Introducing the Tool Box: Overview on policy instruments

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I. Background

- **Initiative** by the Sector Project Agricultural Trade and Value Chains

- **Initial Workshop**: December 2015 in Bonn

- **Goal**: Assist countries in their endeavour to close the gap between political commitment (strategy) and achieving the objectives **at the level of farms and enterprises** along agri-food chains.

- **Vision**: A economically, ecologically and socially sustainable agri-food sector as driving force within rural areas; providing food in sufficient quality and quantity, creating employment and income, creating perspectives, especially for the young generation.
I. Background: Writers, co-writers and contributors involved

- **Dr Paul Armbruster** (formerly German Cooperative and Raiffeisen Confederation)
- **Dr Helmut Born** (former secretary general of the German Farmers’ Association)
- **Julia Reimers** (consultant for rural economic development)
- **Dr Wilhelm Elfring** (Senior Consultant)
- **Karl-Martin Lüth** (consultant to the German Agricultural Society)
II. Structure of the Handbook
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1. Introduction
2. Rural Actors (based on the model of the “5 Rural Worlds”)
3. Factors that are Influencing Enterprises in Agri-Food Value Chains
4. Summing Up
5. Policy Toolbox
   ➢ 152 of the total 194 pages
III. Introduction into the different chapters

Chapter 1: Introduction
7 factors, driving a successful modernisation and professionalization of the agri-food sector

1. Acknowledgement by political decision-makers.

2. **Formulation of a strategy** in discourse with public, private and civil-society actors, both at individual level (micro) and at that of society and its structures (meso and macro levels).

3. **Clear responsibilities, human and institutional resources and the political will** to implement them at local, regional and national levels.

4. **Identification of concrete suitable instruments** for achieving the overall and subsidiary goals formulated.

5. Necessary **funding**.

6. **Regular reviews of the effectiveness** of selected instruments by independent bodies.

7. **Efforts and organisation on the part of the rural population itself.**
III. Introduction into the different chapters

Chapter 2: Rural Actors based on the Model of the “5 Rural Worlds”
The 5 Rural Worlds Model (p. 4)

- First published by OECD in 2006, expanded by German Institute for Development Policy

- Model that describes rural actors and classifies them according to their assets, their access to production factors (land, labour, and capital) and education, their competitiveness, their growth potential and their needs.

- Looks beyond farm size, also providing information on the extent to which farms in one particular “world” are able to provide other rural actors with adequate livelihoods.

- Takes into account needs of individuals as well as short, medium, and long-term effects on other rural and urban actors.
The 5 Rural Worlds Model II

(1) Large-scale commercial agricultural households and enterprises

- Very small group, engaged in exporting cash crops and produce little for domestic markets
- Direct access to finance, risk management tools, market information and infrastructure
- Relatively influential voice in national politics and institutions
- Provide jobs in rural areas, provide financial support for education and training of employees

(2) Traditional landholders and enterprises

- Relatively large group of farms and enterprises along agri-food value chains
- Part of local elite but with limited influence on national policy level
- Internationally not competitive, producing for regional markets or subsistence
- No access to innovations, finance or formal risk-management
- Usually able to earn a living above the poverty line, expand, make provision for failed harvests or illness, and provide their children with education.
The 5 Rural Worlds Model III

(3) Subsistence agricultural households and micro-enterprises
- Largest group in rural areas
- Agricultural output mostly for own consumption, also buying from local market with surpluses
- Substantial proportion of income earned outside agriculture

(4) Landless rural households and micro-enterprises
- Significant part are women, earning their living through sharecropping or by working as agricultural labourers
- Often migrate daily or seasonally to larger urban centres to earn a living
- Low level of education, precarious living conditions, usually self-sufficient in food

(5) Chronically poor rural households (many no longer economically active)
- No access or ownership of land or labour, socially excluded, living in marginal areas, often chronically sick etc.
III. Introduction into the different chapters

Chapter 3: Factors Influencing Enterprises in Agri-Food Value Chains
For private investments and hence development of the agri-food sector, political framework conditions play a special role. A favourable investment climate fostered by **peace and security**, **macroeconomic stability**, **low inflation**, **a competitive exchange rate**, **secure property rights**, **low corruption** and **a fair tax system that reinvests revenues in public assets** such as infrastructure is a necessary precondition for growth in private sector businesses and hence farm enterprises.

Favourable investment climate = requirement for employment creation. Nine out of ten jobs are created by the private sector.

Chapter 3: Factors Influencing Enterprises in Agri-Food Value Chains II

Compare ODI 2015.
Political Influencing Factors

1. Legal framework conditions and legal certainty
2. Economic policy
3. Tax policy
4. Education, training and research policy
5. Social policy
6. Environmental policy
Chapter 3: Factors Influencing Enterprises in Agri-Food Value Chains II

Example:

a. Legal framework conditions and legal certainty (p. 9)
b. Economic policy
c. Tax policy
d. Education, training and research policy
e. Social policy
f. Environmental policy
Example for Political Influencing Factor:
Legal Framework conditions and legal certainty to ensure compliance with legal norms

• Areas particularly relevant to the agri-food sector include **contract, property, labour, environmental, food and company law**.

• Laws and regulations should be **easy to understand, unambiguous, and practical** but also non-discriminatory to **not hinder private-sector involvement** and employment creation.

• **Courts must take decisions promptly** and may be assisted by local **arbitration courts**.
Example for Political Influencing Factor:
Legal Framework conditions and legal certainty to ensure compliance with legal norms

- **Particular emphasis in property law:** secure and formalised *land titles (ownership)* or land-use rights (access)
  
  = **Basis for a farmers/ entrepreneurs commercial activity:** Without reliable land or land-use rights that give the security to harvest the fruits of own labour in future years, entrepreneurs can and will not make long-term investment decisions.
  
  = **often basis for access to financial services**
  
  = **incentivise environmental sustainability** and protection of natural resources
  
  = **basis for many different policy promotion instruments**, e. g. investment grants, coupled direct payments or settlement structure improvement measures.
Political Influencing Factors

Example:

- Legal framework conditions and legal certainty
- **Economic policy** (p. 10)
- Tax policy
- Education, training and research policy
- Social policy
- Environmental policy
Example for Political Influencing Factor: Economic Policy

- All areas of economic policy are relevant to market actors along agri-food value chains.
- 4 quantitative goals ("magic square"), added by 2 qualitative to form a hexagon.

- Important for policy makers to understand interconnection of rural and urban areas: both need a common and viable (economic) perspective to avoid social tensions.
Example for Political Influencing Factor:
Economic Policy – Interesting: One phenomenon and 2 important interrelationships

- **Phenomenon “Urban Bias”** - being torn between a demand- and supply-led economic policy
  - Growing urban population demands an ever-increasing supply of low-cost food of ever-higher quality on the one hand (short-term benefit for policy makers)
  - Growing rural population equally demands targeted support for the development of rural areas, incl. the agri-food sector (long-term benefit for policy makers).

- **Two important interrelationships:**
  - Locally produced food often cannot compete with foreign imports, both in terms of quality and price: favours cheaper imports instead of locally produced goods.
  - Politicians are “utility maximisers” and voters tend to rather reward the achievement of short than long-term goals.
Example for Political Influencing Factor: Economic Policy – Common responses and missed potential

- **Common political response:**
  - Remove tariff and non-tariff trade barriers in order to promote imports
  - Implement large-scale subsidy programmes for rural areas

- **Missed potential**
  - Sales volumes in growing urban markets in developing and emerging countries will be 15 times higher than export market volumes by 2030.

![Sales volume measured in small-scale farming households (in billion US$)](chart.png)

Sales volume measured in small-scale farming households (in billion US$)

- High-Value Exports: 3 (2000) vs. 10 (2030)
- Commodities: 8 (2000) vs. 10,5 (2030)
- Urban Food Markets: 50 (2000) vs. 150 (2030)

*cp. Farming First 2016.
Economic Influencing Factors

g. Availability of (public) infrastructure  
h. Access to financial services  
i. Access to inputs  
j. Market access, information, and marketing  
k. International agricultural markets, vertical integration and the influence of traders  
l. Food safety and quality standards
g. **Availability of (public) infrastructure (p. 17)**

- Transport Infrastructure
- Storage, refrigeration and packaging technology
- Local and regional market places
- Energy supply
- Information and communication infrastructure

i. **Access to Inputs (p. 23)**

- Access to quality seed
- Access to fertilisers and pesticides
- Access to irrigation
- Access to machinery
Social and societal influencing factors

- Farmer organisations
- The rural non-farm economy
- Farm succession – prospects for young people in rural areas
- Social security
I. Availability of soil and water resources
   m. Adapting agriculture to climate change and protecting the climate
III. Introduction into the different chapters

Chapter 4: Summing Up
• Creating a favourable investment climate for farming families and rural areas is an essential prerequisite for private-sector growth and therefore for the growth of agri-food businesses, productivity and employment.

• In order to create this favourable investment climate, it is essential for policy makers and public authorities to have accurate knowledge of the long production and investment cycles in agriculture and their high dependency on volatile markets and environmental factors.

• There are generally no quick wins in these production and investment cycles, which is why policy makers have to partly ignore voters’ present-centric preferences and take on board the long-term interests of the common good by formulating agricultural policy strategies that will be economically, socially and environmentally sustainable in the long run.

• Rural areas are inextricably linked to urban areas and demand equal attention from policymakers, business and society.
For achieving a sustained increase in productivity in a traditional industry, and for creating competitive farms and structures it is essential to invest in education and vocational training opportunities for young people that are accessible to all. Only then can investments in the agri-food sector, in the rural infrastructure and in non-farm sectors be assured of long-term success.

Today, any agricultural and food producing activity on this globe is a knowledge-based activity that relies heavily on scientific research, advisory services, and modern communication technology.

The economic prosperity of the agricultural sector and rural areas in general is contingent on a higher respect for agriculture by society as a whole.
III. Introduction into the different chapters

Chapter 5: Policy Toolbox
The policy toolbox presents **policy instruments known by the authors** and the options they offer for taking action. These are in total: around 160 different instruments, presented in an unbiased way.

Whether these instruments are applicable in the individual context and whether these can be used for the individual strategic approach is to be assessed by the actors in the individual countries.

The processes of policy decision-making and strategy formulation in agriculture also depends on the **political system and the status agricultural policy influencers and decision-makers hold** in it. Important influencing factors are the **party structure in the basic political system**, the **position of the minister of agriculture in the government**, the **influence of the agricultural authorities** and, in particular, the relative **power of the interest groups** that influence agricultural policy-making.

**Additions and suggestions are most welcome and can be made any time** to add instruments from Africa, Asia etc.
Structure of the around 160 instruments
Structure Level 1: Six policy areas (p. 43)

1. Market and pricing policy instruments,
2. Agricultural and infrastructure policy instruments,
3. Agricultural education policy instruments,
4. Agri-environmental policy instruments,
5. Agricultural social policy instruments, and
6. Consumer protection and animal welfare policy instruments.
Structure of the around 160 instruments
Structure Level 2: 28 political objectives within six policy areas (p. 43)

Example: Agricultural market and pricing policy instruments with 8/28 objectives

(1) Market and pricing policy instruments,
   i. Supporting the agri-food sector by supporting farms directly
   ii. Supporting the local agri-food sector by restricting imports
   iii. Promoting the local agri-food sector and/or food and nutrition security by restricting exports
   iv. Improving food and nutrition security by promoting imports
   v. Improving food and nutrition security by diversification
   vi. Improving food and nutrition security by promoting nutritionally relevant foods
   vii. Reducing the market offer by reducing the amount of locally produced goods
   viii. Reducing the market offer by promoting export
Structure of the around 160 instruments
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**Example:** Agricultural market and pricing policy instruments with 8/28 objectives

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Structure of the around 160 instruments

Structure Level 3: ~ 160 instruments for 28 political objectives within six policy areas

Example: Agricultural and infrastructure policy instruments with 43 instruments under 8 objectives (p. 44)
Structure of the around 160 instruments
Structure Level 3: ~160 instruments for 28 political objectives within six policy areas

Example: Supporting the agri-food sector by supporting farms directly 8 out of 43 instruments under this policy area (p. 44)

(1) Market and pricing policy instruments,
   i. Supporting the agri-food sector by supporting farms directly
      - Direct payment (coupled or decoupled to production)
      - Subsidising input prices
      - Tax incentives
      - Investment grants for farm modernisation/specialisation
      - Tariff and non-tariff exemption from duty for farm inputs and machinery
      - Investment grants for setting up processing capacities
      - Product related processing subsidies
### Structure of the around 160 instruments
### Structure Level 4: Description of a single instrument

**Example:** Grants for agricultural services in respect of protecting the soil (p. 159)

<table>
<thead>
<tr>
<th>Description</th>
<th>The state can swiftly counteract the risks to agricultural land from overgrazing, overfertilisation, erosion or declining humus levels by operating targeted support programmes. These provide farmers with financial support in the form of grants, for example for laying windbreak hedges, adapting livestock numbers to soil fertility, reducing or increasing the use of fertilisers, non-erosive cultivation on slopes, preserving grassland, and introducing water-conserving arable farming techniques. Participation by farmers in the support programmes is voluntary. The conservation effect on the soil is monitored.</th>
</tr>
</thead>
</table>
| Requirements | • A properly functioning country-wide administration and monitoring system with sufficient technical and human resources to design and implement the policy  
• Clear ecological targets for policy makers and public authorities  
• Knowledge of [good agricultural practice in respect of agricultural land use](#)  
• Adequate budget resources |
| Objective | + Protect or restore soil fertility and secure the natural resource as a production base in the long term |
| Possible neg. effects | – Corruption and personal gain  
– Country-wide monitoring of local soil protection measures could overstretch public authorities |
| Further information | The soil protection measures performed by the farmers must be coupled with modernisation, e.g. in irrigation and drainage systems, regional erosion protection and the overall field and landscape structure. The advisory services in China, the USA, Russia and EU member states have gained valuable experience in this area. |
IV. Questions & Answers
Thank you!