warrant the introduction of changes in their structure and operation.

The proposed changes might include the following:

1. Adjustment programs must be viewed as part of the development strategy. The idea of "structural development" was suggested as an "umbrella" term. In particular, this means taking into account considerations such as income distribution, the elimination of poverty, and the satisfaction of the basic needs, in addition to such important aspects as growth and efficiency.
2. Inasmuch as the SAPs and ASAPs include economic policy measures having medium- and long-term effects on the real variables of the economy, they must be formulated in such a way as to make them consistent with short-term policies addressed to the handling of the aggregate demand, inflation, and the balance of payments. It was



felt that stabilization and growth must be properly balanced in order to ensure consistency in the overall package of measures, and that failure to do so was a main cause for the slow implementation and eventual discontinuance of the adjustment programs.

3. It was felt that a greater degree of institutional and social participation in the design of these programs could help give them the technical and political viability they lacked when they were drawn up by a small group of fiscal and monetary institutions of the public sector.
4. The diagnosis and policies set forth in these programs are based upon general studies of the UDCs, it may, therefore, be necessary for our countries and regional institutions to elaborate on them in order to make them more specific, adjusting and fine-tuning them to fit local conditions.

In like manner, further work should be done in developing methodologies for ex-ante and ex-post preparation and evaluation, in order to improve upon the ad-hoc and partial analyses upon which some of these programs are currently based.

5. It was stated that, although the changing of macroeconomic and sectoral policies constitutes a very important aspect of the reactivation of Latin American agriculture, components of a more traditional nature such as investment programs, the development and transfer of technology, and the organization and training of the rural population should not be forgotten. A broad rural development strategy should include an analysis of the agrarian structure and consideration of social groups such as small-scale farmers and rural wage workers.
6. The difficulties encountered in implementing some of these projects may be associated with technical, institutional, and political problems. It is not merely a question of applying measures prescribed, but rather, because of the medium and long-term impact they will have, of ensuring the continuity required for them to yield the expected results. It must also be pointed out that it is not the same to implement policy changes as it is to make institutional reforms. Among the technical aspects associated with the problems of implementation and continuity, the following may be mentioned: the lack of complete studies on the effects which the instruments used will have on the objectives of the sector; insufficient time periods for carrying out the activities envisaged and the complexity thereof, and lack of consistency between stabilization and structural adjustment goals. The lack of clarity concerning the administrative, legal, and legislative measures needed to bring forward the proposed actions was mentioned as one of the institutional problems. In particular, some of these programs involve relations between the executive and the legislative branches, which were not duly taken into account by the democracies of the region. This aspect is related to the vital question of the political economy of these programs. It is not simply a matter of saying what must be done, but of analyzing the articulation of social alliances which may either

enable or hamper the implementation and continuity of an economic program.

### Comments and discussion

1. It was mentioned that these programs are based upon an analysis of the operation of the markets and the price system, and their relationship to growth. In this regard, it is important to distinguish between the endogenous distortions of the market from those which are exogenous (those resulting from governmental policies). In the same way, a distinction should also be made between the effect of price policies on different types of farmers, and possible unanticipated perverse effects, particularly among small-scale producers.
2. It was pointed out that stabilization should precede adjustment, and emphasis was placed on the importance of institutional reform.
3. Discussions were held on the advisability of maintaining exchange rates consistent with the medium-term trends of the balance of payments, and their impact upon the performance of the agricultural sector and exports. While some of the participants pointed out the positive effect of a day-to-day devaluation policy in maintaining the real rate of exchange, others pointed to the possible negative impact thereof on real wages and on domestic investment capacity. It was mentioned that the decline in real wages was a particularly sensitive issue in the democratic regimes.
4. Emphasis was placed on the need for greater coordination, in connection with the preparation of these programs, between the IMF and the World Bank, as well as among the participating institutions in the country concerned, in order to avoid conflicts during the execution of the programs.
5. Some participants mentioned the need to tie the funds more directly to activities of the agricultural sector, by means of PASA monetization mechanisms in support of immediate-impact investments, such as the operation, maintenance and rehabilitation of productive infrastructure, agricultural credit, technical assistance, marketing, and comprehensive rural development.
6. The ASAPs should provide for compensation mechanisms for the poor sectors which may suffer during the adjustment period. Direct mechanisms, such as health, nutrition, education and public work programs, were suggested. The need to analyze the issues of land tenure and income distribution was underlined.
7. It was considered important to have a clear indication of the benefits and costs of the programs, including the social and political aspects. This may require more detailed studies of the region as a whole, as well as of the individual countries.
8. Several participants mentioned the need to ease up on conditionality, particularly in the light of important external and internal political and economic changes.

9. It is essential to define the appropriate sequence to be followed in executing the different components of an adjustment program, with a view to avoiding serious political and social conflicts, as well as implementation problems relating to the desired solution.
10. Finally, with respect to the various approaches to development in the region, reference was made to the continuity or non-continuity of the "structural" element found in development strategies of past decades, as per the structural adjustment concept to be found in the SAPs and ASAPs. Special attention was given to the question of whether changes required in the sector were politically viable and whether adjustments could be envisaged which would lead to more far-reaching reform proposal. In this regard, for instance, the inclusion in a structural adjustment program of a scheme for granting farmers legal title of their land would reduce their uncertainty by facilitating their access to credit, improving the operation of land markets, and ensuring a more equitable distribution of income.

SESSION 4: NATIONAL DEVELOPMENT STRATEGY, AND THE STRUCTURAL AND SECTORAL ADJUSTMENT PROGRAMS

Main ideas of the presentation

The basic idea is to adapt structural changes to long-term development strategy. The objective is to achieve a positive and sustained growth rate, subject to the following requirements: macroeconomic stability, social development, and growth of real wages.

In order to ensure compatibility among the objectives of macroeconomic stabilization, improved competitiveness of the economy, and higher real wages, it will be essential to achieve an ever greater and generalized increase in the efficiency of all economic sectors. Increased productivity is the key factor of any development strategy.

A chronological sequence must, likewise, be observed in the application of the strategy: macroeconomic stabilization, in the short term; structural adjustment, in the medium term; and laying of the foundation for ensuring positive and sustained growth and social development, in the long term.

Instruments

It is deemed indispensable to apply in a coherent manner the following set of instruments: a) definition of a relative-price structure eliminating current distortions, and ensuring the continued validity of the new structure over the long term, in order that economic agents may operate in a context of stable and credible rules; b) rationalization of the incentives --subsidies-- and the tariff structure; c) streamlining of the financial system; d) rationalization and decentralization of the public sector; e) investment and adoption of new technologies; and f) strengthening of management capabilities, and training of workers in the light of the reconversion of production.

With respect to the long-term sequence to be followed in applying the strategy, it was pointed out that the main instrument in bringing the actions to fruition was the National Development Plan, which provides the framework for ensuring compatibility among the different policy measures.

Conditions

- \* The United States must assume the responsibility of undertaking its own structural adjustment policy in order to stabilize the international economic, trade, and financial situation.
- \* The privatization process does not imply the granting of privileges to exporter groups; nor, on the other hand, does it imply, decapitalizing businesses which orient their activities toward the domestic market, or reducing the living standard of the working class.
- \* Rationalization of the State does not imply destroying or "satanizing" it. Furthermore, the role and scope of the State must

be clearly defined, especially as regards its intervention in the markets.

- \* Rural development programs must be a central concern in the application of structural adjustment models. Small farmers represent an important segment of the population of the countries of the region, and it is among them that the greatest poverty levels are concentrated. However, this group controls a significant percentage of the resources in land and livestock, and, in addition, has a great potential for growth. For this reason, selective policies aimed at this group must be designed, adjusting the design and application of instruments, technologies, and institutions to their cultural and managerial behavior. What is important is to reach them in order to capitalize their enterprises and increase their productivity.

Peace within the Latin American and Caribbean societies is seriously threatened by the impossibility of satisfying the increasing social demands, as well as the loss of the region's relative position in international trade and finance. Hence, structural adjustments programs must be designed in such a way as to ensure a stable and balanced growth of the economies of these countries.

#### Myths about the agricultural sector

The ten myths which, in the opinion of Mr. Ottón Solís, affect Costa Rican agriculture, provide very useful material for reflection and discussion among all the countries of Latin America and the Caribbean. These myths may be summarized as follows:

Market forces are what ultimately determine the allocation of resources; small property is an end in itself; increases in productivity are sufficient to increase agricultural income; comparative advantages define the flows of international trade; the agricultural sector is homogeneous; small farmers are inefficient; agriculture is the only protected sector; the operation of the market is in itself going to modernize agriculture; subsidized interest rates are not crucial to agriculture, and the agricultural problem is a production, not a marketing problem.

#### Comments and discussion

1. Several participants stressed the importance for the countries of defining a development strategy, which should include stabilization, structural adjustment, and sectoral programs.
2. It was pointed out that in development strategies, special consideration must be given to differentiated -non-compensatory- policies for the small farmers of Latin America, in order to enable them to attain greater productivity and profitability in their activities. Some of the policies mentioned were: technology transfer, training, appropriate marketing services, credit, etc.
3. The participants also stressed that, in spite of the fact that these producers contribute significantly in terms of foodstuffs, foreign exchange, meat (beef, and, especially pork) they are not adequately compensated for their work.

4. It was asserted that another myth regarding the agricultural sector, in addition to those mentioned by Mr. Solis, related to the dilemma of basic grains vs. exportable products, for instance, whether to produce flowers instead of beans. In this case, it was pointed out that it was not right to assume there was flexibility in the reallocation of production resources, since the leading consideration in many cases is an aversion to risk and instability, in other words, that it is preferable to produce well-known products rather than other, supposedly highly profitable ones, for sale on foreign markets.
5. In this regard, it was stated that most of the traditional agricultural exports of the Latin American and Caribbean countries show production surpluses; this situation is further aggravated by the fact that the international markets for such products have serious constraints on the absorption of such surpluses, whether on account of exhaustion of the market or of the controls and subsidies maintained by the industrialized countries in the case of some of these products.
6. It was, likewise, stated that in order to maintain and develop comparative advantages for certain exports, the countries must greatly strengthen their research and technology transfer efforts, since this is the only way to increase productivity and production, as well as to help avoid the recessive impact of the IMF's stabilization programs.
7. Finally, it was stressed that neither the SAPs nor the ASAPs should underestimate the social impact of economic policies, and that they must, therefore, take very much into account the need to ensure a degree of "social balance," i. e., to guard against a deterioration of the real income of workers.

SESSION 5: PRESENTATION BY THE WORLD BANK AND IICA ON  
STRUCTURAL AND SECTORAL ADJUSTMENT PROGRAMS

Presentation by the World Bank

The speaker referred especially to World Bank technical assistance with respect to Sectoral Adjustment Programs.

He mentioned that in granting a loan in the context of a SAP or an ASAP, the World Bank is guided by the basic purpose of supporting a given country's balance of payments. However, one of the reasons for the Bank's recent reorganization was to launch a new technical cooperation program, particularly with respect to sectoral adjustment and policies. He admitted that the Bank had certain difficulties in granting this type of cooperation, on account of the scarcity of experts in this field.

The speaker then referred to the manner in which the Bank sometimes executes technical cooperation for the countries, in the area of sectoral loans. He explained that, initially, the Bank's missions carry out certain studies in order to identify distortions, reforms and adjustments to be made, etc., in some cases using policy simulation models. Later, when requested by the country, a mission is sent to initiate negotiations on the basis of the studies made. If a country-World Bank agreement is reached, a sectoral loan arrangement is signed, which generally includes complementary technical assistance for future studies to be used for new sectoral loans. Also, the Bank simultaneously carries out a research program which includes several experiments concerning structural adjustment issues.

Notwithstanding the above, he stressed that on other occasions the Bank is summoned amidst a serious economic crisis affecting a given country, in which case the studies and negotiations have to be expedited in order to provide the requesting country with financial resources in the shortest time possible. In the same manner, program formulation may sometimes be hindered by the total or partial absence of appropriate information, which makes it impossible to conduct quantitative studies of certain effects of the policies on the sector.

Lastly, he referred to certain areas in which the Bank has developed capabilities and experience, such as the design of food and nutrition policies; subsidized credit; trade and protectionism, etc. He also mentioned other areas in which the Bank does research, such as land tenure policies, taxation, and sectoral adjustment.

Presentation by IICA

The presentation started with a comment to the effect that the subjects dealt with at this seminar had a relatively short history within IICA. It was mentioned that the policies followed by the institution follow the guidelines established by the countries of the region. In this regard, IICA received a mandate which is reflected in the 1987-1991 Medium-Term Plan, and in the guidelines for Program I: Agricultural Policy Analysis and Planning. Program I provides for three areas of support to the countries requesting it, subject to the availability of resources.

The first area is geared towards developing strategies which can enhance the role of agriculture, given the specific conditions of each country; it was

pointed out that it was necessary to explore in greater depth the intersectoral links -backward and forward- between agriculture and industry, and among other relevant sectors. Mention was made of the case of Central America, where agriculture accounts for 20% of the gross domestic product, but where the food, beverage and tobacco industries make up 60% of the manufacturing sector. It was also stressed that at least two very important considerations must be borne in mind in helping the countries draw up their development strategies, as follows: the first has to do with the international products market and the feasibility of entering and remaining in them long enough, and the performance of the international capital and technology markets. The second has to do with the rural and urban poverty which in some countries has become a determining factor in the capacity to purchase food. Therefore, an initial step to be taken with respect to the first Program area of concentration will be collaborate with the countries in shaping these strategies.

The second Program area emphasizes the creation of the capacity to analyze, execute and adjust macroeconomic and sectoral policies, or particular policy instruments, as the case may be, as well as their impact on agriculture. This Program area also envisages the study of policies which may be needed to define with greater clarity the countries' investment strategies, with a view to ensuring that public investment is truly oriented towards those sectors where it will have the greatest multiplier-not substitutionary- effect on private investment, while ensuring that such investment leads to an increase in the participation of the private sector. It is of paramount importance to create or promote such a capacity in the countries, in order to allow a proper articulation between macroeconomic and sectoral policies, correct handling of fiscal policy and adequate orientation of public expenditure in the sector.

The third Program area focuses on the strengthening of institutional systems in order to improve the design, management and execution of policies. This institutional-system concept refers not only to the public agricultural sector, but also to "economic cabinet" authorities with whom the Minister of Agriculture has to discuss, negotiate, and reach agreement on those macroeconomic policies which have the greatest impact on agriculture. Also included in this institutional context is the analytical capability of university research centers, which generate a considerable number of studies that are not easily absorbed or taken into account in policy studies, let alone in decision-making. Thus, bearing in mind the institutional-system concept, IICA's Program I is encouraging the creation of a forum at the level of the countries, with a view to fostering increased participation by several institutions in this process of analysis and decision-making on policies for agriculture; it is also promoting the creation of a cooperation network in this field. In this regard, it was mentioned that the current seminar represented a contribution towards the establishment of such a network at the regional level.

With respect to IICA's tools for action, particularly those pertaining to Program I, the following were mentioned: a) research, in which joint efforts with other institutions are proposed, mainly in the countries, on account of IICA's limited resources; b) training, where there is great potential, bearing in mind the magnitude of existing needs. In this respect, it should be pointed out that, according to a recent study conducted by the Institute with the support of the World Bank and the Inter-American Development Bank, excessive emphasis has been placed on training in project preparation, and not enough on establishing priorities and planning for the organization of public



investment in agriculture, or the management of investment plans and projects; it was found that even less emphasis has been placed on training in the context of the international context for agriculture; c) technical assistance, which IICA may also offer within the limitations of available resources. In this case, the Program strategy is oriented more towards mobilizing the resources of the region, considering that the exchange of experiences among the different countries is going to the best way of transferring technical resources among them.

The speaker stressed that the specific field of interest of Program I fell within the scope of ideas put forth at the current seminar. It was expected that the sessions and discussions held, as well as the effort of the working groups, would contribute towards setting up cooperation mechanisms and a series of research studies on issues considered especially important by the countries. In this regard, he commented that the only reference work in Spanish made available at the seminar was the document prepared by IICA, since most of the scant literature available on the subject has been published in English and not necessarily by Latin American professionals nor in the context of some of the guidelines proposed at the current meeting. The speaker felt this field offered a wealth of possibilities for the Institute to help the countries of the region.

Finally, he expressed his confidence that similar meetings would be held, with even greater frequency, in cooperation with the World Bank, other financial institutions or other regional agencies that are interested in this question and probably also share the concern and the expectation that agriculture has a very important role to play in the reactivation of economy in Latin America and the Caribbean.



#### **IV. PROPOSALS OF THE WORKING GROUPS**



**GROUP 1: RESEARCH FOR THE DESIGN, EXECUTION, AND EVALUATION OF SAPs/ASAPs**

The working group discussed the deficiencies found in research and studies which limit the design, execution, and adjustment of SAPs/ASAPs. It considered that there was an urgent need to undertake, at the national and international levels, a number of research studies which would make an effective contribution towards improving the capacity of the governments of the region in the analysis of global and sectoral policies having the greatest impact upon the agricultural sector. As a result of its discussions, the working group drew up a list of topics for research, divided into seven areas, as follows:

1. Components of research to support adjustment programs

These components are the following: a) basic indicator information system: follow-up and timely alert system; b) research on the structure of the sector; c) specific research on selected aspects of the adjustment program and on program execution and follow up; d) ex-post research, and e) international research.

2. Basic indicator information system

The basic indicator information system comprises the following items: a) production index, both global and by groups of products; b) breakdown of the growth of production by increases in productivity and area, and changes in the overall crop basket, and breakdown of growth according to the contribution of each product; c) price index: total, and by group of products, of the terms of trade, of the purchasing power of sectoral production; d) protection rates, at least nominal - running averages, at the official and shadow exchange rates; e) other series: external trade balance of the sector, real availability of institutional credit, etc.; f) production costs, by mode of production; and g) poverty indicators.

3. Research on the economic and social structure of the sector

This research consists of the following studies and analyses: a) studies on the productive and consumption structure of the sector; b) studies on the effect of subsidy and price policies among strata based on farm size and strata based on consumer income; c) fiscal structure of the sector; d) structure of product markets, agricultural input, and production factors (land, labor, capital, technology); e) financing of agricultural banks and other rural financial institutions; f) impact of exchange policies and other macroeconomic policies upon the sector; g) factors which determine comparative advantages; h) intersectoral relations; i) study on the design of investment programs and their links with adjustment programs; and j) other issues pertinent to the circumstances of the country.

4. Specific research on selected subjects

Studies of more limited scope on certain semi-autonomous corporations, certain products, etc., depending on the emphasis of the preliminary outline of the adjustment program.

5. Research on program execution and follow-up

The following to support program execution and follow-up were suggested: a) studies to facilitate transition: on privatization; on the strengthening of public institutions; and on food programs; b) statistical report on the progress of the program; c) continuing analysis on the economic and social evaluation of the sector; and d) timely analysis of unanticipated problems.

6. Ex-post evaluations

Studies on the program as a whole from a historical perspective.

7. International research

The components of this research are the following: a) comparative studies of adjustment programs; b) institutional studies: relations among sectoral and global institutions in connection with program design; c) research on the concept of efficiency prices at the international level; and d) studies on relations among stabilization, structural adjustment, and sectoral adjustment programs.

GROUP 2: TRAINING FOR THE DESIGN, EXECUTION AND EVALUATION OF SAPs/ASAPs

The structural adjustment and sectoral programs have, to a large extent, reflected the skill of those responsible for designing or executing them. Thus, their impact and benefits are the product either of a previous training process, or of training as the program evolves, as is the case with most adjustment programs in our countries. It was therefore stressed during the working sessions that training must be a basic element of any efforts to improve the adjustment process, as well as technical assistance and research programs.

The Working Group on Training considered it advisable to orient its discussions towards the need to train ever greater numbers of public-sector officials in our countries, in order to enable them to acquire the skills required for preparing, designing and implementing these types of programs. Only upon the basis of such training will officials of different state agencies, advisors, and international officials be able to meet on an equal footing and hold productive discussions on the issues involved.

Following are the guidelines proposed by the working group for the formulation of a training program designed to meet the above-mentioned objectives:

## 1. Basic areas of training

Training should be addressed, basically, to the following aspects:

- \* Formulation and evaluation of policies and macroeconomic relations with the sector, as well as of rural development policies which, by their very nature, must be treated differently. -The conceptual tools for training in this area would be the following: simulation models to make it possible to define relations and impact of the different measures; methods for evaluating that impact; statistics and data bases to make them operational; ways to assess the fairness and efficiency of the SAPs/ASAPs on the basis of their objectives and results; and procedures for preventing and resolving any conflicts these programs may cause.
- \* Institutional adjustments - The aforementioned programs also call for certain institutional reforms in order to provide for intersectoral consistency in the design and execution of policies and programs. The interinstitutional and intersectoral characteristics may be designed and evaluated on the basis of criteria which must be taught to the officials concerned. The use of tools relating to means for controlling and monitoring institutional adjustment and strengthening efforts would be subject to such training.
- \* Investment plans. - In order for the programs to be translated into action, investment and expenditure plans must be drawn up that reflect the adjustments proposed. The design, control, and monitoring of projects must therefore be given a prominent place in this type of action.

Two basic elements characterize or further define the proposed areas:

- \* The sequence to be followed in carrying out individual actions and, consequently, the training required for each stage in the diagnosis, design, and execution of the three areas mentioned.
- \* The requirement that the SAPs and ASAPs provide for what the Group has called "agreement through consultation with social groups". This means putting into practice the philosophy of sharing decision making with all the social entities which will be affected, in one way or another, by any decisions taken. For example, consultations would be held with representatives of the various groups representing the production sector, the labor sector, and other occupational groups having an interest in such matters.

## 2. Types of training

No formal processes have been devised as yet for this type of training, and it will therefore be necessary to develop imaginative mechanisms and test them in many ways.

It is clear, however, that there is a need to conduct training programs such as the following: a) the exchange of experiences, either bilaterally or among small groups of countries having common problems; b) permanent inter-American or national fora through which it would be possible: to have a permanent team of instructors to assist the countries in solving their training needs in the aforementioned areas; to prepare pamphlets and cassettes to provide training at a distance in basic areas and in connection with each of the mechanisms and procedures required by the countries; to make every effort to share immediately the experience of various countries concerning their problems and the results obtained in the design and execution of the SAPs and ASAPs; to secure reports of institutions on these results, and c) specialized seminars or short courses to meet training needs at the Latin America and Caribbean level, the subregional (within the hemisphere) level, or the national level.

A new educational perspective must likewise be promoted, as a specialized field of academic education designed to influence current or future professionals in such a way that they will link their activities to the areas of action envisaged in agricultural policies. The cross referencing provided for under this approach would be aimed at developing a body of concepts and criteria to be shared by economists, agronomists, administrators, and professionals in other related fields.

### 3. Trainees

There are basically two groups of officials who should receive training in these areas:

- \* Advisory (middle) level officials who are on the permanent staff of the institutions, for whom the concepts and criteria providing for continuity in program design and execution are especially important.
- \* Higher officials who have decision-making power at the executive and legislative levels, as well as directors in the private sector who will be affected by these programs; the training processes of a conceptual nature would be addressed to these individuals.

### 4. Responsibility for implementation of the training program

There are agencies which have provided leadership in this respect and are already qualified to undertake some of these responsibilities. The World Bank's Economic Development Institute (EDI), as well as IICA may be mentioned among them. However, these recommendations should also be shared with organizations such as the FAO-Italy program, AID, UNDP, IFAD, CIDA, etc.

At the internal level, it is recommended that each country seek the participation of research and training institutions, in order that they may orient some of their activities toward these fundamental



aspects of the development of the countries of the region.

## 5. Short-term recommendations

Group 2 also recommends the following:

- \* that each country analyze its current situation as regards training needs, and draw up a program providing for local contributions and international collaboration;
- \* that IICA prepare an annual training program covering these subjects and that it allocate to it the necessary human and material resources;
- \* that the World Bank's EDI offer courses on these subjects at the Latin American level, and, basically, that it apply in Latin America the positive experiences gained from its actions in other parts of the world;
- \* that meetings, short courses or specialized seminars be held; these might be along the lines proposed by the participant from Ecuador, i.e., to bring together the agricultural policy units of the different countries; or those suggested by the representatives from Mexico and Brazil, who offered to organize seminars and courses on these matters over the next few months;
- \* that IICA periodically evaluate the progress made in drawing up the program suggested by the working group;
- \* that these recommendations on training be complemented by the recommendations on research and technical assistance put forth by the other working groups at this seminar;
- \* that IICA prepare a directory of experts from the countries who would be able to cooperate in training programs at a low cost;
- \* that IICA prepare a directory of planning agencies, with listings of their officials, for purposes of direct bilateral consultation.

## GROUP 3: TECHNICAL ASSISTANCE FOR THE DESIGN, IMPLEMENTATION AND EVALUATION OF SAPs/ASAPs

Three areas were identified in which technical assistance might be provided in connection with the formulation of development policies which could lead to sectoral adjustment. These areas are the following: design, implementation, and evaluation of policies, and, consequently, of sectoral adjustment programs.

For methodological purposes, the discussion group identified the following elements within each area: a) objective, b) priority areas, c) type of technical assistance to be provided, and d) financing.

## AREA I: DESIGN

## Objective

To strengthen the institutional capabilities of the countries of the region in the design of agricultural policies leading to the modernization of the sector.

## Priority areas

The list of priorities given below is not to be considered a rigid one. Specific national problems may call for the addition of other areas.

- \* Development of a critical mass of information on the sector as well as updating methods.
- \* Identification and quantification of intersectoral and intrasectoral transfers.
- \* Price policies, basically schemes for stabilizing prices of agricultural products.
- \* Analysis of public corporations involved in sectoral activities, especially in connection with financial, technological and organizational aspects, and their respective price policies.
- \* Analysis of the sectoral financing system, and institutional and operational patterns.
- \* Basic analyses of production schemes, sources of income and use of resources.
- \* Analysis of the process of generation and transfer of technology, basically in connection with the availability of new technologies and the conditions for adopting them.
- \* Analysis of marketing systems and of operational and institutional problems.
- \* Analysis of the operational and financial efficiency of services and of supporting infrastructures, mainly as regards animal health and plant protection, as well as of agricultural extension activities.
- \* Identification of mechanisms and institutions for offsetting the impact of adjustment on vulnerable groups.
- \* Analysis of the demand structure, through consumption surveys.
- \* Analysis of changes in international relative prices, especially as regards the gradual reduction of subsidies and the technological advances of developed countries.

- \* Identification and analysis of rigidities in the administrative and legal apparatus which hamper the design and execution of development policies and sectoral adjustment programs.
- \* Strengthening of the institutional capacity to link sectoral policies to macroeconomic ones.

In the case of countries which are embarking upon a sectoral adjustment process for the first time, a priority area of technical assistance should be the transfer of experiences concerning all aspects of the process, including the different stages of the sectoral adjustment loan cycle.

#### Types of technical assistance

Mechanisms should be sought to identify and take advantage of the experience already gained in the region with regard to adjustment policies and programs, basically through the following types of cooperation:

- a. Intergovernmental (horizontal) cooperation: through seminars, missions by national experts from countries which already have a store of experience, etc.
- b. Direct technical assistance by multilateral and financing agencies, through experts having ample experience in the region, special consultants, and/or specialized corporations.
- c. Technical assistance oriented toward organization, articulation and in-service training for the benefit of existing national human resources, as part of a systematic policy analysis and preparation effort.
- d. Technical assistance for the institutionalization, at the national and regional levels, of analysis for policy design.

#### Financing

The following forms of financing were considered:

- a. Regular resources of international technical assistance agencies, such as IICA, FAO, UNDP, etc.
- b. Resources from financing organizations, such as the World Bank's Project Preparation Facility (PPF), technical assistance loans, or technical assistance components of the sectoral loans or investment projects.
- c. Bilateral financing resources.
- d. Private foundations and universities.
- e. National funds.

## AREA II: IMPLEMENTATION

### Objective

Technical assistance to the countries of the region in connection with the execution of technical assistance studies and components related to the implementation of policies included in sectoral adjustment programs.

### Priority areas

In view of the different sets of conditions which are associated with adjustment programs, as well as the limitation of resources, it is suggested that a special effort be made to achieve coordination between national and international technical assistance agencies and multilateral agencies which finance the technical assistance components of sectoral adjustment programs.

Priorities in the area of execution include, in particular, technical assistance in the management of national agencies involved in adjustment programs.

### Types of technical assistance

Same as in Area I.

### Financing

Same as in Area I.

## AREA III: EVALUATION

### Objective

To create and strengthen, in the region, a long-term institutional capability for following up on and evaluating the impact of agricultural policies and sectoral adjustment programs.

### Priority areas

- \* Design of specific methodologies for following up on and evaluating the impact of sectoral adjustment programs, mainly with respect to prices, performance of the sector, financial and technological status of public corporations, consumption, and nutritional standards.
- \* Setting up and institutional organization, at the national level, of follow-up and evaluation systems for sectoral adjustment programs.

### Types of technical assistance

Same as in Area I.

### Financing

Same as in Area I.

**GROUP 4: DEVELOPMENT STRATEGIES AND MECHANISMS FOR FINANCING THE INVESTMENT REQUIRED FOR THE REACTIVATION AND DEVELOPMENT OF AGRICULTURE**

The working group analyzed the influence of SAPs and ASAPs on development strategies, and identified two types of situations that arise in connection with policies reflected in these programs, i.e., policies of great interest to the countries, involving elements which are often disregarded in the design of such programs; and other policies on which an understanding could be reached with the financing agencies with regard to reforms prompted by the countries themselves.

With respect to the first type of situation, the following recommendations were made:

- \* To act upon a broader concept of development in general, and of rural development in particular, taking into account both the concern for economic growth, and the need to act in response to the problem of poverty and rural marginality.
- \* The regional and national situation is very specific in each case and cannot be used as a pattern for other situations. The diagnosis, in each circumstance, must take into account the agrarian social structure and land tenancy patterns.
- \* The dynamism of exogenous and endogenous factors makes it essential to strive for greater flexibility in loan terms, as well as greater adaptability of programs, in order to ensure their economic, political, and social viability.
- \* Programs must provide for the direct allocation of funds to the agricultural sector, which should be basically channeled to the processes of reconversion and reorganization of production, the adjustment of marketing channels, the development of research, and the adoption of institutional reforms; all these aspects, taken together, can help to enhance the role of small-scale farming in overall economic recovery.
- \* Policy changes and institutional reforms do not provide all the elements required to overcome the constraints on rural development. The continuation of investment projects and programs, the development and dissemination of technologies, support for producer organizations, and efforts relating to the conservation of natural resources are still essential components of any rural development strategy.
- \* The programs have international dimensions which are of paramount importance to the countries of the region. The Latin American and Caribbean countries must adopt a regional viewpoint and propose a joint approach. This means that technologies must be generated which will allow for the development of the countries' competitive potential, and of intrazonal trade, and provide food security.

- \* It must also be pointed out that the elimination of protectionist policies and subsidies of developed countries is a prerequisite for enhancing the role of agriculture as a factor of development in the countries of Latin America. The outcome of the Uruguay Round of GATT negotiations will undoubtedly have a direct effect on the prospects for actually implementing the above suggestions. In the meantime, and in view of the serious economic and social damage caused to these countries by the profound distortions of the international markets, it will be important to implement compensatory mechanisms so as to avoid further harm to the farmers of Latin America and the Caribbean and further delays in providing them with opportunities for development.

With respect to policies on which agreement could be reached between the international financing agencies and the governments, the following were mentioned:

- \* Macroeconomic policies (exchange rate, price structure, taxes and incentives) designed to eliminate anti-agriculture biases, or at least permit the gradual incorporation of compensatory elements.
- \* Reduction of price subsidy programs which favor all consumers, and concentration of efforts on the most needy sectors.
- \* Rationalization of programs for subsidizing credit, inputs and products, which may be acting as inadequate income redistribution mechanisms, and may be generating additional distortions. Furthermore, it should be borne in mind that, once macroeconomic policies which are inappropriate and negative for agriculture disappear, it could well be that no further justification could be found for a large number of the subsidies.
- \* Provision of funds originating in the elimination of subsidies, and new loan resources to finance priority activities of the State which the private sector does not carry out.
- \* Investments within the State system itself in order to enable the institutions and public agencies in charge of such programs to operate efficiently and without financial losses.
- \* Contribution of resources and technical assistance to enable the government to establish the institutional conditions and legal framework to make adjustments possible.

These recommendations were based upon the discussions held during the seminar and in the working group, and on the document entitled: IICA. Los Programas de Ajuste Estructural y Sectorial: Alcances para la Reactivación y Desarrollo de la Agricultura, published by IICA in August 1987 as the first title in its Program Papers Series.

**V. SYNTHESIS AND GENERAL CONCLUSIONS OF THE SEMINAR**





## SYNTHESIS AND GENERAL CONCLUSIONS OF THE SEMINAR

The seminar was oriented, above all, to the exchange of opinions on comprehensive policies affecting agriculture and the impact of structural and sectoral adjustment programs on the sector. It was a great opportunity to hear the opinions of national representatives, officials from various institutes, the private and public sectors, academicians and civil servants. In this respect, the objectives of the seminar were fully achieved.

One of the main conclusions of the seminar was to point out that the agricultural sector will have to fulfill a new function, a very important function as concerns adjustment with growth, given world conditions and external imbalances of the economies of the countries of the region. This is the new role agriculture will have to take on.

The seminar was organized in the following manner: it began with discussions of the overall context, of the basic changes in the world economy, and of the fact that although agricultural sector officials have always been aware of international affairs, the link between agriculture and the world economy was usually through the prices of commodities and through export possibilities. Discussions revealed that today, the relations between the agricultural sector of our countries and the world economy are much more complex than they have ever been before. From this standpoint, it was interesting to analyze developments on the international monetary scene, the exchange rate adjustments among the currencies of the developed countries, and developments on the world capital markets, all of which affect the agricultural sector and which were paid scant attention in the past. This approach contributed to increasing participants' awareness of the increased complexity of the relationship between the agricultural sector and the world economy.

After studying these points and understanding the urgency of the new role agriculture must play in the future, the group went on to study structural and sectoral adjustment programs. There are many connections between these two programs, and at this time these connections develop as a result of the new relations between the world economy and the imbalances that have grown out of the Latin American economies. There is a connection between the agricultural sector and the debt problem; between the agricultural sector and the countries' financial problems; and obviously, between the agricultural sector and the imbalances in the world market. In this context, the presentations and discussions revealed clearly that the agricultural sector is a part of the solution to the problems of the external sector, and that the policies to be adopted, including adjustment policies, must be designed in such a way as to ensure that they not only contribute to solving the problems, but also to promoting sectoral growth. Attention was also called to the complex impact of sectoral and adjustment programs on the agricultural sector. A comparison of the potential positive long-term effects with short-term negative effects further illustrated the complexity of the subject and signaled the need to continue with research, technical assistance and training efforts.

It was particularly useful to add to the theoretical-conceptual discussion of sectoral programs, a discussion of the countries that are in one way or another applying this type of adjustment policy and adopting this type of sectoral program. Some of these experiences are more closely linked to the

World Bank, others to institutions such as USAID, but in any event, the seminar made it possible to exchange individual experiences and observe positive and negative ones. Especially important in this discussion on adjustment programs was the possibility of bringing up the matter with officials who study the problem from another perspective, that of the World Bank when they formulate the changes they believe the countries must make. In this relatively neutral atmosphere, it was particularly useful and beneficial to be able to exchange ideas on how the negotiation and analysis processes were tackled, and to have a clear understanding of the points of view of the individual countries themselves.

Emphasis was placed on expecting more of the sectoral programs themselves. Mention was made of the need to "adjust the adjustment programs," so that they provide financial resources to the sector. In this vein, the funding needs for research and studies were discussed; as was the way to obtain financial support for improving the capabilities of sectoral institutions, so as to equip them to participate more effectively in the process to design and negotiate the programs.

In this manner, sectoral programs and their ties to other programs, such as stabilization programs, were analyzed, as was the relationship between the two. It was also determined how, from a country's point of view, sectoral adjustment programs constitute an ingredient of the program for the agricultural sector and the development strategy. It also served to illustrate what can happen to the agricultural sector when there are no adjustment programs: such as in the case of the "Dutch disease" that affected certain countries because their coffee boom was not accompanied by complementary exchange rate policies. It should be noted that discussion of individual cases revealed distinct conditions in the countries, which indicates that uniform policy recommendations cannot be adopted in all cases.

Then, participants turned their attention to the institutional aspects of the new relationship between the agricultural sector, the economy of the countries and the world economy. With the new role of agriculture in mind, some ideas were proposed regarding national institutions that play a key role in the sector; work being carried out by organizations like IICA and the World Bank; what these organizations could contribute, and requests that the countries of the region might make in this area. It was also stressed that it would undoubtedly be a great challenge for IICA to contribute to the countries through support actions, thus helping to establish ties between agricultural sectors and those that manage comprehensive economic policy. Furthermore, it was suggested that IICA enjoys a great advantage for promoting this type of forum, where officials and academicians from different countries can meet to analyze subjects of importance to the sector. In addition, the analysis made by the ministers of agriculture in the Mandate of Ottawa regarding the new dimension for agrarian policy and the role an entity such as IICA can play was viewed with optimism.

It was pointed out that the Latin American countries could help the World Bank become a better ally in certain policy areas related to agricultural sector development. It was considered important that the countries and the Bank analyze other formats, and consider whether existing differences pertain to economic theory, the approximation of differences of elasticity, varying magnitudes, or --as often is the case-- with the terminology used when taking the measures. As concerns the Latin American experience with the World Bank,

it was noted that some of the differences revolve around certain international trade policies, or the time period within which the adjustment processes can take place.

It was mentioned that IICA's interagency collaboration should be extended by strengthening its ties with the IDB, FAO, FIDA, AID and other agencies and international centers working in this field.

The present and future responsibilities of the ministries of agriculture, governments and academicians working in the subject area of the seminar were discussed. These groups were encouraged to look beyond the sector's internal matters and view its problems from a much broader long-term perspective. At the same time, it was considered necessary to strengthen the ministries of agriculture so that they are equipped to communicate more effectively with international agencies and with the corresponding ministries of finance and economy.

In addition, the proposals of the working groups were viewed as perhaps the most important outcome of the seminar, and they will be particularly useful in present and future research, training and technical assistance efforts for the design, implementation and evaluation of structural and sectoral adjustment programs, as well as the design of development strategies and mechanisms for funding investments geared toward reactivating and developing the agricultural sector. In this respect, it should be noted that the group in charge of development and investment strategies proposed "adjusting the adjustment programs," which means establishing a general frame of reference for designing this type of program.

Specific response to the proposals made by the working groups was as follows: in the field of research, it was suggested that more attention be given to understanding relations between the national economy and the agricultural sector, taking into consideration the many ways that complex economic developments --such as monetary, fiscal and external factors, as well as employment, income and real activity-- affect the agricultural sector in each country. Thus, it was felt that when addressing structural adjustment programs and their impact, it is essential to clarify the relationship between the agricultural sector and the rest of the economy. It was considered important to develop mechanisms that provide updated information on research conducted in other countries, especially in universities and centers of learning, where the results of research conducted in many of the areas mentioned are not widely disseminated.

It was also stressed that agricultural technicians should understand economics and that economists should understand agricultural economics in the countries. It was pointed out that farmers must be trained to understand how their incomes are affected by macroeconomic policy, depending on their crops and technology they use. In addition, it was suggested that ideas generated during the seminar should be communicated to people working with monetary and trade policy, in order that they may see firsthand the problems of rural poverty, for example, and the development alternatives based on the new role of agriculture. It was indicated that schools of economics should have an agricultural economics department (some do not), and that schools teaching agronomy should significantly improve their economics courses. Another important matter noted was the relationship between research and training, and

the importance of providing training that is based on the results of ongoing research. Specifically, it was recommended that the results of Working Group 1's efforts should be used for courses to help the countries understand the relationship between the agricultural sector and the national economy. Finally, the need for a clear distinction between technical assistance and research was pointed out: what is the role of each, where does one end and the other begin, how can their actions be coordinated?

The participants acknowledged the efforts of IICA and the EDI, and congratulated them for this meeting in which participants spoke about problems the countries face --and the lack of opportunity to share ideas on them. In particular, the exchange among specialists who are devoting greater attention to the relationship between agriculture and the overall economy was considered especially important.

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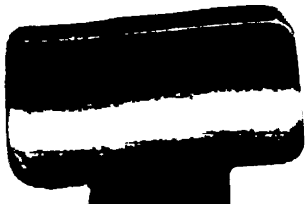
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