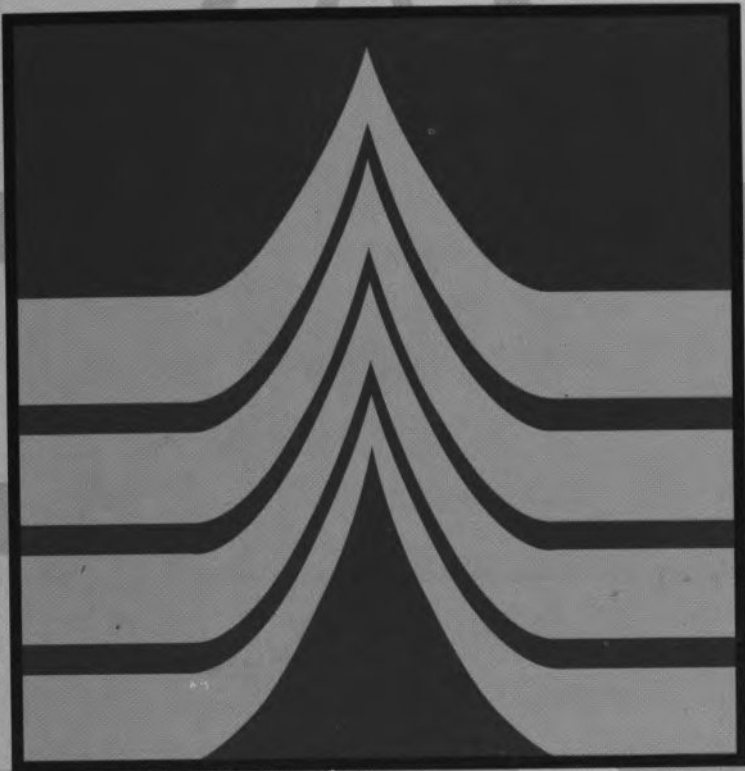


IICA



INSTITUTIONAL
REFORMS
IN AGRICULTURE



Rafael Trejos S.



TECHNICAL CONSORTIUM OF IICA
AREA OF POLICIES AND TRADE

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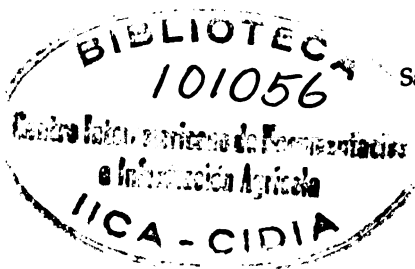
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PREFACE

In the Area of Policy and Trade, IICA is responsible for supporting countries in their efforts to modernize both their agricultural policies and their agricultural institutions. To accomplish this task, IICA has developed three inter-related lines of action whose activities and products are mutually sustaining: Support to Agricultural Trade Negotiations; Support to Institutional Modernization; and, Development and Modernization of Agricultural Markets.

As a result of the efforts undertaken in these lines of action, the Directorate of the Policy and Trade Area wishes to make available to those interested in the subject of agriculture, the present series of Technical Documents, drafted by a valuable group of professionals associated with the Inter-American Institute for Cooperation on Agriculture.

This document is produced in the context of the second line of action, which focuses on issues related to agricultural modernization policies and their conformity with international standards, institutional reform for agriculture and strategies to improve agricultural competitiveness.

Institutional reform of agriculture is currently a priority for the countries of Latin America and the Caribbean. Prompted by the debt crisis of the early eighties, many of these countries embarked upon a comprehensive process of economic reform, changing their development strategy, placing a greater emphasis on the role of the markets, on the actions of the private economic agents and on the opening up of the national economies to international trade.

The new political, economic, social and technological conditions in which agriculture is unfolding in the countries of the region, requires the introduction of substantive changes in the institutional framework for agriculture, given that the model of past decades corresponded to a development strategy based on the determinant role of the State in the performance of the economies, by highly protected national markets that gave priority to production for meet internal demand and that fostered a culture of dependence with respect to official paternalism. These institutions, built to sustain an import-substitution model, are not suited to present conditions and to the needs of markets that operate more openly and competitively.

IICA's interest in supporting countries in their efforts to modernize their agriculture and related institutions, has led it to conduct a series of studies on the way in which the reform processes have evolved in the countries, so as to identify the main trends, document experiences and disseminate the results to contribute to a redefinition of strategies and institutional modernization programs among its Member Countries.

This study offers a summary of the main trends in institutional reform in agriculture observed the countries of the Americas. It also formulates proposals based on these trends, suggesting a change of course in these processes.

We hope that this document will be useful to researchers, technicians and others committed to the development of agriculture.

Dr. Rodolfo Quiros Guardia
Director of the Area for Policy and Trade

INTRODUCTION

Over the past fifteen years, much progress has been made in the process to reform economic policies in Latin America and the Caribbean. These new policies aim to give the markets a more dominant role and to facilitate the insertion of national economies in the global marketplace. These economic reforms have had a significant impact on the agricultural sector, whose markets were once considered to be subject to a high degree of state intervention. However, there is still concern that reform of the State - the other side of the coin of economic reform - has not advanced at the same speed and has not been as comprehensive and far-reaching.

The reform of economic policies has triggered major changes in the roles of public and private actors, and in the way in which they both interact, as part of the institutional framework that supports the development process of countries. IICA has been particularly concerned with analyzing the direction of the changes in the public and private institutions associated with agriculture, in Latin America and the Caribbean.

This document presents some considerations derived from this process, and concludes that there has been a lack of serious discussion in the region concerning the new roles that the State and civil society should play in the context of the new conditions that have emerged in the wake of economic reforms. It also concludes that regional examples of privatization of public services and the transfer of functions from the public sphere to the private sphere, have occurred more as casuistic elements that pursue the ultimate objective of reducing the fiscal deficit, rather than as a result of a well-defined strategy, and even less a concerted one.

This document offers a concise synthesis of the studies conducted in the countries of the region, attempting to summarize the

main trends observed in institutional changes, and outlines the main elements which, in the author's view, should be included in efforts to build a new institutional framework for agriculture and the rural milieu. It also suggests consideration of the challenges that it poses for the development of agriculture, in an environment dominated by accelerated changes in the global and regional contexts. Of particularly importance is the impact of the globalization process and the new supranational regulations emanating from the World Trade Organization (WTO) and other international fora, together with conditions derived from the instrumentation, at national level, of a development strategy that is characterized by open trade and the drastic reduction of state intervention in the markets.

The document analyzes, in the first place, the reasons behind the changes in the institutional framework for agriculture. These new conditions force us to modify the traditional vision of agriculture and of the way that sectoral policies are formulated. However, this document concludes that the necessary adjustments in the institutional framework for agriculture have lagged behind the changes in economic policies.

Subsequently, it offers a more detailed analysis of the main trends observed in the region in terms of the formulation and implementation of policies directly related to agriculture (sectoral policies, prices, subsidies, trade, finance, programs to support production, promotion of competitiveness and modernization of services), concluding that new institutions are required to respond to changing demands. It also suggests the need for a change of course to guide the processes of institutional reform for agriculture in Latin America and the Caribbean.

TRENDS IN THE INSTITUTIONAL REFORM OF AGRICULTURE

Rafael A. Trejos S.¹

Why changes are needed in the institutional framework: economic and State reforms

During the republican history of our countries and up until the beginning of the 1980s, institutional development was characterized by increased State intervention in the functioning of the economies, and in the definition, orientation and execution of economic development strategies and the way in which the national economy was linked to the rest of the world.

In fact, over many decades our countries gradually developed an omnipresent State that regulated and promoted activities, built public works, provided services and even competed with the private sector in production activities. The State acted as regulator, determining what the country produced (through financing, investments, pricing policies, intervening in foreign trade, etc.), how it was produced (through research, technical assistance, extension and influencing the relative prices of production factors) and even for whom it was produced (policies for the distribution of incomes, salaries, price-setting, land distribution, etc.). It was the builder of infrastructure works, the provider of a broad range of public services and was also involved in the production of certain goods (generally associated with the exploitation of natural resources, sometimes considered strategic).

1 Specialist on Agricultural Policy and Institutional reform at IICA.

The external debt crisis that was triggered from 1982 onwards, provided clear evidence of the obsolescence of a development strategy based on internal markets, at a time when rapid changes were taking place in the international context, and where technological advances in communications and data processing further accelerated the globalization of economic phenomena. This forced the countries of Latin America and the Caribbean to revise their development strategies and reform their economic policies.

So it was that, with greater intensity from the mid-eighties onwards, the majority of the countries of Latin America and the Caribbean set out to modify the direction and objectives of their economic policies, gradually abandoning the so-called model of Industrialization for Import-Substitution, based on the growth of domestic markets. The idea was to replace this development strategy, which had prevailed for more than three decades, and build a new one based on more open and deregulated economies, that facilitate greater insertion in world markets (development “outwards”).

The Latin American governments have therefore introduced important economic reforms, first to re-establish macroeconomic equilibrium and secondly to free the internal markets from the heavy burden of excessive state regulation, as the economies open up to the outside world. Meanwhile, the other side of the coin of economic reform - State reform - has been characterized by the transfer of State functions to the market (deregulation), to simplify its intervention and, reduce its role as an employer (dismantling of bureaucracies) and the transfer of its assets (privatization) and even its public functions to the private sector of the economy.

Changing the traditional vision of the Public Agriculture sector and of sectoral policies

The strategy that is now being followed by our countries seeks to redefine the role of the markets and encourage civil society to

take a more active role. This means a reduced State presence with active policies to modify the traditional visions of public sector institutions and of sectoral policies.

The logical counterpoint of economic reform is the reform of the State, where the role of the public sector in the economy is redefined, its interventionist and regulatory role is diminished, its "downsizing" is promoted and it is also required to be more efficient at what it does and how it does it (where the new paradigm could even lead to the emergence of new functions for the State)². In the agricultural sector, the State must transform its institutions to meet the new demands of private agents in pursuit of competitiveness. It must also respond to the demands of civil society for greater social equity, the conservation of natural resources and political advances towards the consolidation of democratic systems. In turn, the organizations of civil society must assume new functions compatible with the market, in replacement of public policies, mechanisms and institutions.

The redefinition of public and private sector roles also requires changes in the relationships between the public spheres and civil society. The confrontational attitudes of the past, which characterized relations between the State and private sector organizations, must be replaced with efforts to build consensus in order to complement each other's efforts. Public servants must modify their vision of private enterprise as anathema. For their part, private organizations can no longer justify their "raison d' être" in their collective action to alter or influence public policies and actions in defense of their interests or in pursuit of public rents. This implies not only modifying or creating mechanisms and bodies for consensus, dialogue and negotiation, but also changing attitudes and mentalities.

The traditional vision of public agricultural organizations, encapsulated in a sectoral, mono-functional and compartmentalized

2 For more information concerning the nature of the economic and institutional reforms in agriculture, see Trejos R. (1995, 1994), Villasuso, J. (1994) and Hernández, J. (1994).

concept, imposes limitations that must be overcome, and adapted to the new agricultural context, in an expanded, multi-functional vision and with numerous interrelations with the rest of the economy, the rural milieu, health, nutrition, education, culture, etc.

In terms of policies, the new paradigm requires sectoral policies to be aligned and coherent with macroeconomic policies. This implies giving priority to maintaining an equilibrium in the balance of the macro-accounts of the economy, on the one hand, and on the other, limiting the use of the traditional sectoral policy-making instruments employed in the past (subsidies on prices and interest rates, pricing, state commercialization, strategic public investment in infrastructure and services, etc.).

Macroeconomic change advances, institutional reform lags behind

Although our countries have generally made great strides in reforming their economic policies, we observe that the process of institutional reform has been much slower and has lagged behind. There are two basic reasons for this: in the first place, it is much quicker and simpler to reform a policy than an institution. Of course, there may be a certain reaction against modifying policies, especially because in the past these tended to generate public rents and privileges for particular groups who appropriated these revenues. These groups are still wary of changes that affect them (for example, changing a price-support policy for particular products affects producers who see the profitability of their crops affected, or liberating prices that were previously regulated normally benefits the producers who can adjust their prices, but is opposed by consumers who must pay more for the product).

However, modifying an institution (for example, privatizing a service) faces political pressures, not only from the above-mentioned sectors (producers and consumers), but also from political interest groups (who use institutions for electoral purposes or to exercise their political power) and workers' groups who see their

jobs and their labor conquests threatened. In addition, modifying an institution (for example, taking away a Ministry's functions, closing an organization, or changing it from the public to the private domain) requires the modification of the Law that gave it life and this usually entails a long and tedious process in the country's legislative bodies, and therefore, exposure to the interests of the political parties.

The second reason why institutional changes have not kept pace with economic reform, is that in most Latin American countries institutional reforms have not followed an agreed strategy on the role that public and private agents and organizations should play in the new development scheme. Instead, the changes have come in response to concerns of a fundamentally fiscal character: reduction of the fiscal deficit. The latter has meant that institutional reforms have been partial and carried out on a case-by-case basis. For example, the most profitable public assets (e.g. telephone companies) are sold (privatized); but institutions with less prestige within the community or the departments of least critical importance within the Ministries are closed down.

Institutional reform in Latin American agriculture: main characteristics observed

In general, we note that the reforms undertaken by the Latin American countries are moving in the same direction, though with differences in scope, depth and speed. We offer some general conclusions based on the trends observed in the region:

In the first place, although we observe differences in the way the instruments are used, the ones most frequently included in policy packages tested in our countries are: external tariff reduction, measures to lift restrictions in the internal markets and limiting the use of policies to support production, with the aim of exposing national production to external competition and achieve a greater productivity and efficiency in agricultural output.

With regard to institutional reforms, an important change may be seen in the **role of the State in agriculture**. The idea is to reduce the paternalistic role of the State, which characterized the previous model, paving the way for a more dominant role by the markets and a greater participation by civil society. The latter has enjoyed increased participation through its representation on the governing boards of public institutions, through the establishment of inter-sectoral commissions, committees to improve competitiveness and at the level of specific programs.

More specifically, the main changes observed in the public agricultural sector are: a diminished role for the Ministries of Agriculture (MAGs); the removal of natural resources and environmental issues from their area of responsibility; a growing tendency to privatize agricultural services traditionally provided by the MAGs and other specialized institutions from this sector; greater emphasis on agricultural health issues and information; and the focusing of institutional efforts on small producers and peasant farmers, leaving the other actors of this sector to obtain services through the market.

With respect to **sectoral policies**, our first conclusion is that these have been subordinated to the dictates of macroeconomic policies. In general, the latter have tended to give priority to maintaining stability in the macroprices (exchange rate, interest rates, level of inflation, etc.), giving little scope for the formulation and implementation of sectoral policies.

There are three basic reasons for this situation. The first is derived from the fact that the traditional sectoral policymaking instruments, which were indissolubly linked to interventionist practices and state regulation, are no longer valid within the new model, and have not yet been replaced by other alternatives. In fact, government are making limited use of sectoral policy instruments such as subsidies, support prices, cheap credit, public investment, etc., either because they are not compatible with the new paradigm, because their use is restricted by the new interna-

tional regulations (e.g. Agricultural Agreement of the WTO), or because the financial constraints experienced by governments, together with the need for discipline in the public finances, limit the possibility of maintaining sectoral investment programs, or policies to support production as in the past. At the same time, the types of support allowed by the new international regulations (e.g. Green Box Instruments), have not been fully exploited by countries.

The second reason is very closely linked to the first, and is based on the fact that, given the limitations imposed on establishing compensatory sectoral policies internally, and given the growing exposure to the external market (among other things, because of low tariffs), the instruments of macroeconomic policy (e.g. the exchange rate), generally have a greater impact on the performance of agriculture. By way of example, there is no point in making a particular agricultural activity efficient, in terms of its productivity at world level, if a policy that results in an over-valued exchange rate makes it uncompetitive with other countries that are less efficient, but have exchange policies that stimulate exports.

The third reason is the perceived changes in the formulation and focus of sectoral policies. The following facts are an indication of this trend: the way of making sectoral plans has changed, the planning horizon has become shorter, the way in which policies are formulated is changing and the importance of strategic public investment in rural areas has been substantially reduced.

In relation to the first point, we see the abandonment of traditional forms of economic planning, and increased adoption of strategic planning techniques. For the above reasons, the regulatory and rigid plans of the past have given way to the design of a global framework of objectives and a set of policies that are coherent with those objectives and with the current economic paradigm. Greater importance is now given to the analysis and monitoring of economic indicators.

Despite the above changes, there still appears to be a limited degree of foresight to anticipate changes and introduce adjust-

ments in the productive and commercial strategies. This can probably be attributed to reduced technical capacity in the Sectoral Agricultural Planning Units; the changing nature of the external environment, which affects the performance of national production, as well as the urgency of responding to the demands of the moment (for example, problems with current harvests or problems of competitiveness vis à vis imported products).

However, there have been obvious advances in consensus-building processes around the formulation of agricultural policies with the different actors concerned. In fact, we observe the development of mechanisms of consultation and dialogue at various levels: within the public sector, between the authorities responsible for agriculture and their counterparts in other sectors, especially governmental authorities responsible for the economic area; between the public sector and the private sector, where, little by little the classic paradigm of conflicting interests is being abandoned, to be replaced by one of convergence and collaboration; finally, consensus among the different social actors involved in the various productive chains. In many countries, for the first time, suppliers, primary producers, manufacturers, sales people and service providers, are coming together at the same negotiating table to forge alliances that will enable them to strengthen each other mutually and help them to compete in more open and deregulated markets.

In terms of pricing policies, in most countries of the region we are seeing a tendency to limit state intervention in the setting of prices, in line with the new international institutional framework (GATT 94/WTO, Free Trade Agreements and Subregional Integration Agreements). In some countries - usually as a temporary measure for a short period - there have been reverses in this trend, when governments have again resorted to imposing controls on the prices of basic products (especially food items), during periods of crisis in the external sector, with a severely negative impact on openness to competition on items of national production, or in accelerated processes of domestic inflation.

The process of price liberalization has had institutional repercussions, forcing reductions or changes in the functions of the state institutions responsible for stabilizing prices. In some cases, such as El Salvador, Peru and Bolivia, these have disappeared altogether. In the case of Argentina, a single decree (Number 2284/91) either eliminated or limited the functions of 11 regulatory bodies, including the National Grain Board and the National Meat Board, both of major importance to that country's economy. In Mexico, the *Compañía Nacional de Subsistencias Populares* (CONASUPO) has become an buyer of last resort, on the one hand, and on the other, a regulator of the market through a process of purchase bidding to satisfy the demand of the flour and cornmeal industry, of crucial importance to popular consumption. In the case of Costa Rica, the National Production Council (CNP) has changed its traditional functions and now promotes agroindustry.

Decreased state intervention and open trade have also prompted the introduction of changes in the way of setting prices and establishing the conditions of transaction between the different links of the chain. This is reflected in the agreements reached by intersectoral commissions to arbitrate on prices and conditions between the different links, as in the case of the rice chain in Uruguay.

In some countries, however, price stabilization policies persist for certain basic products that face competition from imports, through the mechanism of "price bands". This is especially true in the Andean countries (though Bolivia does not apply the Andean Price Band System) and in Chile (for a few products). In some Central American countries price bands are applied to some basic grains.

In any case, the main criterion that underlies the new pricing policies is that these should approximate the value of the international prices, since the latter are regarded as indicators of efficiency in the assignation of resources within the agricultural sector. Nevertheless, there is recognition of the implicit distortions gener-

ated by subsidies to producers in more developed countries with stronger treasuries.

Finally, to counteract market failures, some countries have established national commissions to promote competition (as in Costa Rica), or the National Economic Inspectorate, in Chile, which seeks to control monopolistic and monopsonic manifestations in the national markets.

With regard to subsidies, there has been a tendency to limit the use of this instrument, with certain exceptions (e.g. for investments in irrigation systems, to encourage reforestation through credits), targeting certain groups of producers in a disadvantageous situation, and granting subsidies for a specific period. A good example of this may be seen in Mexico, where grain producers were granted subsidies by the Mexican government in the framework of the North American Free Trade Agreement (NAFTA).

Another trend in this area is to directly subsidize incomes, rather than prices (in accordance with WTO regulations), as in the case of the PROCAMPO program in Mexico. This consists of a system of direct monthly payments per cultivated hectare, which are fixed in real terms, regardless of production, where land may be used for any ecological or productive activity, without being excluded from the program. This program has a 15-year duration and can be used as a system of collateral financing. It has a specific current value that is negotiable in the market and is often complemented with other programs, especially training programs.

In some countries (such as Uruguay and Costa Rica), there are incentives systems consisting of refunds or tax rebates on exports of non-traditional products. Although these have provided an important incentive to producers and explain the dynamic growth of non-traditional agricultural exports, they have also entailed a major fiscal sacrifice. Moreover, their coherence with WTO regulations has been questioned, and for this reason they are expected to disappear in the short-term.

Another innovative form of state support is one established in Mexico through the ASERCA program. This consists of a partial and decreasing coverage of the prices of agricultural products, even using the futures market of Chicago for this purpose. El Salvador has also used this mechanism, but only in the coffee markets.

The production support programs that are being applied in the region and that are consistent with the new international regulations are very varied. Some programs provide direct support to production and a process of modernization and diversification of groups that are more vulnerable to trade liberalization. Among them are the PRODUCE programs and Alianza Para el Campo (Countryside Alliance) in Mexico, which try to ensure that producers' decisions are guided by the market, and at the same time, try to combat rural poverty. The resources are assigned and implemented by producers together with the State Governments, through the State Agricultural Councils, and supported by the Federal Government through state foundations for the transfer of technology, operated by the producers themselves. These resources are aimed increasing agricultural output and productivity by financing equipment and technological innovation.

Several countries have introduced programs to support competition, based on competitiveness studies by product (e.g. the "Competitiveness Pacts" in Colombia), on agri-food chains (as in Central America), or more general programs as in the Rural Change Program in Argentina. In Costa Rica, specific legislation was promoted to support the modernization and diversification of agri-food chains and a fund was set up to support these efforts, giving special priority to small farmers.

In some countries, much emphasis has been placed on the role of the State as a provider of information for the taking of decisions. Examples of this are the information systems on prices and markets (in Costa Rica, El Salvador, Mexico, Panama and Peru) and a proposal for an integrated system of Information Networks (economic, agroecological, markets, etc.) in Brazil.

In nearly all countries of the region there has been an emphasis on the modernization of services to support agricultural production. These efforts have consisted of specific campaigns, investment in laboratories and equipment and the strengthening of the institutions responsible for providing agricultural services, especially in the field of health and to a lesser extent in the area of food safety.

With regard to trade policies, a characteristic of the open trade policies being tested in the region is the negotiation of trade agreements in subregional integration processes, bilateral and multilateral free trade agreements, as well as within the framework of the WTO. The purpose of these accords is to expand markets and obtain stable and transparent "rules of the game" to facilitate the development of trade flows. A growing participation by the agricultural sector in trade negotiations - normally directed by other ministries (Foreign Trade and/or Foreign Relations) - with third countries or blocks of countries is the main characteristic of this process in the region.

There has also been a growing involvement by the private sector, through the use of consultation processes to establish negotiating positions. The "side-room" mechanism - a term applied to the consultation mechanism used with the private sector during the negotiations to incorporate Mexico into NAFTA, is being copied rapidly in the negotiations subsequent to this Agreement (for example in negotiations between Mexico-Costa Rica, Mexico-Countries of the Northern Triangle of Central America) and will possibly be introduced in the negotiations related to the Free Trade Area of the Americas (FTAA), which already have their own Agribusiness Forum.

In some countries, such as Panama, El Salvador, Mexico and Uruguay, we are seeing the creation of special units within the Agriculture Ministries, specialized in international affairs and trade negotiations. In most countries, however, responsibility for trade negotiations still rests with the Ministries in charge of trade and in practice the role of the Agriculture Ministries is limited or nil.

Several countries have established special programs to **promote exports** by facilitating the participation of producers in trade fairs, missions and in the supply of information.

With respect to **domestic marketing**, several countries have promoted the development of alternative market mechanisms, such as agricultural commodity exchanges, warehouses, etc. In the case of the agricultural commodity exchanges, (whose presence in the region was notable only in Argentina and Brazil), these are now being introduced in Bolivia, Central America³, Colombia, Ecuador and Venezuela, while similar initiatives are planned in Chile and Peru. In addition, the Pan-American Association of Agricultural Commodity Exchanges has been established, whose members include the Chicago Exchange. As to the use of new commercial and financial instruments, an interesting example of this is the COMERCIAR Program in Argentina, which includes the promotion and dissemination of the pre-financing system for exports, warrants, futures markets and options.

Financial policies and measures to promote private investment. With respect to the financing of agriculture, there have been some significant policy changes, not only because this is in line with the demands of financial liberalization (aimed at limiting the role of the State in setting interest rates and assigning credit), but also because the financial systems to promote agricultural development (development banks), have been strongly criticized for their inefficiency and politicized management practices.

In some countries, such as Peru and Bolivia, the Agricultural Development Banks have been closed down, while in others they have been reorganized and modernized to force them to compete in similar conditions to the rest of the financial system, as in the case of BANDESA (Guatemala) and the Agricultural Development

³ A project is under way in Central America to link up the agricultural commodity exchanges of the countries of the region. A similar initiative was recently proposed in the Andean Región

Bank (Banco de Fomento Agropecuario) of El Salvador. In a few cases, development banks have evolved into second tier lending institutions (such as BANRURAL in Mexico), working on a first tier alongside the commercial banks.

In some countries, special funds or parafiscal funds have been created, as in the case of Mexico with the Integrated Agricultural Trust Funds (*"Fideicomisos Integrados en Relación con la Agricultura"*) (FIRA), the Shared Risk Trust Fund (FIRCO) and the Capital Development Fund for Rural Infrastructure (FOCIR). In Peru, Rotating Funds have been established, while Co-participation and Co-financing Funds have been set up in Bolivia. The so-called parafiscal funds, based on a voluntary contribution paid by producers of particular commodities, are an interesting example of the new institutional framework that is emerging in Colombia, aimed at promoting the development of services for its members (especially research).

However, a general assessment of the situation in Latin America indicates that the attempts to modernize the financial systems for agriculture and the rural setting, are isolated cases. In many countries, major institutional gaps have opened up with the withdrawal of the State from this function, without the private sector replacing it. This is because the commercial banks still regard agriculture as a fairly risky business and there are still concerns over the lack of real guarantees, especially among the beneficiaries of the Development Banks. As a result, there has been a substantial reduction in the availability of loans for agriculture.

To counteract this situation, a number of countries have promoted the development of new rural financial intermediaries and guarantee funds, with some success. Examples of the former are the rural micro-banks established in Central America and Bolivia, based on a model promoted by the United States Agency for International Development (USAID); the Rural Savings and Loans Associations in Peru and the Credit Unions in Colombia and Mexico.

These policies seek to turn farmers into credit recipients and enable them to gain access to larger resources in order to modernize and capitalize on their assets. Examples of this are the Guarantee Fund for Small Businesses in Chile and the above-mentioned FOCIR and FIRCO funds in Mexico. However, of crucial importance are the legal reforms related to land ownership, and land-titling programs and policies, which give security to property owners, and in turn help to create a favorable climate for investment. This should be complemented with efforts to introduce legislative reforms aimed at deregulating foreign investment and above all, maintaining a climate of macroeconomic stability.

The need for New Institutions for Agriculture

Latin America's agriculture faces a number of challenges arising from changes in the international context, as well as pressing problems that must be tackled at the national level.

In the international context, agriculture is confronted with a globalization process and with one of its most important manifestations: increased trade flows in goods, services, investments and financial capital. At the same time, we have national governments that are increasingly powerless to control or change these global trends.

At the same time, we are witnessing the creation of a new international institutional framework, whose most obvious manifestation is the set of regulations contained in the WTO Agreements, where agriculture is expressly regulated, not only by the Agreement on Agriculture, but also by other instruments such as the Agreements on Health and Plant Health Measures, Intellectual Property Rights linked to Trade, Marketing of Services, the Agreement on Technical Obstacles to Trade, the Conflict Resolution Mechanism, etc.

In addition, countries have negotiated - and still are negotiating - a new generation of trade agreements, within the framework

of the WTO, which are changing the rules of the game that prevailed in the institutional framework of the past, and the way in which these are applied.

The region's agriculture is also facing a new technological revolution, where advances in telecommunications, informatics and the development of information and communication networks are revolutionizing the productive, commercial and financial structures, to the point where the parties involved in the processes do not need to be physically together, and the products to be traded need not have a physical presence. In this context, access to information for an agricultural or agroindustrial producer, can make the difference between staying in the market, or being excluded from it.

At the same time, two urgent challenges must be addressed in the national sphere: a) improve the competitiveness of agriculture and b) reduce rural poverty and improve living conditions in rural areas.

The first challenge requires a broader, more integrated and systemic vision of agriculture, one that goes beyond the notion of farms, crops and livestock. For this, we need well-defined strategies to modernize national agriculture, along with sectoral policies that are in tune with macroeconomic policies. These should recognize the heterogeneity of the agricultural production structures and the need to integrate the different links of the production chains - from primary production, through processing and incorporation of services - to their destination in the domestic and international end markets.

The modernization of national agriculture must be based on a process of technological innovation that allows us to increase the agricultural productivity, using technologies that are environmentally sustainable. Efforts should also be made to improve administrative capacity in the different production units, transforming farms into agribusinesses that are competitive, both in the domes-

tic and the international markets. At the same time, it is necessary to transform the services that support agricultural production, to help us to establish and maintain agricultural production in a competitive position.

To modernize agriculture and make it competitive requires us to adapt the institutional framework, clearly defining the roles of public and private actors, along with the mechanisms of consensus and collaboration that facilitate the implementation of strategic actions to wage the battle for competitiveness. Meeting the challenge of making the agri-food chains competitive is beyond the scope and the traditional responsibilities of the Agriculture Ministries (which increasingly find their sphere of action reduced). This suggests the need to rethink the Agriculture Ministries themselves and the role they should play within the new institutional framework based on a broader vision of agriculture.

The second challenge (reduce the levels of rural poverty and improve rural living standards) is also beyond the scope of traditional agriculture, considered in its restrictive vision. To address the needs of rural populations and their interaction with natural resources, it is necessary to include other activities of growing importance in the rural setting (such as tourism, mining, craftwork, agroforestry, etc.). We must also consider investments in other sectors (such as education, housing, health, waste disposal and sewage systems, etc) and the development of mechanisms that allow for greater representation and participation of civil society, as well as the effective integration of socially excluded groups (women, young people, minority ethnic groups, etc).

We must recognize that the development of the rural setting does not necessarily rely on agriculture. Obviously, meeting this second challenge is also beyond the scope and capacities of the Agriculture Ministries, which are usually entrusted with the task of rural development. What is needed now is the involvement of other Ministries, local governments, regional institutions and representative organizations of civil society, as well as new mecha-

nisms of institutional coordination, formulation and execution of policies and strategies for the development of the rural milieu.

The demands of change

In the light of the trends observed in the institutional reform of the agricultural sector throughout Latin America and the Caribbean, as they face of the challenges implicit in the changes in the international context and the urgent challenges at national level, we suggest the need for a change of course and present some proposals:

Developing a new institutional framework cannot be an isolated effort building a new institutional framework for agriculture and the rural setting can only be accomplished through a joint effort by public and private organizations. In the case of the public sector, we should seriously consider what the role of the Agriculture Ministries should be, given the new conditions facing agriculture and acknowledging the fact that the challenges posed by competitiveness in the agri-food chains and rural development, go beyond the institutional formulas and the traditional responsibilities of the much-weakened Agriculture Ministries. Some countries have even eliminated their Agriculture Ministries, replacing them with Ministries of Production⁴, where agriculture is simply one of several other sectors involved. In the case of civil society, its representative organizations also need to undergo a process of "retro-fitting", abandoning the task of lobbying for public policies and actions as their prime function, to take on the additional role of providing the services required by their members to compete in more open and deregulated markets.

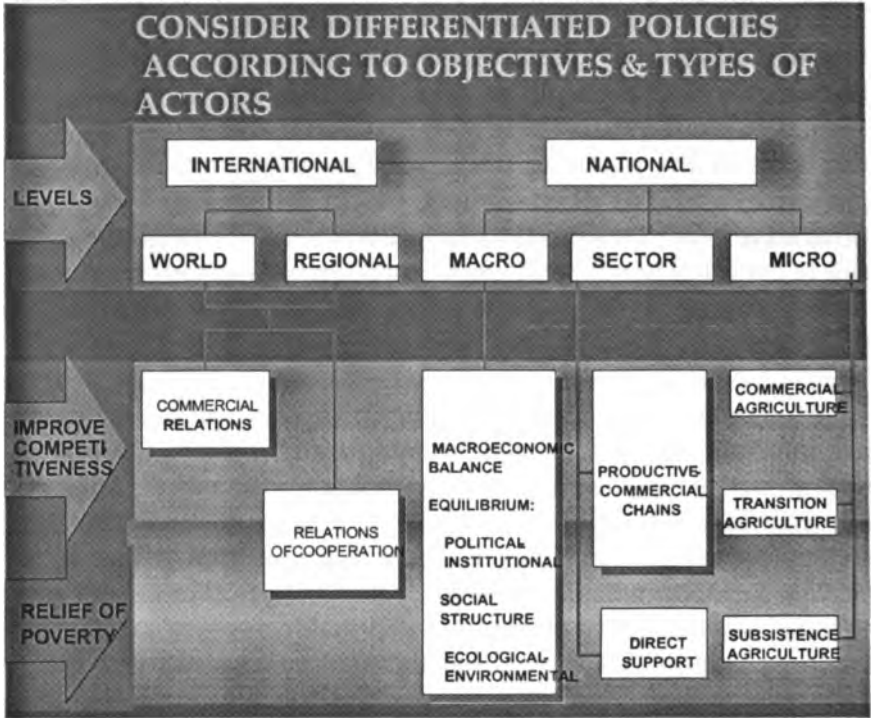
Sectoral policymaking requires new capacities. The Agriculture Ministries have been weakened in terms of their

⁴ This idea was put into practice many years ago in Argentina and more recently in Venezuela. In Ecuador a similar proposal is under discussion.

human capacity and material resources. Labor mobility and institutional reform have resulted in the loss of qualified human resources in the Agriculture Ministries. Budget constraints, for their part, limit the availability of material resources to carry out the tasks of the planning units, such as fieldwork, information gathering, updating of equipment, etc. In many cases these functions have been transferred to the private sector, through the practice of contracting out services - or outsourcing - to the private sector (for example studies), instead of carrying these out with the resources of government institutions.

Moreover, the tasks of gathering, processing and disseminating information are increasingly being transferred to the private sector or to the non-governmental organizations (NGOs). Nevertheless, it is still important to strengthen the analytical and strategic planning capacities of the Agriculture Ministries and the private sector organizations, and develop analytical bases and consensus-building mechanisms for policymaking and to support the trade negotiation processes. For this it is necessary to invest in human resources, improve information systems and financial resources and conduct studies that underpin sectoral policy decisions.

Sectoral policymaking must consider the heterogeneity of the actors. The actors involved in agriculture have very different characteristics and performance levels: some farmers are competitive (commercial agriculture), while others are potentially competitive but face limitations to achieve their goal (transition agriculture); then there are subsistence farmers who are unlikely to be competitive in what they do, given their major structural limitations. Public policies and the provision of services directed at these groups should also be differentiated. These should be responsive to the great challenges of competitiveness and the struggle against rural poverty and should take into account the spheres in which they operate (international and national environments), as illustrated in the following diagram.



Positioning farmers to respond to the market. It is necessary to make bold efforts to replace the “supply ” paradigm (selling what is traditionally produced), with one of “demand” (producing what the markets want and in the way they demand it), for which two basic elements are indispensable: first, the availability of information that will provide “market intelligence” in order to identify: products for which there is dynamic demand, specific market niches, competitors and possible trading partners, opportunities and threats in the markets; secondly, promote the development of an entrepreneurial culture that is prepared to act in dynamic and rapidly changing markets, with the capacity to anticipate events and the flexibility to innovate and incorporate changes that transform threats into opportunities.

The public agricultural sector and competitiveness. Many of the elements that influence the competitiveness of the public agricultural sector are outside its area of responsibility, (for example, macroeconomic policies, development of infrastructure, etc.). However, the Public Agricultural sector (i.e. MAG plus specialized institutions) has a responsibility to improve its efficiency in the provision of services and to promote the necessary standards of quality to make agriculture competitive. It is therefore essential to modernize technological innovation services, improve agricultural health and the quality of the products and promote market development and entrepreneurial management. As to innovation, we consider that technology is the main source of increased productivity and that this should also take account of environmental concerns.

In the past, the public sector financed and executed research and technology development activities. Nowadays, given the limited availability of public resources, the public sector should focus its efforts on financing strategic studies that are necessary, but that have little demand in the market (public goods). It should develop a framework of incentives for the participation of other actors in research and technology development initiatives (for example universities and private companies), and strive for better coordination with international cooperative efforts.

In the case of agricultural health, it should not only improve services and the effectiveness of increasingly decentralized bodies to meet their public health obligations and those to the WTO (Agreement on the Application of Sanitary and Phytosanitary Measures), but also incorporate the issue of food safety, which is normally under the responsibility of another Ministry (usually the Health Ministry).

Finally, the public agricultural sector must take up the challenge of developing markets and promote the use of new instruments that facilitate greater efficiency and transparency (such as commodity exchanges, futures markets, arbitration chambers,

etc.). At the same time, it is essential to help producers develop the capacity to use information technology and the new instruments efficiently, channel their investments, minimize the risks and take advantage of the benefits.

CONCLUSIONS

Over the past fifteen years, agriculture in Latin America and the Caribbean has been exposed to major changes and the context in which it operates has undergone drastic modification. During that period, the international environment has been altered by an accelerated process of globalization of markets, we have witnessed a true revolution in technology and, through a process of negotiations and consensus, a new international institutional framework has emerged, conditioning the formulation and implementation of national policies related to agriculture and the way in which commercial exchange of agricultural products is conducted.

During this period, the regional context has also undergone changes, with a revitalization of regional integration efforts, a process spearheaded by the initiative to establish the Free Trade Area of the Americas. At the national level, agriculture has also been exposed to significant changes in the economic policies that influence its functioning and in the institutional framework that governs it.

These new conditions in which agriculture operates imply two great challenges: the need to improve levels of competitiveness and reduce poverty in rural areas. In both cases it is essential to consider the rational use of natural resources and maintaining conditions of political stability in the countries.

To meet these two great challenges, we must revise our traditional vision of agriculture and build a new institutional framework that contemplates the conditions imposed by the new international regulations, the new roles to be performed by the State, the private sector and civil society, as well as the new ways they interrelate with each other.

However, what we observe in the region are isolated changes that generally respond to considerations of a fiscal nature and/or specific conditions, rather than being the result of discussion and the formulation of an integrated strategy, with a more holistic vision based on consensus with the different actors involved. We therefore conclude that the changes in the region's public agricultural institutions have not kept pace with the economic reforms implemented, which has often created major institutional gaps.

The above suggests the need to build a new institutional framework for agriculture with a broader, more integrated and systemic vision of agriculture. To achieve greater competitiveness, it is necessary to abandon the vision of agriculture as simply farms, crops and livestock, to adopt the broader concept of agri-food chains, integrating the different links of the chain - from primary production, through transformation and intermediation processes - to its destination in the national and international markets.

Similarly, we suggest that to be competitive, the modernization of agriculture should be based on a reinforcement of the processes of technological innovations and improvements in management, transforming farms into agribusinesses and transforming the necessary support services to make agriculture competitive in the international and national spheres. The challenge to improve competitiveness requires actions in many different spheres that are beyond the traditional functions and scope of the Agriculture Ministries. Therefore, it is necessary to review and rethink these institutions, in accordance with the new demands placed upon them by a broader vision of agriculture.

The challenge to reduce rural poverty also requires us to move beyond the idea that rural development occurs as a by-product or "spillover" effect derived from the modernization of agriculture. It forces us to reconsider additional aspects such the interactions between agricultural and non-agricultural elements in rural areas; the interaction of communities, production, use of natural resources and the environment; the new role of the organizations

of civil society in the development of agriculture in the rural setting and in the instrumentation of solutions to the economic, social and political problems of their respective territories; the coordination of actions typical of other ministries and public sector organizations concerned with aspects of infrastructure, health, education, housing, etc.

That scenario, undoubtedly, is also beyond the scope of a traditional Agriculture Ministry and requires us to consider new institutional formats to meet the challenge of rural development, and new bodies to coordinate and implement strategic policies to achieve the reduction of rural poverty, conservation of natural resources and the effective management of systems.

The demands imposed by the changes affecting agriculture suggest the need to alter the course of institutional reform, focusing efforts and synergies around the challenges of competitiveness and equity and developing new capacities to lead these processes, especially in the Agriculture Ministries, in the sectoral and trade union organizations, as well as among the farmers themselves, so that they can go beyond the notion of being "suppliers" and actively move forward to meet the demands of the market.

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