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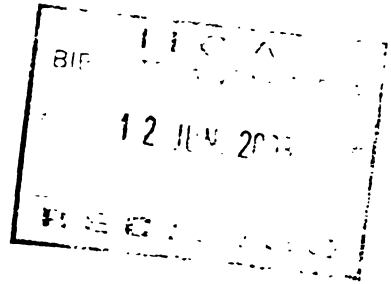


GUIDE FOR THE PREPARATION OF AGRICULTURAL SECTOR ASSESSMENTS AND PROFILES

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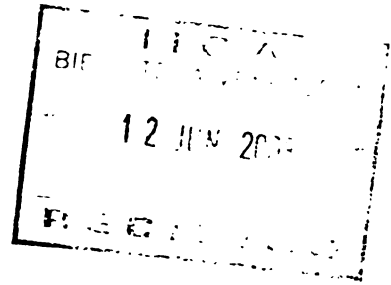
GUIDE FOR THE PREPARATION OF AGRICULTURAL SECTOR ASSESSMENTS AND PROFILES

Preliminary Version

June 1990

CENTER FOR INVESTMENT PROGRAMS AND PROJECTS (CEPPI)

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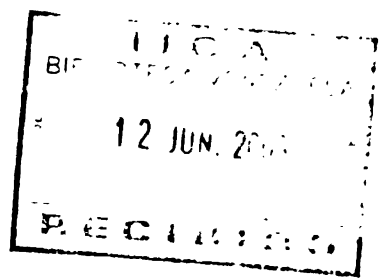
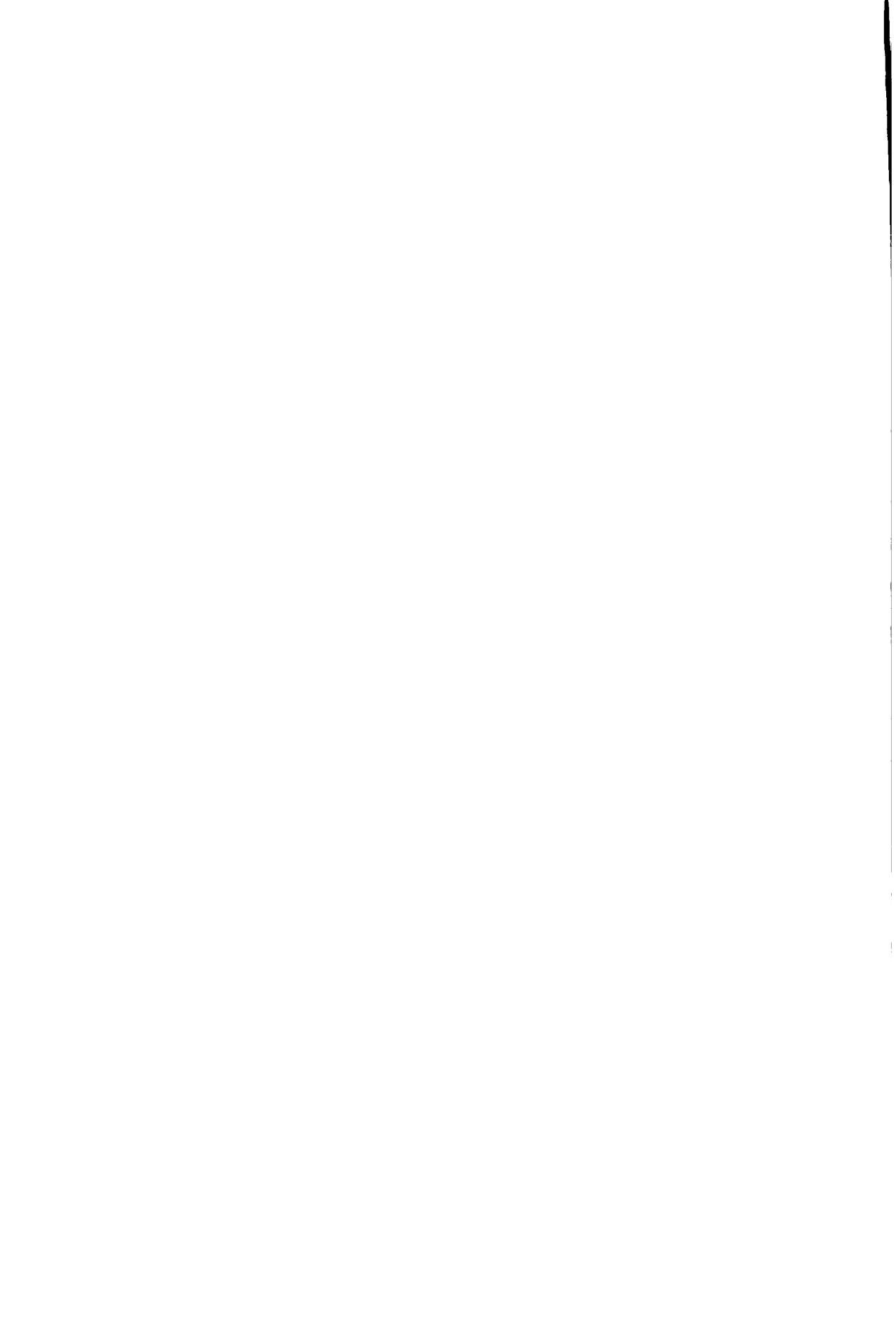


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FOREWORD

The conviction that technical cooperation can increase the impact of funding for agriculture, and the growing importance of structural adjustment loans and sectoral programs in the operations of international funding agencies, highlights the need to establish a Sectoral Study Area in CEPPI, to provide support to IICA and its Member States.

The purpose of this Sectoral Study Area is to support the Member States in preparing and implementing their agricultural development strategies. One of the activities to be developed involves the preparation of sectoral assessments and profiles which will make it possible to pinpoint policy, institutional reform and investment needs that the countries can use in drawing up their agricultural development strategies.

The document "Guide for the Preparation of Agricultural Sector Assessments and Profiles" was drawn up as part of these activities. It is designed to help IICA Offices in the countries prepare sectoral assessments and profiles, which will serve as important support instruments for the countries in their negotiations with international funding agencies. They will also serve as inputs for preparing IICA's action strategy at the country and subregional levels.

The Guide is divided into three sections. The introduction defines sectoral assessments, profiles and programs. The second section presents the method for preparing the sectoral assessments and the third section describes the operating procedures for preparing sectoral assessments and profiles.

This document was prepared by CEPPI, with comments and inputs from the Office of the Assistant Deputy Director General for Operations, the Program Directorates and the Directorate of Programming and Evaluation.

This is a preliminary version of the Guide which will be revised during the second half of 1990, to incorporate the experience acquired when it is applied in the Member States.

Fernando Dall'Acqua
Director
Center for Investment Programs and Projects

I. INTRODUCTION

The preparation of sectoral assessments, profiles and programs is an institutional activity, the purpose of which is to provide support to IICA's Member States in preparing and implementing agricultural development strategies. The main objective of this activity is to provide the governments with a technical support instrument for negotiating loans with international funding agencies for modernizing and reactivating the agricultural sector. The agricultural sector includes the agriculture-forestry-agroindustry complex.

A Sectoral Assessment (SA) is a basic study which provides information on the performance of the agricultural sector of the Member States. It is designed to provide basic information and identify guidelines for action in preparing sectoral profiles and designing IICA's action strategy in the countries.

A Sectoral Profile (SP) is a short document (15 to 20 pages) that develops the main components and guidelines for action identified in the SA. It is designed to provide basic information for negotiating and preparing agricultural sector programs.

An Agricultural Sector Program (ASP) is a plan for modernizing and developing the agricultural sector, which the countries can use as a basic proposal for negotiating sectoral loans with multilateral funding agencies. The objective of the ASP is to define the nature of policies, institutional reforms and investment needs which can be used by the countries as part of their agricultural development strategies. These programs can be designed for the agricultural sector as a whole, or for any of its subsectors.

In order for these sectoral assessments, profiles and programs to be successful, they must be:

- a. prepared in accordance with the specific situation of each country, based on a detailed economic-technical analysis of the agricultural sector;
- b. well coordinated, especially with regard to the linkages between and complementarity of the different components; and
- c. completely understood by the governments and multilateral funding agencies since their commitment in preparing these programs is critical to the success of this new IICA activity.

The Guide for the Preparation of Agricultural Sector Assessment and Profiles covers: Method for preparing sectoral assessments, and operating procedures for preparing sectoral assessments and profiles. These sections are presented next.

II. METHOD FOR PREPARING SECTORAL ASSESSMENTS

The following are the objectives and basic criteria for preparing sectoral assessments:

A. OBJECTIVES OF SECTORAL ASSESSMENTS

1. General objective

The general objective of the sectoral assessments is to provide a better picture of the current situation and development of the agricultural sector in IICA's Member States.

2. Specific objectives

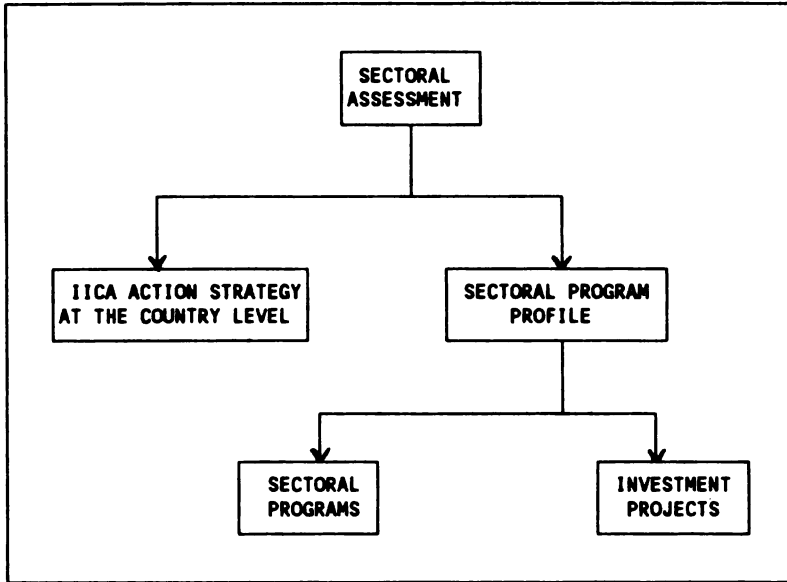
- a. To help identify agricultural sector programs and investment projects.
- b. To provide basic information for preparing sectoral profiles, agricultural sector programs and investment projects.
- c. To provide the basic elements for formulating IICA's action strategy at the country and subregional levels.

B. BASIC CRITERIA FOR PREPARING SECTORAL ASSESSMENTS

The main focus of the assessments concerns the relationship among policies, institutions and investments and the performance of the agricultural sector. This analysis should generate conclusions and recommendations, which will serve as the basis for specific actions linked to IICA's action strategy at the country level and to the preparation of sectoral profiles and programs and investment projects (Figure 1).

An ideal assessment should establish a causal relationship among policies, public institutions, agricultural investments and the recent performance of the agricultural sector, making it possible to identify clearly the policies, institutional reforms and investments needed for sectoral growth. However, it is very difficult to determine how each of these variables affects the performance of the agricultural sector, mainly because their impact usually is noted quite a bit later and may last different amounts of time. Moreover, insufficient data in practically all the countries of Latin America and the Caribbean make it even more difficult to prepare the ideal assessment.

FIGURE 1.
FLOW CHART OF A SECTORAL ASSESSMENT



Thus the assessment is an approximation based on the analysis of the above-mentioned relationships and a careful interpretation of results, which provide guidelines as to how policies, institutions and agricultural investment can be changed to alter their impact on agriculture.

Within this context, the assessment should be essentially interpretative and focus on the last ten years. Care should be taken to avoid turning them into descriptive exercises or exhaustive historical analyses of the agricultural sector. Furthermore, given financial limitations and the need to make these assessments in relatively short periods of time, they should also be based on existing data and avoid the use of sophisticated analytical models.

C. CONTENTS OF SECTORAL ASSESSMENTS

An assessment should be divided into the following sections:

1. The recent performance of the agricultural sector.
2. An analysis of policies affecting the agricultural sector.
3. An institutional analysis of the agricultural sector.
4. An analysis of the investment process in the agricultural sector.
5. Conclusions and recommendations.

Following is a description of each of these sections.

1. RECENT PERFORMANCE OF THE AGRICULTURAL SECTOR

The purpose of this section is to examine the recent performance of the agricultural sector, which includes agricultural, livestock, forestry and agroindustrial activities. It is suggested that the performance of the agricultural sector be initially viewed within the overall context of economic development in the country. This analysis should be based on existing studies and empirical research that focus mainly on the impact of macroeconomic policies and adjustment programs on the principal macroeconomic variables, such as:

- national and sectoral gross domestic product
- balance of payments and external debt
- inflation
- employment and wages
- public expenditures and deficit
- public and private investments
- situation of public enterprises
- foreign trade

In this section, emphasis should be placed on the performance of the agricultural sector and its subsectors over the past ten years. The analysis should provide a technical explanation of the impact of external and internal factors on the performance of the agricultural sector, based on significant changes in the principal variables, such as:

- revenues and profitability of the agricultural sector;
- production, area and productivity of main crops, and livestock and forestry products;
- terms of trade between agriculture and industry;
- employment and agricultural wages;
- tradable versus non-tradable goods;
- agricultural investment;
- agricultural modernization; and
- rural poverty.

A brief reference should be made to macroeconomic and sectoral policies, as well as to the performance of institutions that have influenced the performance of the agricultural sector. These considerations are important for establishing the frame of reference for the analysis of the following sections of the assessment.

2. ANALYSIS OF POLICIES AFFECTING THE AGRICULTURAL SECTOR

This section should focus on the principal policies that influence the recent performance of the agricultural sector. The objective is to explain how these policies affect levels of production, prices, income, profitability, employment and investment in the sector. Therefore, a clear association should be established between the policies executed and the performance of the agricultural sector, analyzed in the first part of the assessment.

It is suggested that the first step in the analysis of agricultural policy should involve consideration of macroeconomic policies (Figure 2). This approach is particularly important in countries where agricultural policy design is linked to stabilization programs or macroeconomic reforms.

In these cases, an understanding of the macroeconomic framework is fundamental, not only for grasping the rationale behind agricultural policies, but also for ensuring that the recommendations of the assessment reflect the real conditions imposed by stabilization plans and structural adjustment programs.

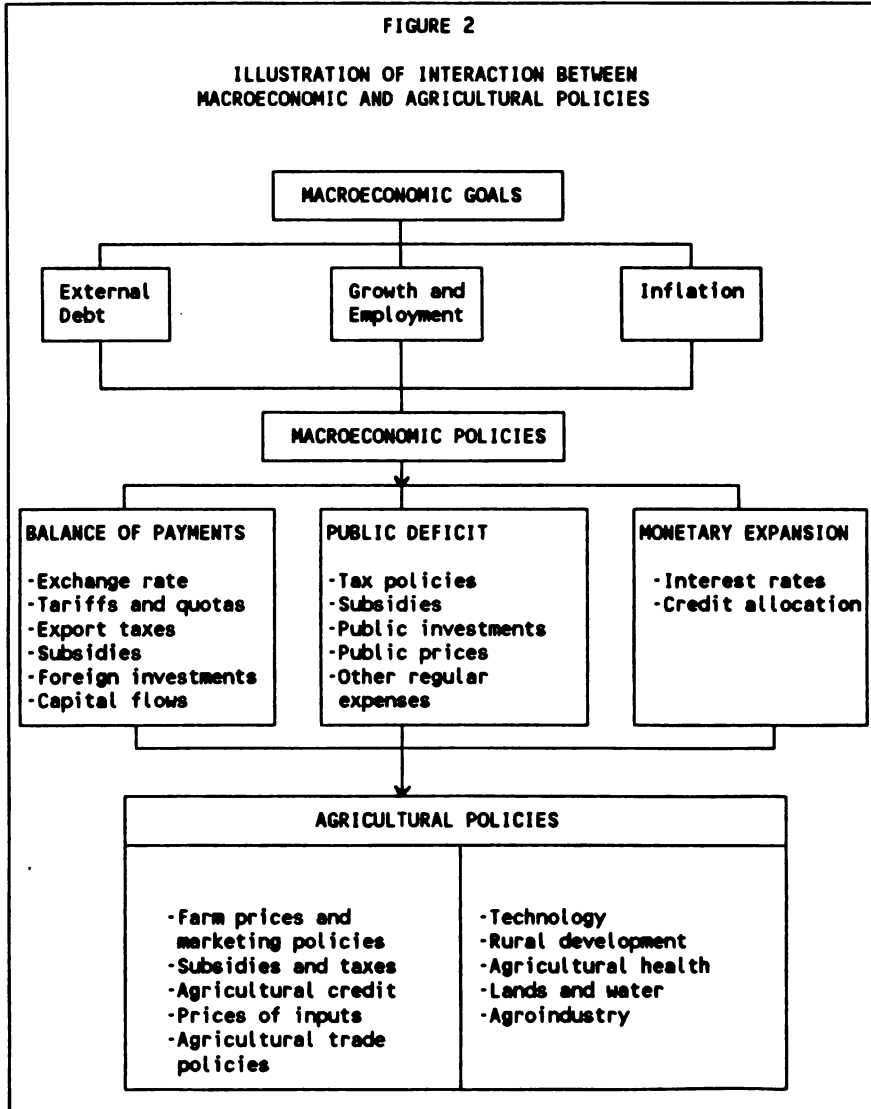
- a. The analysis of macroeconomic policies should focus on instruments that:
 - **directly** affect the definition of agricultural policy, such as the elimination of subsidies and credit restrictions;
 - **indirectly** affect the performance of the agricultural sector, such as exchange rate policies and the liberalization of foreign trade for industry.

Relevant macroeconomic policies can vary among countries. They usually cover: exchange rate policies; foreign trade policies (import and export taxes); tax and fiscal policies; monetary and credit policies; reforms related to state enterprises; wage policies; institutional reforms; external loan policies, etc.

- b. The analysis of the agricultural sector should be viewed within the context of the macroeconomic policies, and should emphasize the instruments that best explain the performance of the agricultural sector.

The description of each agricultural policy instrument should consider:

- its objectives and period in which it was put in place;
- coherence between announced and executed policies;
- relationship between different agricultural policies;
- integration with the corresponding macroeconomic policies evaluation of the impact on the sector;



The following is a list of the principal economic policies related to agriculture that can be considered in the assessment:

Agricultural Price and Marketing Policies

Attention should focus on identifying distortions of agricultural prices caused by macroeconomic and sectoral policies. The analysis should avoid extensive explanations of the operations of commodity and input markets, and should stress:

- distortions of agricultural prices (using empirical studies comparing domestic prices with international prices);
- the policies, regulations and actions of government marketing enterprises, which cause these distortions;
- economic, political and social reasons that hinder immediate elimination of price distortions.

Credit Policies

The analysis of agricultural credit should, on the one hand, focus on the efficiency of the resource allocation process and the impact of such resources on agricultural production. On the other hand, it should examine pressures on government monetary and fiscal accounts. In view of these objectives, an evaluation of the important aspects of credit policy should include:

- terms of financing: interest rates, subsidies, maturity, collateral and guarantees, etc;
- availability and distribution: by category of producer; purpose (investments, operating costs); agricultural and livestock activities (crops, cattle raising and fattening);
- sources of funds: domestic (public and private) and external.

Agricultural taxes and subsidies

There is a strong consensus that economic adjustment in Latin America and in the Caribbean requires vigorous fiscal efforts. Tax receipts must be increased and public spending decreased to eliminate the fiscal deficit and stabilize the government's financial standing. An analysis of agricultural tax and fiscal policies should include a review of agricultural subsidies and tax policies, evaluating the following:

- characteristics, purpose and impact on production, employment and agricultural revenues;
- consistency with the need to ensure financial equilibrium in the public sector.

Foreign trade policies

The analysis should focus on the discrimination against the agricultural sector through foreign trade policies. Of all macroeconomic and sectoral policies, overvaluation of the exchange rate and tariff protection for the industrial sector have surely been the main cause for the lack of protection in the agricultural sector of Latin America and the Caribbean. Therefore, a careful evaluation must be made of the impact of exchange rate policies, tariff legislation and quota restrictions on the agricultural sector vis-a-vis other sectors of the economy. Policies to promote exports, particularly non-traditional exports, and policies for regional and subregional integration related to agriculture, should also be carefully evaluated.

Agroindustrial development policies

The analysis should focus on incentives for establishing and promoting rural agroindustry, new agroindustries geared for export, and for converting and modernizing the agroindustrial subsector.

Studies of the factors that affect agricultural growth indicate that non-price factors (public goods such as research, extension services, water for irrigation, roads) are as important, if not more so, than price factors in explaining the growth of the agricultural sector.¹

¹ For a review of these studies, see Lele, U. and Mellor, J.W., "Agricultural Growth, its Determinants and Their Relationship to World Development: An Overview." Twentieth International Conference of Agricultural Economists. Buenos Aires, 1988.

The results of these studies emphasize the importance of including in the assessment an analysis of agricultural policies such as those concerning research and technology transfer, conservation of natural resources, irrigation and drainage, etc.

Policies on research and technology transfer

The analysis of technological policies should focus on the process of technology generation, transfer and adoption. The following aspects should be examined, among others:

- legal aspects that regulate technology generation and transfer activities;
- its relationship to the availability of and trends in the use of production factors;
- existence of a scientific-technological policy for agriculture, its conceptual and practical consistency, and its relation to macroeconomic and sectoral policies, especially incentives;
- significant factors that impede the implementation of the policies;
- impact on the modernization and growth of the agricultural sector;
- links between research systems and production systems

Policies on the conservation of natural resources and the environment

The analysis should evaluate existing policies (which can be either formal/explicit or implicit), focusing on the:

- legal framework that regulates and fosters implementation;
- consistency with other sectoral policies that affect the use of natural resources (incentive policies for production, land improvement and settlement);
- impact on the environment and implications for agricultural development;
- impact on the productive development of the sector.

Irrigation and drainage policies

The analysis should evaluate the effectiveness of the use of irrigation and drainage systems and their relationship

with other sectoral policies affecting implementation of the same. The following aspects should be taken into consideration:

- legal framework that regulates ownership and use of irrigation water;
- availability of support services for production in connection with irrigation and drainage (irrigation technology, technical assistance, credit, etc.).

Rural development policies

The analysis should focus on the existence of differentiated policies and evaluate them, considering aspects such as:

- duality of agriculture (small-farmer economy versus commercial agriculture);
- objectives of and coherence with macroeconomic and sectoral policies; the importance to national and rural development;
- impact on the small-farmer sector: production and income.

Policies on land, agrarian reform and land settlement

The analysis should evaluate land distribution and settlement policies (public and private). The following can be included:

- importance for rural development;
- planned objectives versus achieved objectives;
- economic, political and social factors that hinder the implementation of the policies;
- effects on agricultural development.

Agricultural health policies

The analysis should evaluate the effectiveness of agricultural and forestry health and protection policies to promote increased productivity and expedite domestic and international marketing of agricultural commodities and germplasm. The following aspects should be taken into consideration:

- legal framework that regulates agricultural and forestry health;
- participation of the private sector in animal and plant health programs;
- incentives to promote the development and efficiency of agricultural programs.

3. INSTITUTIONAL ANALYSIS OF THE AGRICULTURAL SECTOR

The analysis of policies should be complemented with an analysis of public institutions responsible for providing services and implementing sectoral policies. Agricultural sector programs consider not only the appropriate design of the policies, but also the institutional capacity of the State for implementing them.

In this context, the institutional assessment should identify weaknesses and limiting factors that keep the State from efficiently carrying out the functions mentioned above.

a. Scope of the analysis of agricultural sector institutions

The institutional systems of the agricultural sector in the countries of Latin America and the Caribbean are composed of a large number of institutions, which are generally larger than they need to be.

These institutions are responsible for executing activities related to the development of the agricultural sector. Some of these activities are:

- Related to regulations and the provision of services:
 - . policy formulation and planning,
 - . agricultural and forestry research,
 - . technical assistance and extension services,
 - . agricultural protection (animal and plant),
 - . quality control of products and inputs,
 - . conservation of natural resources,
 - . agrarian reform, rural and regional development (watersheds and others),
 - . training and agricultural education.
- Related to production, marketing and financing:
 - . production of agricultural products and inputs (agroindustries),

- . marketing, transportation and storage of products,
- . supply of inputs and equipment,
- . agricultural credit.

The analysis should focus on those institutions that have an important impact on the overall performance of the agricultural sector, with a view to formulating recommendations and identifying proposals for institutional reform to modernize the system and improve the effectiveness of its operations.

b. Evaluation of the institutional system

Once the key institutions have been identified, a brief description should be provided of their structure, regulations (legal framework), resource availability (human, physical and financial) and operations. While it is not necessary to make an exhaustive analysis of each institution, the evaluation should produce conclusions and recommendations on:

- limiting factors that impede the efficient operation of public agencies (outdated structures and methods, paternalistic labor laws);
- distortions (market, allocation of resources) caused by the regulations governing the operations of public agencies;
- duplication of agencies and functions, which leads to inefficient operations and fiscal waste;
- relevance of functions carried out by the public sector vis-a-vis the private sector (monopolies and subsidized state-run enterprises);
- availability and distribution of fiscal resources, in light of the functions carried out by public agencies (limited resources for investments, operations and staff training).

The institutional analysis can generate proposals for reforms that range from specific adjustments to a major structural overhaul.

4. ANALYSIS OF THE INVESTMENT PROCESS IN THE AGRICULTURAL SECTOR

This section should be geared to obtaining elements that will make it possible to establish an investment strategy for the agricultural sector, by determining:

- the main constraints on the agricultural investment process;
 - disparity between investments under way and projected and those needed for agricultural growth.
- a. In identifying and analyzing the factors that have influenced the recent performance of investments in the agricultural sector, the following aspects can be considered:
- the operation of the domestic financial system and its capacity to respond to resource needs of the agricultural sector;
 - the terms (interest rates, maturity, etc.) of agricultural financing and their effect on the demand for credit, by activity and type of producer;
 - the origin and composition of financial resources earmarked for the agricultural sector;
 - external economic cooperation and the allocation of domestic resources;
 - reasons why funds have been channeled to certain agricultural investments;
 - the influence of economic policy on investment decisions;
 - the institutional capacity to identify, formulate and execute programs and projects.
- b. The analysis of the disparity between investments under way and projected and those needed should start with an examination of existing investment programs and projects, emphasizing those funded by multilateral funding agencies. The objective is to prepare an inventory of investment programs and projects, listed by stage of development (idea, profile, pre-feasibility, feasibility, negotiation, in

execution, etc.). Based on this information, it will be possible to calculate the magnitude, type and orientation of current and projected investments. This would provide a first approximation of the disparity between investments available and investment needs.

Identification of investment requirements and the corresponding funding needed to reactivate the agricultural sector should, therefore, include:

- a revision of existing programs and projects in both the public and private sectors, identifying them as follows:
 - . name and location
 - . generating and executing entity
 - . stage of preparation and/or execution
 - . amount of investment (in national and foreign currency)
 - . current or probable funding source
 - . resources invested to date

- an evaluation of the degree of the maturity of the investment process by evaluating the different stages of preparation/execution of the programs and projects listed. The objective is to determine the proportion of programs and projects in preparation, negotiation, execution or at a standstill, and thus identify the efforts that must be made to reactivate the investment process in the agricultural sector. A heavy concentration of projects in the initial stage of preparation indicates an immature investment process that requires concentrated efforts to move on to more advanced stages. If most of the programs and projects are under way, this indicates an investment process in decline that requires a concentration of efforts on identifying new projects to keep investments flowing.

Finally, the analysis should estimate total investments and funding needs, identifying the principal programs and projects. This, together with the analysis of investments under way and their constraints, will make it possible to define a preliminary strategy to reactivate the investment process in the agricultural sector.

5. CONCLUSIONS AND RECOMMENDATIONS

The conclusions of the sectoral assessment should first synthesize the recent performance of the agricultural sector and the policy, institutional and investment factors that determined such performance.

Recommendations should be presented separately, and should specifically concern matters related to the identification and preparation of sectoral profiles, as well as those relevant to the preparation of IICA's action strategy at the country and subregional levels, with a view to:

- a. identifying the principal proposals or components, as well as describing the policy, institutional reform and investments requirements needed to prepare the sectoral profile;
- b. contributing specific inputs for preparing IICA's action strategy, emphasizing the areas of concentration of IICA's Programs and subregional integration. An executive summary of the sectoral assessment must be presented as background for IICA's strategy at the country level.

III. OPERATING PROCEDURES FOR THE PREPARATION OF SECTORAL ASSESSMENTS AND PROFILES

The Representatives in IICA's Offices in the countries are responsible for preparing the sectoral assessment (SA) and sectoral profiles (SP). CEPPI will provide technical support and, together with the Representatives, will supervise the activities. CEPPI will also coordinate support of the Programs and, where applicable, of consultants.

The operating procedures for preparing the SAs are as follows:

- a. CEPPI will provide orientation to the IICA Offices in the countries in how to use the "Guide for the Preparation of Agricultural Sector Assessments and Profiles."
- b. Based on the "Method for Preparing Sectoral Assessments," the Representative and technical experts from the IICA Offices in the countries, with support from CEPPI, will identify and define the most important areas or topics to be covered in the assessment.
- c. In countries that do not have the necessary information, the Representative will coordinate and supervise the preparation of documents on the identified topics. Technical experts from the Office and, if necessary, consultants will participate in this process.
- d. The IICA Offices in the countries, will conduct a one- or two-day technical seminar or meeting to present and discuss the documents, with the participation of representatives from CEPPI, the Programs, DIPROE, the Directorates of Area Operations, national authorities and executives from the public and private sectors. (See document on the general ideas for holding national meetings on the agricultural situation and outlook).
- e. The sectoral assessment will then be prepared, based on the documents, conclusions and recommendations of the seminar. The final document will be drawn up by a specialist from the IICA Office in the country, or by a consultant, under the supervision of the Representative. CEPPI will be responsible for revising the final document of the SA.

The sectoral profile will be prepared on the basis of the information provided in the SA. Once the national authorities have approved this document, it will become an important instrument of support for government negotiations with the international funding agencies on the preparation of an agricultural sector program.

The following is a list of tasks to be carried out in preparing sectoral profiles:

- a. Based on the topics and components identified in the SAs, the Representative and technical experts in the IICA Offices in the countries will prepare the SP, with support from CEPPI, which will coordinate the technical cooperation of the Programs, when appropriate. If necessary, the Representatives will hire consultants.
- b. CEPPI will revise the document, with support from the Programs.
- c. Once the SP is completed, the Representative will analyze and revise it with national authorities, introducing pertinent adjustments to the final version as may be necessary and submitting same to CEPPI.
- d. The sectoral profile will provide the IICA Office in the country with a stronger foundation for its support to the country's efforts to negotiate an agricultural sector program with international lending organizations.





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