

ANNEX 1. AGRICULTURAL SECTOR REFORM

1.1 Cotton sector reform in Burkina Faso

Background

Before and after independence from France in 1960, the cotton sector has consistently been viewed as the main driver of Burkina Faso's development. With cotton as the leading cash crop, overall poverty reduction depends considerably on the performance of the sector. Today, cotton accounts for 55 percent of total export revenue and is the major source of income for 200 000 farmers¹⁰⁶.

Burkina Faso is a politically stable country, led by President Blaise Compaoré since 1987. His legitimacy was confirmed by parliamentary elections in 1997, the presidential elections of 1998 and municipal elections of 2000. Paramanga Ernest Yonli has been Prime Minister for six years, during which period the Minister of Finance and Minister of Agriculture have remained in post.

The cotton sector is organized under a vertically-integrated model, as in many other countries in West Africa inherited from the colonial administration. The national cotton company, SOFITEX, was established in 1979,¹⁰⁷ its functions including distribution of inputs, promoting and procuring cotton, conducting research and development, transport, ginning, exporting cotton, selling seed on the local market, managing credit and producing seed.

This vertically-integrated model has advantages and disadvantages. On the one hand, inputs are available for producers under advantageous credit terms, the purchase price of inputs is lower due to economies of scale, the flow of materials and information are continuous and changes can be made rapidly as the different actors can easily be coordinated within the same company. On the other hand, this model is also associated with public monopoly, a lack of transparency and the possibility of corruption and protection of individual political interests.

Cotton production has always been in the hands of small producers, organized into Village Groupings (GV), and then from 1996 into Groups for Producers of Cotton (GPC) that assumed a growing number of functions. The producer organization is structured around representations at departmental, provincial and national levels. The National Union of Burkina Faso Cotton Producers (UNPCB), set up in 1998 under a charismatic leader, is the GPC umbrella organization that co-ordinates various initiatives for its members.

Cotton sector reform

Aid levels as a proportion of GDP in Burkina Faso are nearly four times higher than the average for Sub-Saharan African countries – 15.5 percent of GDP in 1998, compared with the 4.1 percent regional average¹⁰⁸. Burkina Faso's decision-making process can be characterized as a relatively consensus-driven way of decision-making by the government in general, but with donors as influential stakeholders. Aid coordination under the Poverty Reduction Strategy Paper (PRSP) of 2000 is led by the Government and is working well. By linking the PRSP with the medium-term expenditure framework (MTEF), the government has provided enough fiscal security for donors to increase budget support and decrease project-based lending and aid.

¹⁰⁶ IFPRI, 2006

¹⁰⁷ SOFITEX was established by three shareholders: the state of Burkina Faso (65%), DAGRIS, previously the CFDT (Compagnie Française pour le Développement des Fibres Textiles, 34%) and a local bank (1%).

¹⁰⁸ World Bank, 2003c

The international financial institutions have supported market liberalization in Burkina Faso as in other Western African countries. By liberalizing the market it was hoped to stimulate competition by allowing new domestic and international firms to enter the market. In line with this argument Burkina Faso's PRSP envisaged the restructuring of the cotton sector and the "dilution" of SOFITEX's monopoly through:

- Gradual liberalization of the sector by encouraging the entry of new companies and greater competition, which would tend to raise both output and farm-worker income;
- Improved regulation of the sector and of SOFITEX performance by introducing State-SOFITEX performance contracts, which would set output targets for the company and guarantee farmers an internal pricing system more in line with external market conditions.

Already in 1998/99, SOFITEX was partially opened to private capital investors, allowing cotton producers to obtain 30 percent of the capital and two seats on the company's board of directors. This meant the state was no longer the absolute majority shareholder. In June 2000, the producers obtained the majority on the board with 7 of the 12 seats – continuing the process that was started in 1998, thus changing the dynamics and the structure of the sector considerably. This process not only increased the direct interest of producers in the financial stability of the cotton company but also resulted in the adoption of a price mechanism that has allowed SOFITEX to operate without structural losses.

In addition to breaking up SOFITEX's monopoly in the sector, the reform aimed to improve cotton exploitation in all areas of the country. This involved transferring SOFITEX assets in two cotton-producing areas in Burkina Faso, the Centre and the East.

SOFITEX, the Farmers' Union and the Government were, for different reasons, mainly supportive of this reform process. Although SOFITEX had doubts about the success of the reform – mainly due to a fall in cotton prices – it became one of the main stakeholders to support it. A failure of the reform would have discouraged producers, left the cotton sector unstable and created discontent within the farmer unions. Thus SOFITEX had a strong interest in the success of the reform process once it was underway. It was also agreed with Government that the money from the transfer of assets would not go into Government coffers but instead to the ginning factories and to overall investment in the sector. With the prospect of collecting sales tax, the Government agreed to the deal. With producers owning a large amount of shares in SOFITEX, the Farmers' Union also had a strong interest in a successful restructuring of Burkina Faso's cotton sector. Moreover, the Terms of Reference were designed in a way which allowed the Farmers' Union to retain minority shares in the private company.

This alliance of support for reform generated a consensus-driven process. The stakeholders agreed, for instance, not to change the pricing formula (that used a long-term average base price) and not to do away with a bonus which was paid according to the previous year's performance. With the old formula staying valid, SOFITEX guaranteed to pay the bonus for the previous year even in the two privatized zones and thus provided fair conditions for new companies to enter the market.

The Director General for SOFITEX, in place since 1998, was able to encourage a shift in the organizational and management culture of the cotton company. While seeking consensus with Government over important decisions, SOFITEX gradually moved away from direct Government influence and established itself as independent player outside the political sphere.

This change of culture was demonstrated clearly during the bidding process for the assets in the two privatized zones. The Director General closely watched the short listing of interested companies and supported the careful selection of, mainly international, companies which he believed had sufficient capacity to facilitate a strengthening of the cotton sector in the two zones.

The World Bank was not directly involved in the selection process and accepted the leading role of the Government and SOFITEX, this despite voices from within the World Bank that criticized the close involvement of SOFITEX in its own privatization. Only in one instance did the World Bank step forward from its role as an observer and provider of analytic feedback and took a more active stance. During the Cabinet's approval of the pre-selection of bidders the process had come to a standstill because of a dispute about the short listing process. In the context of its poverty reduction strategy credit (PRSC) approval process, the Bank entered into dialogue with the Government and convinced it to stick to the already engaged technical process and conclude the selection of the bidders. The challenges to the short listing process were resolved by the Minister of Finance through an arbitration committee for procurement confirmed that the technical bidding process was consistent with procurement rules. As a result, although the financial bidding got delayed, the overall bidding process was concluded and the sale of SOFITEX' assets in the two zones yielded a much higher price than the minimum price set beforehand.

Thus, the process of opening the less-developed cotton zones in the centre and the east to new investors, which got under way in 2001, was concluded in 2004 with the sale of ginning plants and exploitation rights in those two zones. The FASO cotton company was selected to manage the central region and the Gourma cotton company (SOCOMA) to manage the eastern region. In September 2004 in Bobo-Dioulasso, a memorandum of understanding (MoU) was signed by the government, the cotton companies (SOFITEX, FASO Cotton, and SOCOMA), and the National Union of Burkinabe Cotton Producers (UNPCB). The two new cotton companies have gone into operation in their respective regions and each has had to negotiate with SOFITEX regarding the specific conditions governing oversight and management of these regions. A government body, the permanent secretariat charged with monitoring the liberalized cotton industry, was assigned the task of ensuring compliance with the provisions of the MoU. Starting with the 2004-2005 crop year, the cotton companies now each possess exclusive operating rights for eight years, renewable for a period, and under conditions to be set by the Burkinabe government.

Conclusion

The process of cotton sector reform in Burkina Faso was driven by complex political economy interests and tensions, but with positive outcomes. Although the sector had showed positive impacts on poverty reduction prior to reform¹⁰⁹, and while recognizing that cotton prices and cotton production in Burkina Faso are considerably dependent on the international cotton market¹¹⁰, the reform's impact on the performance of the sector to date nevertheless seems favorable. Cotton showed an annual increase in output of 33.4 percent, from 480,000 tons in 2003 to 641,000 tons in 2004, which in turn contributed to a strong increase in exports¹¹¹.

There are several lessons which can be drawn from Burkina Faso's experience of cotton sector reform. Privatization and liberalization must be conducted at a suitable pace and undertaken gradually. In Burkina Faso, the inclusive approach by SOFITEX towards the Farmers' Union and other interest groups at the end of the 1990s paved the way for further liberalization. Moreover, while donor support is important the role of the World Bank as observer – intervening only as the technical process was feared to fail – proved to be important to confirm the Government's leadership on the overall pace and extent of reform.

¹⁰⁹ Supported by a stable macro-economic environment the incidence of poverty amongst cash crop farmers dropped by 10 points from 50.1 percent to 42.4 percent between 1994 and 1998, while the poverty level amongst food-producing farmers rose by 2 points over the same period. World Bank, 2003.

¹¹⁰ A Poverty and Social Impact Analysis (PSIA) undertaken by the World Bank and the German Technical Cooperation (GTZ) on the Government's request used a poverty analysis and macroeconomic simulator (PAMS) to assess the development in poverty rates due to macro-economic factors, such as changes in the export price of cotton. Essama-Nssah et al., 2006.

¹¹¹ World Bank, 2006h

The key stakeholders – SOFITEX, the producers through the Farmers’ Union and the Government – were all closely involved in the reform of the sector. SOFITEX, under the leadership of its Director General, emerged as one of the main supporters of reform. Despite the risks involved when a company privatizes itself this turned out to be crucial; opposition to the reform from the cotton company could have seriously jeopardized the liberalization process. SOFITEX was seen as fair actor in the process, establishing a relationship of “mutual trust”¹¹² between SOFITEX and the producers and, because of its international reputation as a commercially-run and professional company, attracting investors to the sector. Support from the Government and in particular the Minister of Finance enabled the reform to proceed in spite of problems encountered during the bidding process. Close involvement of all key stakeholders from the start enabled a consensus-driven approach to reform. Furthermore, the state over time has contributed to setting up a clear statutory framework that allows SOFITEX to invest in research, extension, and equipment over the long-term.

Finally, and crucially, the reform was undertaken in a favorable macro-economic and stable political environment with limited turn-over in key political positions which provided a favorable and “enabling” environment for sector reform.

1.2 Groundnut Sector Reform in Senegal

Background

Senegal’s social progress since independence in 1960 has been relatively slow by regional standards. Senegal inherited, and continued to resource, a costly but influential elite civil service and secondary/ tertiary education system. Under the leadership of its first President, Léopold Sédar Senghor, the Senegalese state, its law, and its institutions were modeled closely on the French Fifth Republic. However, until 1974 political competition was severely restricted, and the first contested presidential elections took place only in 1978.

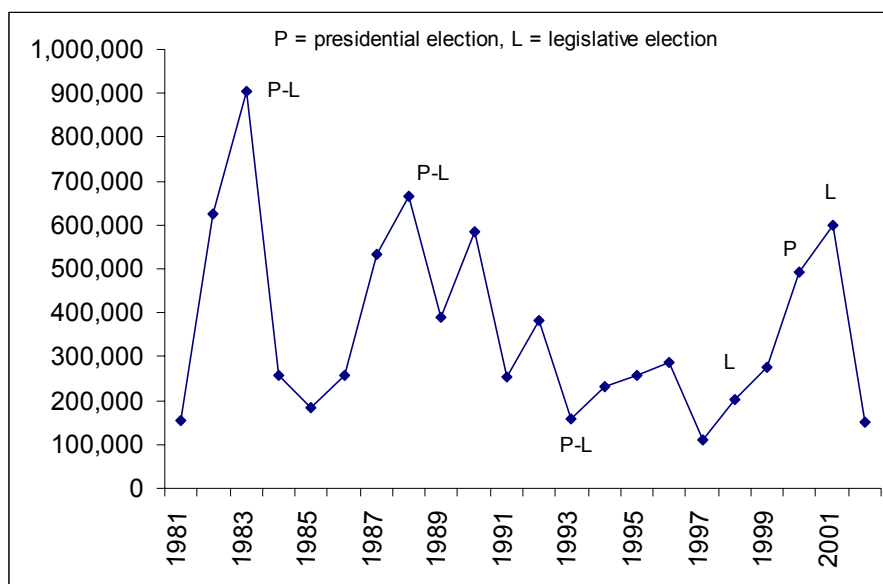
Senegal’s economy since independence has remained characterized by a narrow agricultural resource base, dominated by groundnut production. Today, around 38 percent of cultivated arable land is used to produce groundnuts and the sector accounts for 75 percent of the national agricultural production, employing 50 percent of the working population. This makes Senegal the world’s largest supplier of groundnut oil.

The political economy of the groundnut sector in Senegal is manifested in its traditional role as an instrument to distribute cash income to the rural sector during the electoral cycle. Trading and financial interest in groundnuts are particularly strong among the Muslim brotherhoods, notably the financially powerful Mourides with their spiritual capital in Touba, and management of the groundnut sector takes into account their influence on the rural electorate. Hence groundnut production moves with political cycles, with income distributed to the rural sector during the electoral periods through substantially increased parastatal purchases of groundnuts (see figure 2)¹¹³.

¹¹² World Bank, 2003b

¹¹³ The only exception is the 1993 elections, which took place under severe pre-devaluation pressures and in absence of external resource inflows.

Figure 2: Groundnuts purchased by SONACOS (metric tons)



Source: Walliser, Jan. 2003. What does alignment imply for IDA? Reflections on Burkina Faso's PRSCs. *Attacking Poverty Course*, April 9, Washington D.C.: World Bank

Twice, in 1980 and in 2001, the whole sector collapsed and needed large government cash infusions to survive. Despite its notionally declining importance as a share of GDP over the past two decades, the groundnut sector therefore continued to play an important role in government policies and spending priorities.

Groundnut sector reform

During the 1970s, a State-owned company, SONACOS (Société nationale de commercialisation des oléagineux du Sénégal), became the leading operator in the groundnut business. Through its affiliate, SONA-GRAINES (Société nationale de graines), SONACOS bought groundnut production and transformed it into cooking oil and other products. During this period, however, Senegal became increasingly subject to tighter financial constraints. Droughts and sharp fluctuations in groundnut oil prices, declining soil fertility and rising oil import costs led to widening external deficits, while the government was unable to diversify the export base or attract significant foreign investment. In 1978 Senegal faced a major financial crisis as export earnings fell and continuing external imbalances led to a short-term stabilization program under pressure from the IMF and World Bank, since when financial programs with the IMF have remained operative.

Despite several reforms introduced since the mid-1980s and the dissolution of several parastatals associated with the groundnut sector, and despite the elimination of State subsidies for seeds and fertilizers, SONACOS continued to accumulate deficits, which were covered by the Treasury.

The electoral loss of President Diouf in 2000 broke the 40-year power-wielding cartel of Senghor's socialist party. The rise to power of the opposition under President Wade created new opportunities for change and reform. It also introduced, however, previously uncommon volatility to political decision making and economic management, with an unprecedented number of government reshufflings since 2001 and a festering conflict between President Wade and his former Prime Minister, Idrissa Seck.

Three Poverty Reduction Support Credits (PRSCs) are presently supporting the implementation of Senegal's Poverty Reduction Strategy (PRS), the first of which has been finished. Senegal's Poverty Reduction Strategy Paper (PRSP) covering 2003-05 included the privatization of SONACOS as one activity designed to contrib-

ute to wealth creation, one of the four “pillars” of the PRSP. The privatization of SONACOS and the elimination of specific protective taxes are the last major steps needed to fully liberalize the groundnut sector.

While the IMF was closely engaged with the reform attempts in 2001-02, the World Bank had largely taken a step back from several controversial structural reforms in the late 1990s after two failed attempts at privatize SONACOS in 1995 and 1999. Although in each case the Government brought SONACOS to the point of sale it rejected bids as unrealistically low. When the crisis erupted in the parastatals, a decision was taken by the World Bank — comforted by the existence of undisbursed loans that could help defray any financial crisis — not to engage in any lending for reforms until these reforms had indeed been implemented.

In 2001 — on the exact day when the groundnut production was supposed to start — the Government dissolved SONAGRAINES, which as a subsidiary of SONACOS had been active in the distribution of seeds and fertilizers and the collection of groundnuts. The overall picture on the motivation for this sudden action remains unclear. What has been characterized by some observers¹¹⁴ and by the Government itself as “(IMF-imposed) forced liberalization of the groundnut sector” was, according to the IMF, initiated solely by the Government.

After the dissolution, a new marketing system, the “farm-gate system”, was created in the groundnut sector, with private agents given a cash advance by SONACOS to collect groundnut production from more than 1500 collection sites. Many of these private agents, however, had limited financial means and many were pure speculators. The government’s official price of CFA 120 was already CFA 25 less than the year before. Private agents were able to buy the crops at less than the official price, instead proposing to pay cash for a small portion of the crops and giving ‘vouchers’ for the rest. Farmers who tried to sell directly in local markets were confronted with representatives of the same speculators who brought down the prices of their product further. And most of those left holding ‘vouchers’ could not get paid, since many private intermediaries had vanished.

The impact was devastating. Without significant help from the state, households found themselves worse off. After intense pressure from farmer and civil society organization the Government drew up an Emergency Relief Plan, costing CFA 15 billion (US\$23 million)¹¹⁵. While this drew attention to the seriousness of the situation in many rural areas in Senegal, the Minister of Agriculture, supported by farmers’ organizations and many parliamentarians continued to blame the IMF and World Bank for the rushed privatization.

Subsequently, there was huge internal government resistance to the PRSP’s proposed sale of SONACOS, in particular from the Minister of Agriculture. After extensive consultations, the Government agreed in principle to sell SONACOS. In spite of this agreement to continue the privatization there was no consensus on how this should be done. One of the main questions revolved around the pre-financing of the private buyer to pay for the groundnut crop. Against the background of the drought in 2003, SONACOS claimed it needed CFA 60 billion (US\$92 million) to finance the campaign. Negotiations between the Minister of Finance and SONACOS thus occurred in an overall climate of distrust, with the Minister doubting SONACOS’ ability to effectively organize the process without financial leakages. The process was characterized by limited influence of the Minister of Finance over reforms and Government unwillingness to address difficult and/or unpopular issues.

Finally, in 2005, the authorities sold SONACOS to the only bidder that made an offer. The government also suspended an import tariff on refined vegetable oil, in order to foster competition in the sector and reduce the price of a key staple for the poor¹¹⁶. While the IMF was involved in the organization of the bidding, the World Bank stepped back from the reform process which was, according to the Bank, insufficiently transpar-

¹¹⁴ Dembele, 2003

¹¹⁵ *ibid*

¹¹⁶ World Bank, 2005c

ent and lacking a clear sector framework. Although the privatization of SONACOS was completed with the final transfer of assets in March 2005, some of the market liberalization was subsequently reversed. In view of the strong increase in vegetable oil imports since 2004, which has weakened SONACOS' financial situation and threatened its ability to buy the groundnut crop, the Parliament has adopted a law imposing import duties of 25 percent on palm oil imports and 15 percent on other vegetable oil imports for a temporary period of up to six years¹¹⁷. This protective measure was largely criticized by the Bank, as evidence suggested that it served to prevent rent-seeking behavior rather than to impact positively on the poor. In a subsequent development, the Government adopted a new protection law, that in contrast with the previous one, conformed with WAEMU and WTO agreements.

As outlined above the short-term impact of privatization on the poor in rural areas has been negative. Until now, however, the private sector has not engaged in input supply, commercialization, or marketing as expected. Data on income are scarce but the high incidence of poverty in rural areas suggests that reforms aimed at raising rural farm and off-farm incomes have been ineffective¹¹⁸.

Conclusion

The political economy of groundnut production presented a significant fiscal risk for international financial institution activities in Senegal. Two failed privatization attempts in the 1990s created a climate of distrust between the Government of Senegal on one hand and the IMF and the World Bank in the other hand. Without an agreed framework for the process to privatize the state-owned SONACOS, the rapid dissolution of its affiliate SONAGRAINES in 2001 caused dislocations, including lack of access of farmers to critical inputs, which may have been mitigated by a more gradual and phased approach. The adverse impact on the rural population added to the existing skepticism towards a further liberalization of the agricultural market from Government, civil society and ordinary citizens. Moreover, the continuing existence of SONACOS allowed rent-seeking behavior by key Government and influential private actors. This combination of a widespread negative perception of privatization and rent-seeking behavior allowed for a powerful resistance to sector reform to emerge.

Several lessons can be learned from the attempts to reform the groundnut sector in Senegal¹¹⁹. A major issue delaying the liberalization of the groundnut sector was whether reforms would have unfavorable distributional consequences for poor farmers. The Bank should have undertaken analytical work on these issues sooner, given the importance of this sector to rural livelihoods. The study to analyze the distributional impact of reforms in the groundnut sector began late in the period and remains uncompleted.

Levels of collaboration and cooperation between donors affected the outcomes of reforms. When collaboration between major donors was good, the Bank was able to achieve better outcomes. In contrast, the relative lack of cooperation among major donors in the reforms of the groundnut sector during the 1990s sent conflicting signals to government and may have been an important factor in the lack of progress in the sector.

The World Bank's unwillingness to consider alternatives to the privatization of the groundnut sector in the 1990s contributed to the limited progress in reforming this sector. Recent changes in the World Bank's approach in the groundnut sector represent learning and appear to have improved prospects in the sector.

Finally, the Senegalese PRSP process and subsequent reforms were mostly characterized by a lack of consultation and participatory process¹²⁰. Given the resistance to reforming the agricultural sector a broad consulta-

¹¹⁷ IMF, 2005

¹¹⁸ World Bank, 2006f

¹¹⁹ World Bank, 2006f

¹²⁰ Phillips, 2005

tion process at an early stage could have identified opponents to reform, provided much-needed information and contributed to building capacity for Government leadership on the privatization.

1.3 Crop Board Reform in Tanzania

Background

Agriculture remains the dominant sector in Tanzania's economy, accounting for about half the country's GDP and employing about 70 percent of the country's labor force. As nearly 90 percent of the poor live in rural areas, increase in agricultural growth is central to reducing poverty and enhancing growth. To achieve Tanzania's ambitious agricultural growth targets, agricultural trade, particularly in exports, will have to be increased, and a regulatory and institutional environment that supports growth need to be ensured.

Crop boards play a significant role in determining the production and investment environment of Tanzania's agricultural export crops for cashews, coffee, cotton, pyrethrum, sisal, sugar, tea, and tobacco¹²¹. With crop marketing liberalization, starting in the early 1990s, crop boards were expected to continue many of the regulatory, reporting, and service activities of the former marketing boards, but were not expected to be directly involved in marketing or production. As a transitional arrangement, however, the minister of agriculture was able to authorize crop boards to perform limited responsibilities for marketing when the private sector was not active.

The primary functions of the boards included improving quality and ensuring fair prices. Since their formation, however, crop board activities and performance varied, which raised concerns about their impact on industry performance. Stakeholders within the industry and outside observers have reported problems attributed to the current activities of the boards, including disruption of marketing and exports, costs in excess of services received, inadequate accountability to their constituents, and interference in growth of the private sector in marketing. At the same time, the boards are recognized to offer services that might not be provided by the private sector, particularly input supply for smallholders, and are perceived by some participants to provide protection against monopsonistic behavior by private marketing agents.

Boards are accountable to the Ministry of Agriculture and Food Security and financed by withholdings from the trade, rather than general revenues. More than 75 percent of their revenues come from cess and license fees, with the exception of cotton. Taken together, expenditures of the coffee, cotton, cashew and tea boards amount to about US\$5 million annually, and much of this is attributed to administrative expenses.

The Reform – a PSIA to design various reform options

The government had prioritized a crop board analysis in Tanzania's 2001/02 Second Poverty Reduction Strategy (PRS) Progress Report, listing it as a key action in the PRS policy matrix 2002/3-2004/5. The Government's Rural Development Strategy and its Agriculture Sector Development Strategy, that provide the sector details to the PRSP, both emphasize the need to restructure the Boards. Consistent with the PRS, the donor supported Poverty Action Framework (PAF) matrix has as a policy benchmark to further review of the roles and funding arrangements of the Crop Boards, with reforms to the corresponding legislation envisaged in the outer PAF years.

¹²¹ Crop boards were formed after the liberalization of the early 1990s to replace their predecessors, the marketing boards, which had been created as monopoly public agencies to fulfil a range of marketing activities. In the first phase of reforms in the early 1990s, "marketing" functions transferred to cooperative unions. In a second phase, which began in 1993/94, the government eliminated the monopoly held by the boards and unions for export crops, allowing the private sector to compete with the unions in marketing

By 2003, Government, however, had not yet devised a crop board reform, but addressed the concerns instead with various actions, such as (i) redefining crop industry legislation to incorporate provisions for increased stakeholder participation (for instance, in 2002/2003 the Board of Directors of all Crop Boards were required by law to appoint stakeholders and the laws amended in 2001 for coffee, cotton, sugar, tobacco provided for establishment of stakeholders fora); (ii) making information more readily available to farmers and other key stakeholders; (iii) managing crop development funds; (iv) tax reforms to reduce or abolish taxes that are a burden to smallholder farmers; and (v) actions to curtail malpractices by private traders in the purchasing and selling of agricultural commodities¹²².

In 2003, the Government requested support for further analysis of the crop boards in the forms of a poverty and social impact analysis (PSIA). The review of the crop boards was set as a prior action to PRSC-3. The PSIA was conducted jointly between the Bank, the Government Task Force (Ministry of Agriculture and Food Security (MoAFS), and Ministry of Cooperatives and Marketing), the European Union and the support from the University of Dar es Salaam and Sokoine University. The focus of the PSIA was to review the crop boards – specifically to assess the regulatory, service & revenue collection functions of boards, to analyze the institutional arrangements/ environments, and incentives in production and marketing of coffee, cotton, cashew, tea; and to propose options to reform the crop boards. The study approach was multi-disciplinary in design, analysis, and team. ¹²³

The analysis was conducted in a multistage process. It comprised a financial review of all eight crop boards, institutional mapping (via key-informant interviews and focus groups) of four crop industries and — in the case of coffee and cotton only — an additional benefit incidence analysis (via household survey with producers), an analysis of coffee auction data, and two stakeholder workshops¹²⁴. The institutional mapping comprised institutional and stakeholder analyses. Its objective was to uncover the various interests, incentives voice and political power amongst the different actors, the nature of their influence on crop industry production and marketing and on outcomes (e.g. husbandry practices, processing, quality, prices received, industry development, and the nature and extent of influence of the crop boards.

The PSIA process was characterized by an early and comprehensive stakeholder dialogue and collaboration. Considerable effort went into obtaining agreement on study objectives, scope, and methodology to build ownership. During the design and implementation, the Bank and the EU worked closely with the government task force, a group comprising representatives of the Ministry of Agriculture and Food Security and the Ministry of Cooperatives, which was set up to review the crop boards. It proved essential that the stakeholder dialogue continued throughout the study and went beyond a mere dissemination of study results at the end of the PSIA.

Key study findings revealed (i) an institutional vacuum after liberalization with uneven private sector participation, and unfair trading, some re-regulation to increase the role of crop boards; (ii) crop boards mixed public and private activities and acts as both regulators and participants in markets, which makes them vulnerable to conflicts of interest; (iii) Boards are only accountable upward to MoAFS, but are financed entirely by their constituents in the industries and through property income; (iv) smallholders still do not fully recognize the pricing mechanisms and quality rewards; and (v) there is still low credit and input use, but emerging schemes, such as farmer groups, show potential. Specific impacts on different stakeholders could not be identified dur-

¹²² Especially in coffee, cotton, tobacco and cashew.

¹²³ This summary draws extensively on the PSIA report: Government of Tanzania and World Bank. 2004.

¹²⁴ The case study used mixed method (qualitative and quantitative) and sequenced data collection, to obtain detailed insights into the dynamics of the formal and informal institutional arrangements in the individual crop industries and crop boards. In September 2004, two 1.5-day workshops were carried out with coffee and cotton stakeholders, the two crop boards, and World Bank and EU representatives. Workshops aimed to validate key report findings, gain stakeholders' ownership of policy options, and produce a consensus among key stakeholders on viable changes to crop board acts, regulations, and activities of the coffee and cotton boards and their governance (including issues of finance and accountability). For more details see Beddies et al, 2006

ing the study period as the choice of reform options was subject to subsequent national debate. Overall impacts on producers are potentially positive; it is hoped that key outcomes of these reforms -improved access to market information, increased competition, and greater accountability of service providers - will potentially benefit smallholders as much as large producers. The impact on private traders, cooperatives, and processors is difficult to estimate without a decision on the reform option and a detailed analysis is provided elsewhere. The study showed that parts of government and small-holder producers are skeptical towards market economy and adhere to socialist principles and traditions. Hence, the crop boards and the Ministry of Cooperatives (at political level) opposed the reforms that would reduce controls over private agents and require greater accountability to producers in service delivery. At the political level, MoAFS was in favor of the reforms. At the technical level, the Government Task Force (MoAFS and Ministry of Cooperatives) supported the reform. Trader supported the reforms.

In regard to the options for crop board reform, the study showed that the crop boards are performing important public functions and providing some services that producers value and seek to continue. At the same time, the interventionist stance of the boards, particularly with the changes incorporated in the acts and amendments passed in 2002/03, handicaps traders seeking to respond as needed to rapid and profound changes in local and global markets. The traders' loss in foregone opportunities is passed to producers as constrained incentives. Reforms in the boards should be designed to retain the functions and services that stakeholders report as valued, to improve accountability and management so that services are provided more cost effectively, and to effect withdrawal of the boards from interventionist activities that distort the needed institutional evolution of Tanzania's marketing structures. The study developed three reform options in addition to a fourth option of "no change". Options 1 to 3 and the costs and benefits related to each option are summarized below (Table 4):

Table 4: Options for reform of the cashew, cotton, coffee, and tea board in Tanzania

Option	Benefits	Costs
Option 1: Publicly Financed with Redefined Mandate to Focus on Public Services	Saves the industries, and ultimately farmers about US\$2.5 million annually which will be paid by other taxpayers. Adds more stability to financing of boards.	Possible lapse in provision of associated private support
Option 2: Privately Financed with Redefined Mandate to Focus on Associated and Jointly Provided Private Services	More accountability with the industry free to determine levy size based on effectiveness of the board Greater efficiency of resource use	Possible lapse in provision of key public services Possible capture by special interests within the Boards
Option 3: Jointly Financed with Provision of Associated Private Services and contracting for Public Services	Burden of private financing for public service provision reduced Provides accountability of the Boards to industry stakeholders Provides more stable financing for public goods Greater efficiency of resource use	Possible retention of de facto status quo despite decision to change Possible capture by particular interests within the Boards, as above

Source: Government of Tanzania, World Bank. 2005. Crop boards and the future prospects for agricultural exports of Tanzania. Volume 1: Main report. Washington D.C.: World Bank.

In September 2004, the study findings were presented in two stakeholder workshops, and the study was completed. In response, the Government decided to prepare a cabinet paper to assess the study findings, discuss the reform options, and prepare an action plan for the crop board reform. The initial deadline was set for March 2005, but this was delayed until June 2005. As the crop board review had been agreed among Government and Bank as a prior action of PRSC-3, a document that was presented to the board in July 2005, the delays in reform progress resulted in a reduction in the PRSC-3 envelope from US\$175 million to US\$150

million. The implementation of crop board reforms was monitored in PRSC-4; this included the issuing of a government circular in March 2006 that instructed the crop boards on the implementation of the reforms.

Despite some delay, this sensitive reform was implemented. One main step included the change in crop board financing from the original crop cess to budgetary financing. The change in the laws that govern the crop boards in line with the reform strategy is a further crucial step in the crop board reforms. Although Government had expected to amend at least two acts and present them to Parliament in November 2006, it subsequently decided to amend the laws of all crop boards and submit those to Parliament all at the same time. This meant that consultations with a wider range of crop boards and stakeholders had to be conducted in all crop board industries, and that more time was required. It also meant that the submission of the amended laws for all crop boards to Parliament had to be postponed until November 2007.

The Bank accommodated this change in strategy, and made the consultations and signing of MoUs with the crop boards a prior action for PRSC-5, and the submission of the legislative amendments of all crop boards a trigger for PRSC-6. The slower than expected reform progress, however, highlights the political economy behind this sensitive reform calls for attention to government's reform ownership. The PSIA found that export crops, such as coffee, can be a lucrative business for a wide range of stakeholders, including public sector employees. As in many African countries, that are agrarian and plural society, political life is dominated by clientelist politics and clientelist political organizations¹²⁵. Powerful interests, within and outside of the crop boards, defend the status quo that benefits them. Despite general political will for reform, actual commitment to a prompt reform implementation is less well established.

Conclusion

In Tanzania, public sector accountability still flows upward, not yet downward to its constituents¹²⁶. Despite constitutional reform in 1995, Tanzania remains a one-party dominated state, ruled by CCM (Chama Cha Mapinduzi). Political parties are powerless and often only parties in name. Despite decentralization, local government lacks de facto autonomy. With a dominant executive, legislature, civil society and media remain weak. The demand side of governance is still not fully developed and respective institutions are not yet sufficiently independent. Parliament is gaining strength and builds its capacity as a watchdog over to oversee the executive, together with civil society and the media – all three institutions however can not yet enforce downward accountability¹²⁷. However, even though Tanzania remains a one-party state, it has an institutionalized multi-party system, and decisions that are taken by the committees in the ruling party and the cabinet follow often intense debates¹²⁸.

By designing reform options for the crop boards, the PSIA contributed to the upstream policy dialogue on crop board reform. The continued dialogue and close collaboration among study partners across Government, EU and WB facilitated the process, and allowed for an open debate to develop different and challenging reform options. The study confirmed that policy reforms are ultimately political. It is important to acknowledge that stakeholder consultation, alliance with agents for change (Government Task Force and EU) and proactive integration of stakeholder concerns into the design of reforms are essential in an environment of vested interests that defend the status quo. Engaging these key stakeholders in the process of generating empirical evidence, debating it openly, and using it to inform policy options, can help to address the political economy of reform.

¹²⁵ Barkan, 2006

¹²⁶ This was also referred to in Mukandala et al, 2005

¹²⁷ Mukandala et al, 2005

¹²⁸ Barkan, 2006

1.4 Rice Tariff Reform in Indonesia

Background

During mid-1997, Indonesia became engulfed in a devastating regional economic crisis. The Indonesian currency collapsed from near Rp 3,000 per US dollar in the second half of 1997 to Rp 15,000 by mid-1998. Inflation skyrocketed. The fall in GDP was accompanied by massive job losses as bankruptcies and cutbacks in production multiplied. This led to a sharp rise in open unemployment and underemployment. As a result, there was a significant increase in the number of people living below the poverty line and a marked deterioration in income distribution¹²⁹. Poverty incidence increased from 11 percent in 1997 to 27 percent in 1999, with 55.8 million people living below the poverty line¹³⁰.

Advice given to Indonesia during the crisis by the IMF has often been blamed for ongoing poor economic performance. Although further loans were negotiated with World Bank and IMF, most of these were not taken up. Indonesia is not eligible for PRSC or PRGF mechanisms. In early 2003 Indonesia finalized its Interim PRSP¹³¹, which provided a broad road-map and timetable for developing the full PRSP by May 2004¹³². However, increasing decentralization of decision-making, suspicion of international pressure for good governance and high levels of foreign debt make it difficult to gain government support for poverty reduction processes associated with the Bank and Fund.

The economic crisis at the end of the 1990s was followed by a domestic political crisis that was characterized by demonstrations, rioting and looting with ethnic and religious undertones and motivations. These led to many hundreds of deaths and further political instability. Suharto, president since 1965 when he had seized power in a violent military coup, was forced to step down on May 21 1998. Vice President Habibie was selected by the People's Consultative Assembly (MPR) as Suharto's successor and the first free and democratic parliamentary elections for several decades were held in 1999. The MPR selected Abdurrahman Wahid as President in November 1999 and replaced him with Megawati Sukarnoputri in July 2001. In April 2004 Indonesia held legislative elections and the first direct presidential election was also conducted in two rounds – retired General Susilo Bambang Yudhoyono (SBY) defeated Megawati Sukarnoputri in the second round on September 20 2004. After President Yudhoyono took office he quickly implemented a “pro-growth, pro poor, pro-employment” economic program. The current policy making environment is still challenged, however, by endemic corruption and by powerful interest groups and individuals.

Rice is a critically important food commodity for all Indonesians but especially for the poor, constituting 24.1 percent of their consumption. For the country as a whole, four out of five households are net consumers of rice, that is, they consume more rice than they produce¹³³. Over the four years following the crisis of 1997–98 (1998 to 2001 inclusive), rice imports amounted to 9.1 percent of total consumption of rice. Indonesia is the world's largest rice importer, accounting for 18 percent of the world's total imports between 1998 and 2000.

Prior to the 1997/98 crisis Indonesia's rice imports were monopolized by a public agency, BULOG (Bureau of Logistics; *Badan Urusan Logistik*). Except for the periods of the 1973 commodity price boom and the 1997/98 exchange rate crisis, the real price of rice in Indonesia has been relatively stable, but its post-crisis level has been above its level over the previous three decades, even though international rice prices have declined relative to other traded commodities. From this it is apparent that the effects of BULOG's market interventions were to stabilize rice prices relative to international prices at a level not significantly different from the trend level of world prices. With the exchange rate volatility of the crisis period, local currency prices of imported rice surged.

¹²⁹ Perdana and Maxwell, 2004

¹³⁰ The poverty line is defined by as basket of food commodities and non-food basic commodities, with the overall poverty line estimated 30 cents US per person per day (urban), and 25 cents (rural).

¹³¹ Government of the Republic of Indonesia, 2003

¹³² As a blend country, Indonesia's PRSP preparation is not directly linked to IDA access and was therefore not a prerequisite for Bank CAS preparation. World Bank, 2003.

¹³³ World Bank, 2006k

In 2000, BULOG's monopoly on rice imports was abolished; however, the agency still accounted for around 75 percent of total imports. Private imports were subject to a specific tariff (rather than an *ad valorem* tariff) of Rp 430/kg, which in mid-2002 was around 25 percent of the import price. In addition, private sector rice imports were subject to 'red lane' customs treatment, meaning stricter standards of customs inspection than other food items, and were also subject to special import licensing requirements. In 2002/2003 a proposal was put before Parliament to increase the tariff by 75 percent, from Rp 430/kg to Rp 750/kg, raising the *ad valorem* equivalent tariff from 25 percent to about 45 percent¹³⁴. Simplified, there were two main opposing arguments for and against rice import tariffs:

- some supported a high rice tariff policy since higher prices are associated with higher incomes for farmers;
- others believed that poor people are net rice consumers or buyers, who will suffer due to high rice prices.

Support for a tariff increase despite adverse effects on poverty — insights from PSIA

In parallel to these reform discussions a DFID-financed Poverty and Social Impact Analysis (PSIA) was undertaken in 2002/03 by SMERU, an Indonesian think tank in order to progress the debate by considering the impact of increasing rice tariffs on both consumers and producers¹³⁵. The analysis adopted a methodology combining economic analysis, using a Computable General Equilibrium (CGE) model, with political analysis of decision-making and interests, using a Policy Interest Matrix (PIM).

Using existing qualitative and quantitative data on the effect of the economic crisis on the poor in Indonesia, the CGE analyzed the first and second round impacts¹³⁶ of price changes, by examining the way in which all producers and consumers respond to prices, predicting that:

- income poverty (as measured by the headcount index) will increase in both urban and rural areas, by 0.06 percent and 0.04 percent respectively;
- raising the rice tariff will increase poverty, but only slightly: the urban sector unambiguously suffers, while some rural households will benefit through farm profits and higher unskilled agricultural wages;
- the domestic price of imported rice will increase, followed by an increase in the consumer price, the cost of living and a minimal increase in the wages of skilled labor and a more substantive increase in the wages of unskilled labor;
- although the impact on poor households is not uniform, the losers will outnumber the winners.

In summary, the technical analysis from the CGE supported the opinion from other analytical work, which predicted that increasing the rice tariff would have a negative impact on poverty. The analysis concluded that it was not possible to justify the tariff increase by claiming that it would reduce poverty.

Given the results of the technical analysis the Policy Interest Matrix (PIM) was supposed to shed some light on the question of why the tariff was introduced and why serious thought was being given to an increase in the tariff. The PIM provided a summary of various institutional interests which influence rice policy. The matrix recorded for each of the key players: policy objectives (both explicit and implicit); the main rationale for their arguments; expected benefits (short, medium and long term); constraints identified by the player (short and medium term); transmission channel; nature of their interests; and their degree of influence. The matrix was filled in using published documents, stakeholder interviews, and focus group discussions with civil society stakeholders, government decision-makers and donors. Results for the key actors are summarized in Table 5¹³⁷.

¹³⁴ Leith et al., 2003

¹³⁵ *ibid*

¹³⁶ While the CGE allows estimates in the changes to the poverty rates it is only of limited use for estimating the second-round impacts (i.e. raising wages in the rural economy) of an increase in the rice tariff.

¹³⁷ More details on how stakeholders' interests and influence can be mapped see in Holland, 2006.

In summary, the government bodies which advocated a high tariff (including BULOG, the commodities logistic agency responsible for rice, and the Ministry of Agriculture) were found to be more powerful within government than those which advocated a low tariff, or no tariff at all (including the Ministry of Economy and BAPPENAS, the national planning board). The Ministry for People's Welfare had made contradictory statements on the issue. Many donors generally argued against a high tariff, but lacked a strong influence on government.

A workshop was held in mid-October 2002 to provide a forum for discussion of results of the CGE modeling and the overall analysis of the PSIA outputs. While there was good attendance from academics, and donors, fewer stakeholders from Government and civil society attended than anticipated.

Conclusion

The PSIA demonstrated that while the results — in particular from the CGE model — did not justify an increase in the rice tariff as an effective way of reducing poverty, the policy had substantial support from different actors, highlighting the importance of the political economy of reform in determining policy decisions.

While the PSIA proved very useful in detecting the political economy in policy decision making in Indonesia, the final report highlighted some limitations. The short amount of time in which this PSIA had to be undertaken, limited the extent to which qualitative and quantitative aspects of the work could be sequenced¹³⁸ and pursued to maximum effect. Moreover, the “quick and dirty approach”¹³⁹ to the PSIA allowed a rapid stock-take of political interests but not a broader consultation which may have increased commitment to the PSIA process and the results. Due to the limited time available also links to the overall PRSP process were weak.

The Indonesia PSIA had limited success with the ‘reference group’ as suggested by the World Bank methodology, made up of civil society and government to champion the PSIA and ensure the results were taken up. Membership and commitment was sought from the members of the Poverty Reduction Committee (KPK), responsible for the PRSP, with agreements for involvement. The group members were invited to the final presentation of results, but few from outside academia and the donor community attended the October meeting as mentioned above.

After the finalization of the PSIA — and before a climate change to overall macroeconomic stabilization — the price of goods, including rice, decreased. Despite steady progress in reducing poverty, there has more recently been an unforeseen upturn in the poverty rate. This reversal appears to have been caused primarily by a sharp increase in the price of rice — an estimated 33 percent for rice consumed by the poor — between February 2005 and March 2006, which largely accounted for the increase in the poverty headcount rate to 17.75 percent. According to a comprehensive World Bank poverty assessment published in December 2006 the main reason for this drastic increase in poverty was the ban on rice imports, which came into effect in early 2004 and which was recently extended to December 2006. Taking up the rationale of the PSIA the World Bank urges the government to remove the import ban on rice in order to lower the rice price and creating greater price stability¹⁴⁰.

However, despite evidence that the sharp surge in rice prices in 2005-06 (similar to the economic crisis in 1997/98) increased the total poverty rate, political interests, which are stronger than “pro poor” policy considerations backed by evidence, still press for increased tariffs and an import ban on rice.

¹³⁸ It was concluded from the PSIA that lessons learnt from the CGE could have contributed to the analysis of the political interests and the institutional framework.

¹³⁹ Leith et al, 2003

¹⁴⁰ Aglionby 2006

Table 5: Policy Interest Matrix of key actors, Indonesia Rice Tariff PSIA¹⁴¹

Key players	Policy objective		Argument rationale	Benefits			Constraints		Transmission channel	Interests	Degree of influence
	Explicit	Informal		Short-term	Medium-term	Long-term	Short-term	Medium-term			
Bulog (the state commodities logistical agency)	high tariff, regulate imports	source of finance	protect local farmers from import dumping	stable rice market, domestic production	increase rice production, increase farmers' profitability	self-sufficiency, control of rice economy	don't have control of policy, smuggling	tariff less binding, creation of black market	high price means higher wages for labor, benefit to farmers	source of income	high, linked to ruling party fund raising
Ministry of Agriculture	high tariff, encourage domestic prod. of rice, self-sufficiency	it is their job, perform based on agri. prod.	higher returns to rice farmers	maintain high income of farmers	more rice availability		none stated, unsure if it would encourage high wages		political, high tariff, local rice prod.	high (less than Bulog)	
Bappenas/DAI (consultants)	no tariff, to maintain low rice prices	none, DAI represents US interests?	java should diversify out of rice	low price benefits for poor	stable economy, food available	efficient resource allocation removes distortion, plant high-yield crop	sustainability of diversity		Pro free market, allied with int. community and World Bank	high, but declining	
Ministry of Finance & Ministry of Economy	no tariff, to maintain low rice prices	No	Not having a rice tariff will help poor people	increase purchase power	flexibility to plant high-price crops, less dependent on govt.	better resource allocation	farmers will suffer in short term, employment problems	shortage of rice, no self-sufficiency	stabilized, lower price of basic needs	Ministry of Economy high, Finance high but less so, lower than Bulog	
Ministry of Trade and Industry	no tariff, more open trade	lower direct/indirect costs to industry, less politics	efficient resource allocation	low price eases pressure on wage demands	macro economic benefit		no power to enforce		industry/ prices, clean govt.	medium (less than Ministry of Agriculture) and declining	
Min. for Peoples Welfare and Poverty Alleviation	Contradictory statements	None	low food price for poor	low price benefits poor					less burden on them!	high (more than Bappenas; some say no influence on tariff setting)	
Poverty Reduction Coordination Board	high tariff	None	protect agri. prod., increase productivity before industrialize	higher rural wage lowers poverty		high productivity in agricultural sector			price rise increase wages	no (has no allies)	
Ikhtsan (University Researcher)	low tariff	Economic principles	high price bad for poor who are net rice consumers	low price helps poor	increased consumption				academic based on theory and data	medium (some access to key ministries and media)	
USAID, World Bank, IMF, ADB	no tariff	trade liberalization	increase welfare of world, high price leads to black market	cheap price helps poor	stabilize price	market efficiency, better resource allocation	not policy makers	like Bappenas	free trade	high (can block), usually informal	
Producers, NGOs	high tariff	Business interest	higher prices protects farmers	benefit farmers	higher productivity		not part of government		high price means higher wages for labor, benefit to farmers	low but vocal	
Governor of East Java	ban imports	Populist rent-seeking	protect farmer interests	greater sales of domestic rice	higher incomes for farmers	expansion of rice production	not enforceable	blockages at ports, customs	election 2004	access to media and politicians	

Source: Leith, Jennifer, Catherine Porter, SMERU Institute and Peter Warr. 2003. *Poverty and Social Impact Analysis*. Indonesia rice tariff.

¹⁴¹ The following actors (policy preference in brackets) were considered to be the key stakeholders: (1) Ministry of Economy (low tariff), (2) Bulog (high tariff), (3) Ministry of Agriculture (high tariff), (4) Bappenas (no tariff).