
Articulating and Mainstreaming Agricultural Trade Policy and Support Measures

An FAO study based on analyses for Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania

Policy Brief 3 – Articulating and mainstreaming trade-related support measures for agriculture. May 2011

Introduction

As with trade policies, trade-related support measures (TRSMs) need to be identified, articulated and prioritized from within development policy frameworks. This also applies to the ongoing process of operationalizing the Aid for Trade (AFT) initiative at a country level.

The Brief draws upon case studies on TRSMs in five countries (Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania) as part of the FAO Project “*Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*”. The objective of this work was to contribute to improving the process of : i) articulating appropriate trade policies; ii) articulating trade-related support measures; and iii) mainstreaming policies and support measures into national development frameworks.

Key highlights

Mainstreaming trade-related support measures – Mainstreaming TRSMs refers to a process of articulating, formulating and implementing various support measures in a manner that is consistent with the development vision, strategy and policies as articulated in the key national development framework, typically the Poverty Reduction Strategy Paper (PRSP), and consistently elaborated in other national policy frameworks, including trade policy. Having a mainstreamed trade policy in place is essential for a mainstreamed TRSMs. The case studies show that there is a considerable progress needed if this goal is to be met.

Value chains are appropriate frameworks for articulating balanced TRSMs – Commercialization of farming, value addition and market-driven

production are key core elements of a new paradigm of agricultural development sketched out in the policy frameworks of the five case study countries. This paradigm requires that governments pay much more attention to the intermediate stages of the value chains between the farm and consumer, including some reallocation of public investment and support away from the farm level towards these other stages. In this model, the goal or criterion for resource allocation is overall competitiveness or cost reduction, and value chains are seen as a right framework for identifying and prioritizing a judicious mix of the public investment, incentives and subsidies, and private investment. A value chain is also a framework for identifying TRSMs in a bottom-up manner, based on applied field research and stakeholder consultations.

The Diagnostics Trade Integration Study (DTIS) – Where available, a DTIS is seen as the main document for TRSMs. It is found to be very useful in diagnosing trade constraints and in programmes and projects. But the DTIS is not fully consistent with the guidance in the PRSPs. This is because of the exclusive focus of a DTIS on exports whereas, as the case studies under this project have repeatedly stressed, the PRSPs typically can take a more balanced view on trade, supporting not just exports but also importables and the food sub-sector. In this sense, the DTIS is not fully consistent with the PRSP or with sectoral policies. Why this has been the case is not clear, but it is important that the new generation of DTISs addresses trade issues in a more balanced manner because otherwise there is a substantial risk that the AFT resources may bypass large and important parts of the economy.

Striking the right balance between investment and subsidy - This is a longstanding policy dilemma. In

many countries, a significant share of agriculture sector budgets are allocated to fertilizers and other subsidies, which come at the cost of investment in, for example, irrigation, rural roads and infrastructures. This was also found in the case studies where statistics were available. Fertilizer subsidies have increased following the 2007-08 food crisis. Economic analysis shows that investments can have much higher rates of returns than subsidies, and contribute to building productive capacities. And subsidies can help to overcome significant hurdles to increased productivity created by widespread input and output market failures. In practice, however, the challenge is to strike the right balance between the two. The dearth of sound analytical work has hindered an informed debate on this issue, including in stakeholder consultations. A product value chain is considered to be an appropriate framework for debating this issue with a view to identifying the right mix of investment and subsidies for a given target of competitiveness (or cost reduction).

Articulating effective export “incentive” measures

- Aside from the issue of the balance between subsidies and investment, provisioning the right types of industrial and export incentives (cash grants, tax breaks, duty reductions, dedicated funds etc) is another issue that falls within the scope of the TRSM. Such incentive schemes were found fairly commonly in the policy documents in all five case study countries. However, not much is known about the rationale and effectiveness of these schemes, as very few assessment studies of the schemes were found. Two policy challenges appeared prominent: i) determining which measure is most effective in a specific context (products, exportables, importables, value

addition); and ii) determining the rate of assistance or subsidy to be granted. For lack of a sound basis, there is tendency to spread the incentives thinly across many products and sub-sectors, thus undermining the policy objective. There is thus much to improve in this area.

More TRSMs for regional initiatives – With rapid growth of cross-border and regional trade, there is a high payoff to investment in regional projects. All five case studies stress this point and illustrate new initiatives such as the development of regional food value chains in Africa and regional projects on infrastructure, trans-boundary disease and food safety in South Asia. Two issues or challenges were noted. One is to remove the legal hurdle for loans from multilateral banks to the regional bodies. The other is for the national policy frameworks to recognize and support regional schemes.

Statistics on TRSMs for the purpose of prioritization and monitoring – The lack of statistics on TRSM or AfT flows by products/sub-sectors was a serious handicap for analysing whether public investment and incentives have been consistent with the priorities expressed in PRSPs and other policies. The OECD/CRS database on AfT was also not suitable for this task. While the PRSPs and other strategy papers have identified special or strategic trade products, there is no way of knowing whether resources are being mobilized accordingly. Likewise, without appropriate statistics, it will not be possible to assess whether the new market-led, commercialization paradigm based on value chain development is being put into practice. It is possible to create such databases but this would require special initiatives from the governments.

For details, see the five country chapters on trade-related support measures in the book *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*, edited by Ramesh Sharma and Jamie Morrison, 2011, FAO, Rome, available at <http://www.fao.org/economic/est/projects/en/>. Trade and Markets Division, FAO, Rome. The studies were supported by the Department for International Development (DFID) of the United Kingdom.