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POLICY COHERENCE FOR DEVELOPMENT: ISSUES IN AGRICULTURE

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Abstract

This paper discusses issues raised for OECD agricultural and agriculture-related policies by the policy coherence for development perspective. These issues are organised in a five-fold typology covering OECD domestic agricultural policy, agricultural trade policy, regulatory policies, development cooperation policy as well as the coherence of developing country policies. Changes in OECD agricultural policy have varying impacts on different groups of developing countries, and on different groups *within* developing countries. The message for policy coherence for development analysis is that specifics count, and that impacts need to be assessed on a country by country basis. Bringing a policy coherence perspective to the debates on OECD agricultural policy reform requires a careful classification of the various channels whereby developing countries are impacted by this reform, not least so as to identify ways in which development assistance can be used so as to maximise the opportunities created by agricultural policy reform but also to help to mitigate adverse impacts where they occur. The paper concludes with a checklist of actions which might be taken by the development policy community to improve the coherence of agricultural policy with development objectives.

Introduction

Policy coherence for development is a process whereby a government, in pursuing its domestic policy objectives, makes an effort to design policies that, at a minimum, avoid negative spillovers which would adversely affect the development prospects of poor countries and, more positively, seek to maximise synergies. In this contribution, we take stock of what we know about the extent to which the agriculture and agricultural-related policies of OECD countries are incoherent with their stated development objectives.

Policy coherence has a particular importance in the case of agriculture, given the first Millennium Development Goal target of eradicating extreme poverty and hunger, and the fact that three quarters of the world's poor live in rural areas. OECD agricultural policies have a significant impact on the trade and development opportunities available to developing countries, and it is important to bring a development perspective to the debates on OECD agricultural policy reform. This impact is a nuanced one: among developing countries, there are winners and losers from OECD agricultural policy. Changes in OECD agricultural policy have varying impacts on different groups of developing countries, and on different groups *within* developing countries. Bringing a policy coherence perspective to the debates on OECD agricultural policy reform requires a careful classification of the various channels whereby developing countries are impacted by this reform, not least so as to identify ways in which development assistance can be used so as to maximise the opportunities created by agricultural policy reform but also to help to mitigate adverse impacts where they occur.

This paper builds on an earlier overview paper prepared for the OECD Horizontal Project on Policy Coherence *Policy Coherence for Development: Issues in Agriculture* (Matthews, 2005a). We first review the typology used in that paper to discuss agriculture-related issues and policy coherence. We then draw some lessons based on empirical and other work in the literature concerning the relationship between agricultural policies and development. Based on recent work we are conducting with partners in two African least developed countries, Tanzania and Uganda, we conclude with a checklist for development agencies wishing to pursue a policy coherence agenda with respect to agricultural policy.[1]

What we are discussing

Table 1 presents a typology of agriculture and agricultural-related policies relevant to the policy coherence debate. Five policy domains are distinguished. **Domestic agricultural policy** objectives in OECD countries include those concerned with equity or distributional issues, such as support for the incomes of farm households, and those designed to correct market failures (OECD, 2003). Support for domestic agricultural production is also justified as a way of achieving social objectives such as the protection of family farming, the maintenance of a dispersed rural population or support for the cultural heritage of farming areas. Many argue that these non-food outputs reflect the multifunctional nature of agricultural production. Social and income objectives in the agricultural sector in OECD countries have been addressed largely through market price support and, to a lesser extent, income transfers. Market price support policies require that the domestic market is insulated from the world market. A country which seeks to maintain a domestic market price above the world market price will find it necessary to impose a trade barrier, as otherwise cheaper imports would undermine the domestic policy. Thus both trade and domestic policies designed to support agricultural output and incomes in OECD countries are jointly considered under the first policy domain.

[1] This project, the Policy Coherence project being carried out at the Institute for International Integration Studies at Trinity College Dublin, is supported by the Advisory Board for Development Cooperation Ireland. Further details at www.tcd.ie/iiis/policycoherence.

Table 1. Policy coherence between agriculture and development policies – a framework

Policy actor	Policy domain	Examples of policy instruments affecting agricultural development in developing countries
OECD countries	Domestic agricultural policy	Market price support, direct payments, export subsidies, income support, risk management measures, investment and structural adjustment assistance
OECD countries	Agricultural trade policy	Regional trade agreements, trade preferences, tariff escalation, attitudes to developing country demands in international trade negotiations, international commodity agreements
OECD countries	Regulatory policies affecting agricultural production and trade	Non-tariff measures addressing food safety, food quality, environmental protection and conservation, intellectual property protection, geographical indications
OECD countries	Development co-operation policy	Development aid to the agricultural sector, food aid, trade capacity-building, trade compensation measures
Developing countries	Developing country policies concerning trade and agriculture	Agricultural trade policies, institutional reform, exchange rate policies, investment and infrastructure policies

Source: OECD, *Policy Coherence for Development: Issues in Agriculture: Overview Paper*

Agricultural trade policy is the second policy domain where policy coherence issues arise. This recognises that agricultural trade policy is not only designed to play a supporting role to domestic agricultural policy, but may also be used to pursue other objectives in its own right. Trade policy may be used to promote regional integration objectives, as a development instrument through the award of trade preferences, or to protect the domestic food processing sector through tariff escalation. Trade policy is also concerned with the international architecture of trade rules. Policy coherence questions arise in examining the stance which OECD countries take in international trade negotiations on agricultural trade issues of relevance to developing countries, or with respect to problems in international commodity markets and the difficulties these cause for commodity-dependent developing countries. This is the 'foreign policy' aspect of agricultural trade policy, as distinct from its use as an adjunct to domestic agricultural policy which is discussed in the first domain.

A characteristic of OECD country food systems is the growing importance of **regulatory interventions** aimed at ensuring food safety, consumer protection, environmental protection and intellectual property protection. The requirement to meet specific regulatory standards before a product can be sold on the domestic market is not usually aimed specifically at imported products. Nonetheless, even where this is not the case, standards have an indirect influence on agricultural output and trade. Policy coherence analysis must take account of the growing importance of these non-tariff measures in OECD countries and their implications for development.

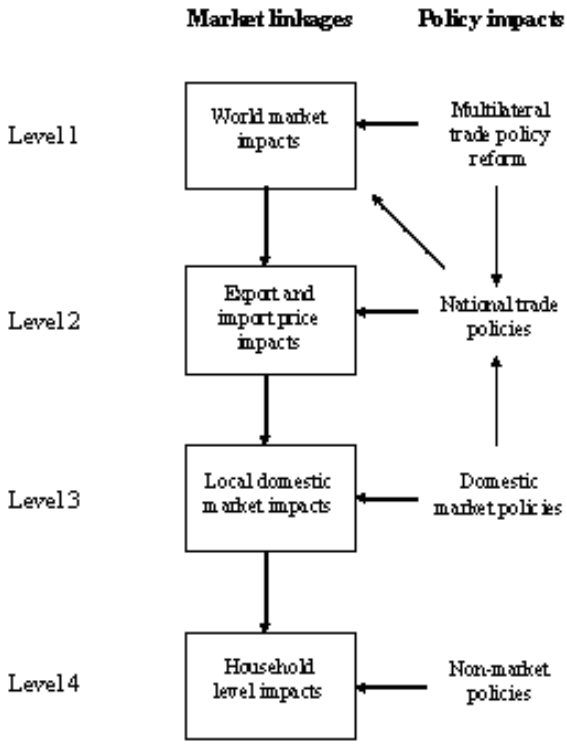
The fourth relevant OECD policy domain is **development cooperation policy** and the extent to which it is used to help minimise conflicts and maximise synergies between agricultural policy reform and development objectives. How far does development cooperation policy provide support for the agricultural sector of developing countries and its integration into global markets? PCD issues here include the magnitude of aid flows to promote agriculture in developing countries, aid coordination and the role of specific types of aid flows such as food aid and trade capacity-building. Another relevant issue under this heading is potential compensation measures to address problems of preference erosion arising from agricultural policy reform.

Finally, policy coherence also place an obligation on **developing countries** to pursue policies which take advantage of the opportunities that arise as OECD countries improve the developmental coherence of their own policies. The need to ensure adequate incentives for farm production, to provide adequate budgetary support for growth-promoting agricultural policies and rural infrastructure, to pursue consistent agricultural and agricultural trade policies, and to support institutional development and the involvement of the private sector and civil society in decision-making are relevant issues to consider in this context.

Channels of impact

Policy coherence analysis in agriculture requires an understanding of the way in which OECD agricultural policy impacts on developing countries. The primary mechanism is through the world market impacts of the policy, particularly the level and stability of world prices. World price changes influence the terms of trade of developing countries, and will have an initial positive or negative impact depending on whether these countries are net exporters or importers of the product in question. Further indirect effects will occur as these changes in border prices are reflected through national trade policies and domestic marketing policies into changes in domestic market prices for producers and consumers. In turn, households will be affected by these domestic price changes depending on whether they are net producers or net consumers of these commodities, by consequential changes in factor market conditions resulting from the impact of the reforms, and by decisions made by the government on how it responds to changes in its revenue base. These channels are summarised in Figure 1 and provide the framework for the analysis which follows.

Figure 1. Analysing the impact of OECD agricultural policy reform on developing countries



Source: Adapted from Brooks, 2003.

The status of agricultural policy

Any discussion of policy coherence for development and agricultural policy must begin from an analysis of OECD agricultural policy and how it is changing. OECD has developed the PSE/CSE methodology to provide a summary indicator of the magnitude of policy interventions in agriculture. Transfers to farmers since the mid-1980s have changed relatively little in absolute terms but have declined when expressed as a proportion of the value of agricultural output.

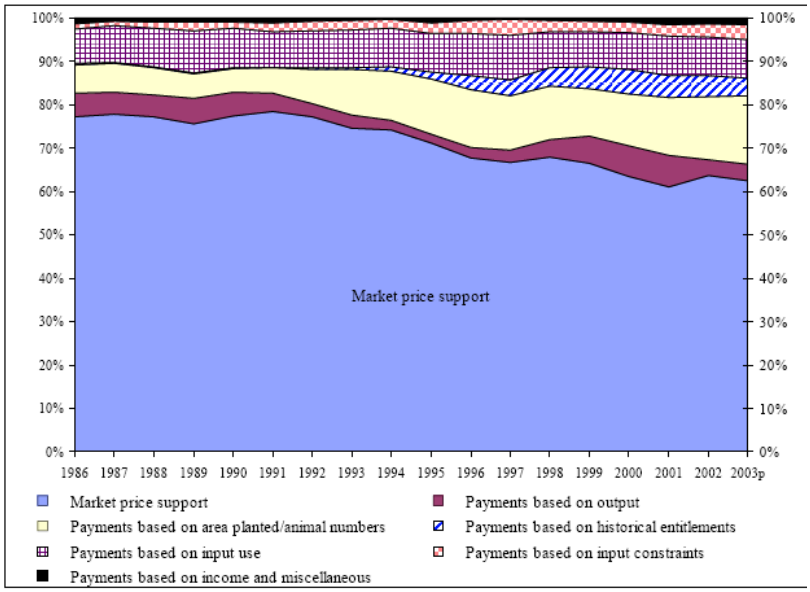
Table 1. OECD indicators of support to agriculture

Indicator	1986-88	1993-95	2001-03
PSE			
Billion $	241	277	230
Percentage PSE	37	34	31
CSE			
Percentage CSE	-34	-29	-24
NPC (producer)	1.56	1.42	1.31
NAC (producer)	1.59	1.52	1.45
TSE			
Billion $	304	372	324
Percentage TSE in GDP	2.3	1.7	1.2

Source: OECD PSE/CSE database, Paris, 2004

Looking only at the magnitude of PSE transfers is not necessarily a good indication of their trade-distorting effect. Transfers are generated by a wide variety of policies, some of which impact on trade opportunities more than others. This is recognised in the WTO Agreement on Agriculture in the distinction between amber, blue and green box policies. Market price support is generally recognised as the most trade-distorting element in the PSE. OECD countries have been gradually changing their policies in a less trade-distorting direction. Nonetheless, market price support still constitutes 60 per cent of the total support provided to OECD farmers (Figure 2).

Figure 2. Changing composition of OECD producer support



Source: OECD. PSE/CSE data base. Paris. 2004.

Developing country impacts of OECD agricultural country policies

It is then an empirical question to determine the impact which these domestic OECD transfers have on developing countries. There is now a wealth of empirical studies available which have tried to analyse these effects (see Charlton and Stiglitz, 2004 for studies up to 2003, and Ackerman, 2005 for a review of more recent GTAP and World Bank results)) All studies agree that the removal of trade-distorting agricultural policies would generate global welfare gains, but two conclusions can be highlighted here. First, differences in model methodologies, assumptions, parameter estimates and policy simulations mean that there is considerable variation in the estimates obtained. One exercise undertaken by the World Bank modelling team illustrates the fragility of these estimates and the difficulty which policy-makers have in interpreting them. Five scenarios were run using the same database but with varying model assumptions. The initial scenario, the 2015 base case, compares the results in 2015 from a base run using the Bank's dynamic computable general equilibrium (CGE) LINKAGE model with a scenario in which all support to agricultural production is eliminated. Because the global economy in 2015 will be approximately one-third bigger than in 2015, scaling back these effects to the impact such a scenario would have in 2001 reduces these estimates. Removing the dynamic element of the model eliminates the cumulative reinvestment from a larger economy each year and further reduces the estimated impact. Replacing the behavioural and trade elasticities used in the base case by those recommended for use in the GTAP model, a widely-used CGE model for trade policy analysis, results in a further reduction. Finally, making the assumption that all factors including land are fixed and using the GTAP elasticities produces the lowest estimate of global welfare gains, and the estimated impacts on Sub-Saharan Africa turn negative.

Table 2. Effect of varying model assumptions on welfare gains from global merchandise trade liberalisation

USD billion	2015 Base case	2001 Scaled dynamics	2001 Compara-tive static	GTAP elasticities	GTAP elas + fixed land
World	**287.3**	**156.4**	**127.4**	**88.5**	**77.8**
Dev countries	85.7	43.9	23.7	10.6	2.0
Sub Saharan Africa	4.8	2.8	0.7	0.2	-0.1
South Africa	1.3	0.8	0.7	0.5	0.4
Selected SSA countries	1.0	0.6	0.3	0.4	0.3
Rest of SSA	2.5	1.4	-0.2	-0.6	-0.8

Source: Anderson, Martin and Van der Mensbrugge, 2005.

Second, more recent estimates of global gains tend to be more modest than earlier ones. For example, early World Bank numbers based on dynamic as well as static gains suggested overall gains from agricultural trade liberalisation of $280-630 billion of which $110-250 billion would accrue to developing countries (World Bank, 2003). This compares to more recent World Bank estimates of $182 billion of which $56 billion would accrue to developing countries (Anderson et al., 2005) and lower estimates from the GTAP model of $56 billion of which just $12 billion would accrue to developing countries (Hertel and Keeney, 2006). The lower estimates come about because some liberalisation occurred following the Uruguay Round Agreement on Agriculture; because studies now use applied tariff rates which are often much lower than bound tariffs; and because studies now take better account of agricultural trade under preferences.

Furthermore, we should be careful to avoid the fallacy of identifying the potential gains of developing countries from agricultural trade liberalisation with the damage caused by OECD agricultural policies. All studies agree that the main beneficiaries from agricultural policy reform are the countries which undertake the reform. Developing countries provide high levels of nominal support to their agricultural sectors, and much of the estimated gain from reform comes from their own liberalisation. The direct impact of OECD

agricultural policy reform on these countries is more modest. In the more recent World Bank study, developing countries gain $26 billion from OECD agricultural policy reform alone, just half of the overall gain they would get from global agricultural trade liberalisation (Anderson et al., 2005). Hertel and Keeney (2006) using the GTAP model without dynamics find a figure of $9.5 billion as the damage to developing countries caused by the all OECD agricultural policies.[2] These figures compare to net ODA flows of around $60 billion.

Figure 1 highlighted that the primary way in which OECD country agricultural policies will impact on developing countries is through their impact on the level and stability of world agricultural prices. If developing countries with a comparative advantage in producing those products protected in OECD countries are to gain substantially, then OECD agricultural policy reform should lead to a significant increase in world market prices for agricultural products. Very few studies report directly the impact of OECD country agricultural policy reform on world prices. Examining the predicted impact of global agricultural policy reform (that is, including liberalisation by developing countries themselves) reveals large variation in projected world price changes (see Table A1-D in Morrissey et al., 2005). The results of the study by Bouet et al. (2005), albeit reporting only a partial liberalisation, suggest that the changes may not be that significant for most commodities. This is not to argue that agricultural policy reform is not worth pursuing, but it does suggest that, for developing countries in aggregate, unrealistic expectations have built up regarding the likely benefits of more open agricultural markets.

Gainers and losers

These aggregate results reported for developing countries as a whole conceal the fact that the impact of OECD agricultural policy reform will be felt very unevenly among these countries. The main gainers will be competitive agricultural exporters (such as Brazil, Argentina, Thailand, China) while least developed countries are likely to lose out and may be made worse off as a result of reform, for two reasons – they are largely net importers of commodities protected by OECD agricultural policy, and those countries which are exporters often benefit from preferential access to OECD country markets, the value of which will be eroded by further trade liberalisation (see Panagariya, 2005 for a trenchant critique of the argument that OECD country agricultural protectionism hurts the poorest countries most and that it is the principal barrier to the latter's development).

The importance of preferences is demonstrated in Table 3 which shows average applied bilateral tariffs between different country groups. Applied tariffs on imports from Sub-Saharan Africa (and, in the case of the EU, for imports from Mediterranean countries) are less than half those applied to imports from other countries. Preferences are often criticised as being of little use to developing countries. However, agricultural preferences are well used, and confer benefits of two kinds. One kind is a competitive advantage in OECD markets vis a vis other suppliers. The other – and more important – kind is the possibility of obtaining rents. This is the most important effect of quota-constrained access where there is no possibility of additional trade creation. These rents are, in effect, a form of trade-tied aid. However, while it is wrong to overlook the gains some developing countries derive from preferences, they cannot be an alternative to a multilateral reduction in trade barriers. They are fundamentally a short-term solution, often benefit an arbitrary group of countries and, by locking countries into uncompetitive lines of production, their long-run development impact is detrimental.

Preference erosion is not the only reason why some developing countries may lose from further agricultural trade liberalisation. Net food-importing countries are also vulnerable and there is a need to address their concerns. Putting teeth into the Marrakesh *Decision* is one possible route. Making a commitment to the world's poorest countries that their food import needs would be met and their import

[2] This estimate is very consistent with those from previous studies quoted in Matthews, 2005a.

bills kept under control would remove one real source of concern that they have about embarking on further trade liberalisation.

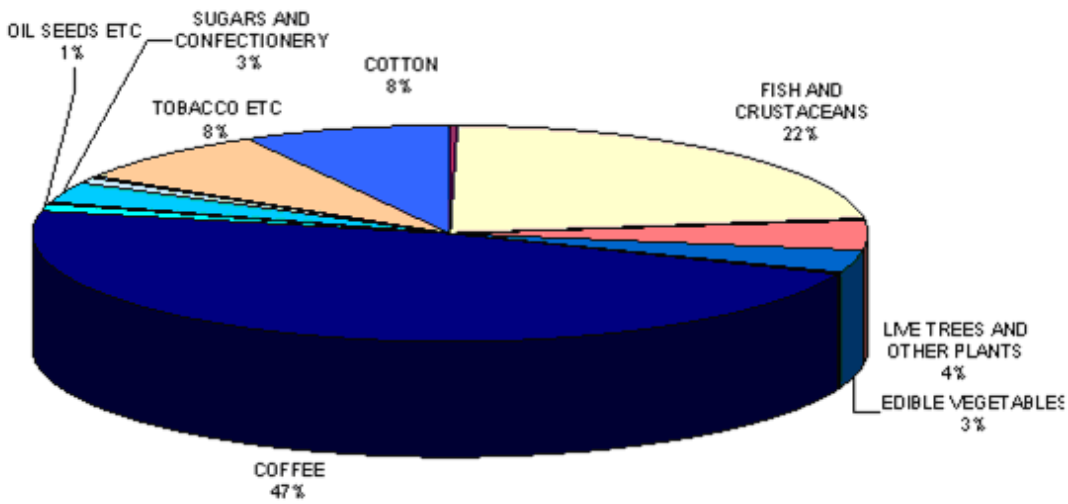
Table 3. Average applied bilateral tariffs, agricultural sector, per cent, 2001

Tariffs applied by → Applied to ↓	EU25	US	Asia developed	Cairns developed
EU25	-	5.8	22.2	15.7
US	16.2	-	28.9	5.1
Asia developed	12.5	3.7	-	6.2
Cairns developed	25.9	3.4	24.9	-
Mediterranean	7.3	4.0	14.1	3.7
Sub Saharan Africa	6.7	3.0	12.0	0.7
Cairns developing	18.3	3.8	24.0	5.9
China	13.5	5.1	21.7	8.7
South Asia	14.4	1.8	33.7	1.8
Rest of World	15.1	2.1	17.4	2.6
Average	**16.7**	**4.7**	**22.5**	**10.8**

Source: Bouet et al., 2005

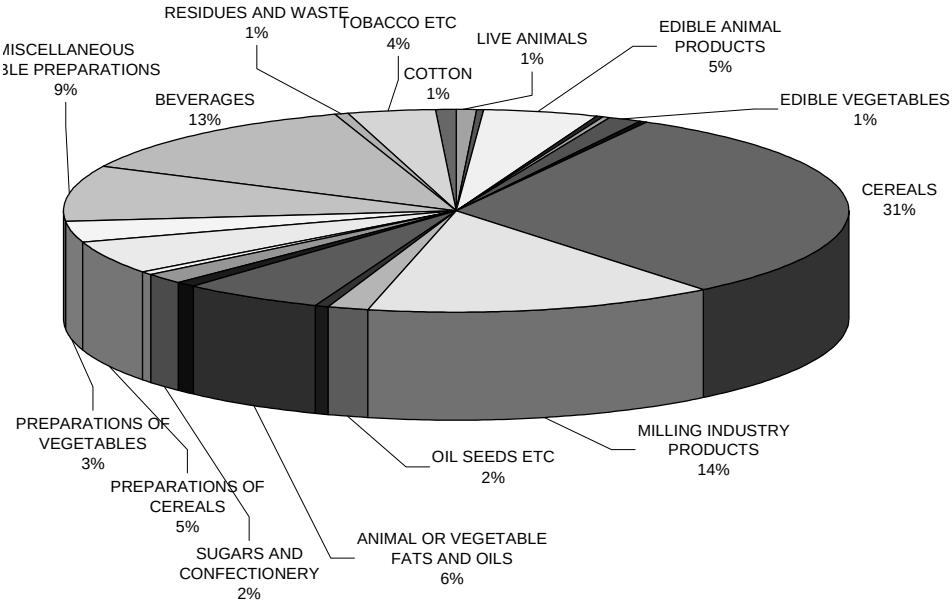
These concerns can be illustrated by examining the likely impact of OECD country liberalisation on some Sub-Saharan African countries. Six countries which are programme countries for Ireland's development cooperation programme are selected: Ethiopia, Uganda, Tanzania, Zambia, Mozambique and Lesotho (referred to as DCI programme countries in the Figures below). Figures 3 and 4 illustrate the composition of their food trade with the EU-15, their major market though not representing all their trade. Fully three-quarters of their food exports are comprised of tropical beverages and fish, both of which are exported free of duty to the EU with the aid of a preferential margin against third country exporters. Almost half of their imports are cereals or cereal products, whose price is projected to increase following OECD agricultural policy reform.

Figure 3. EU-15 imports from the DCI programme countries by value, 1995-2003 average



Source: Chaplin and Matthews, forthcoming, based on Eurostat.

Figure 4. Distribution EU-15 exports to DCI countries by product for the period 1995-2003



Source: Chaplin and Matthews, forthcoming, based on Eurostat.

It is thus not hard to understand that these countries have little to gain and indeed much to lose from OECD agricultural trade liberalisation. Table 4 presents the results of a specific simulation of the Harbinson proposals using the ATPSM model.[3] This exempted least developed countries such as Tanzania and Uganda from making tariff reductions and thus the results represent the impact of OECD plus developing country liberalisation on these two countries. The figures suggest that, overall, partial agricultural liberalisation will have little overall impact one way or the other on these countries. Indeed, as the ATPSM model cannot take account of preferences, the outcome in practice is more likely to be negative than positive. For the rest of Sub-Saharan Africa, the simulations are even more definite that this is the more likely outcome.

Table 4. Welfare effects of the Harbinson proposal, $m

	EU	*US*	*Tanzania*	*Uganda*	*Rest of SSA*
Producer surplus	-41,258	-2,293	+47	+42	+656
Consumer surplus	+27,834	+106	-53	-42	-992
Government revenue	+20,462	+2,050	0.8	0.2	-9
Total welfare	+7,038	-136	-6	0	-345

Source: Giblin and Matthews, 2005.

Poverty impacts

Just examining the aggregate welfare impacts on developing countries may underestimate the impact which OECD agricultural policy reform might have on poverty in these countries. As is clear from Table 4, aggregate impacts net out the gains to producers and losses to consumers from higher farm prices. These

[3] ATPSM, the Agricultural Trade Policy Simulation Model, was jointly developed by UNCTAD and FAO. Details can be found on the UNCTAD ATPSM website http://192.91.247.38/tab/ATPSMabout.asp

distributional effects of trade liberalisation are usually far greater than the aggregate impacts, whether in OECD countries or in the developing world. Where poverty is concentrated among rural food producers, as in much of Africa, it might be expected that OECD agricultural trade liberalisation will have a pro-poor effect. However, if there is also preference erosion which hurts rural producers, this is not necessarily the outcome. As importers of supported products, they also have the option of using tariff protection to capture the benefits of cheaper food imports (for government revenue) while protecting the incomes of the rural poor. Also, in many least developed countries, poor market infrastructure means that border price changes never get transmitted to the rural poor in the first place.

The immediate poverty impacts in middle-income countries are also ambiguous – more of the poor are urban food consumers who may be required to pay more for their food. Agricultural structures in middle-income countries are also more differentiated, with a greater concentration of production on larger holdings; thus many of the benefits of higher world prices may go to larger landowners. The longer-term impacts will depend, in part, on how government distributes additional resources in a more buoyant economy.

Empirical attempts to quantify the poverty effects of trade liberalisation are still relatively recent (see Hertel and Winters, 2005 for a comprehensive discussion and series of case studies, and Ackerman (2005) for a critique of one of these studies). Hertel and Winters find mixed outcomes for their near term analyses, with poverty rising in some cases and falling in others. The largest poverty reductions, in both absolute and relative terms, are in countries with agricultural export potential to the markets which liberalise most (i.e. East Asia and Europe). On the other hand, they find that poverty tends to increase in countries which are net importers of agricultural products and which may presently benefit from preferential market access. The message for policy coherence analysis is that specifics count, and that impacts need to be assessed on a country-by-country basis.

Sequencing of reform

Given the potentially conflicting nature of OECD agricultural policy reform for developing countries, it is worth asking whether it is possible to identify particular policy measures or particular commodities where the development pay-off is highest and to seek to accelerate these reforms. It is striking, for example, how virtually all developing countries condemn export subsidies even where, on a narrow economic analysis, subsidised exports would appear to benefit net-importing countries. On a commodity basis, it would be useful to rank commodities according to the absolute levels of damage caused by OECD agricultural policies although few studies report their results in this way. The scope for influencing the sequencing of reforms in multilateral trade negotiations where the modalities are based on formula reductions may be limited, but there are exceptions. For example, the WTO July 2004 Framework Agreement reiterates the call for ‘full implementation of the long-standing commitment to achieve the fullest liberalisation of trade in tropical agricultural products and for products of particular importance to the diversification of production from the growing of illicit narcotic crops’. Another important example is the Cotton Initiative. This follows the proposal made by four West African cotton producing countries to the WTO in May 2003 seeking a system for the reduction with a view to elimination of cotton subsidies and compensation for LDC cotton producers while the subsidies remain in place. Among the proposals under consideration are the earlier elimination of export subsidies and reduction of domestic support in the case of cotton than for other agricultural products under the terms of any Doha Round agreement. The negotiations on this issue are being guided by the July 2004 Framework Agreement commitment that ' [Cotton] will be addressed ambitiously, expeditiously, and specifically, within the agriculture negotiations’.

Regulatory barriers

As traditional trade barriers are reduced, regulatory barriers are on the increase and may now be more important obstacles to increased food exports from developing countries. Consumers are demanding higher food safety standards and importing countries impose detailed sanitary and phytosanitary (SPS) protection measures in order to secure human, animal and plant health. Developing countries will be expected to meet these standards like other exporters. The WTO's Agreement on Sanitary and Phytosanitary Standards (SPS) is designed to reduce the trade-distorting effects of SPS measures, but many developing countries have concerns about the way in which the Agreement has been implemented to date. Particular concerns are that developed countries take insufficient account of the needs of developing countries when setting SPS requirements, insufficient time is allowed between notification and implementation of SPS requirements, and insufficient technical assistance is given to developing countries (Henson et al., 2002). Regulatory authorities should be made aware of the developing country perspective in the design of food safety, environmental protection, consumer protection and intellectual property protection measures. For example, the sheer complexity of regulations may itself be a prohibitive factor, and it may be possible to guarantee the same outcomes for human, animal and plant health with more transparent legislation. While it will be important to monitor the use or abuse of regulations for protectionist purposes, the longer term objective must be to assist developing countries to reach a position where they can meet the requirements of ever more demanding consumers.

Increasingly, food standards standards are set by private agents (supermarket buyers) rather than governments. Preferred and exclusive partnerships, based on trust and audits, between supply chain partners are increasing. Chain transparency, including tracking and tracing systems, is increasingly required both to safeguard consumer health and safety of food, as well as to use as a marketing tool to maintain consumer trust and confidence in a brand name. For developing countries, meeting these standards requires investment in education, infrastructure, and hardware. The additional costs of audit and certification can be substantial, especially if they have to be carried out by foreign experts. The move to preferred suppliers may favour those developing countries with more advanced infrastructure, making it even more difficult for new entrants and less advantaged developing countries.

Development cooperation policy

Examination of trade statistics often reveals that developing countries do not appear to be taking advantage of market access opportunities which are open to them. Developing countries with preferential access to an OECD country export market often appear to lose market share to their less preferred competitors. Thus, even where poorer countries gain market access *opportunities*, turning these opportunities into additional trade flows will require support. Furthermore, where countries or population groups within countries may be potential losers, for example, from the unravelling of preferential access arrangements, there is a need to find ways to compensate them or to assist them to diversify.

Awareness of these issues has led to a growing interest in trade-related development assistance (TRA). TRA covers four categories of actions: assistance for trade policy formulation and participation in negotiations; assistance for trade development including actions aiming at relieving supply side constraints which prevent developing countries exploiting their international trading potential; assistance for trade adjustment, including measures to mitigate the adjustment costs of trade liberalisation; and assistance to support trade-related infrastructure. The WTO July 2004 Framework Agreement reiterated the need to further increase TRA. OECD countries have indicated their support for this objective at various opportunities, including at the G8 Summit in Gleneagles in July 2005 and at the Development Committee meeting of the IMF and World Bank in September 2005.

Despite these positive signs, questions remain about the extent of the coherence between aid and trade in agriculture. The global volume of assistance to agriculture in 2002 (expressed in 2002 prices) was at its lowest level for the past thirty years even if it recovered somewhat to €2.9 billion (in 2002 prices) in 2003

(Matthews, 2005b). Greater priority for assistance to global public goods important for the livelihoods of poor people is warranted, such as generating productive new technologies for the sustainable management of land and water, forest and marine resources; controlling trans-boundary pests and diseases; conserving agro-biodiversity and rehabilitating degraded lands. New and more innovative ways of providing aid to agricultural sector development need to be created, including through involving the private sector and voluntary groups. Under the SPS Agreement, developed countries are to provide technical assistance to developing countries, to help them meet SPS requirements, but there is some evidence that this aid is poorly focused (Wiig and Kolstad, 2005).

Assistance for trade adjustment, especially where this is due to preference erosion, is also contentious. One issue in this debate is whether the provision of compensation for preference erosion is a bilateral or multilateral responsibility. Because the most important preferences originate in unilateral trade policy decisions by OECD countries, it is argued that it is up to those countries responsible for preference erosion to bear the burden of offsetting it. On the other hand, because trade liberalisation is a global public good, proposals have also been put forward for a multilateral preference erosion compensation fund. These issues have a particular resonance in the policy coherence and agriculture debate because the existence of tariff peaks makes preferences in this sector particularly valuable.

Developing country policy coherence

Developing countries too have a responsibility to ensure that their domestic policies are consistent with the Millennium Development Goal objectives and to facilitate adequate supply responses. Specifically, in the case of agriculture, this requires developing countries to follow consistent and credible economic policies which encourage private investment; to adopt trade policies that are not biased against primary production and exports; and to make the public investment in infrastructure, technical development, and credit which is necessary for modernising production and improving competitiveness. Much progress has been made in reducing the negative bias against agriculture in macroeconomic and trade policies, but it still does not get the attention it deserves as the main source of livelihoods for poor people, particularly in the world's poorest countries. Government investment in agriculture as a percentage of GDP remains very low in many developing countries.

Policy coherence analysis for agriculture

Based on ongoing research to investigate the impact of EU and OECD agricultural policy reform on the six partner countries of Ireland's aid programme in sub-Saharan Africa, the following checklist of actions is suggested to the development policy community seeking to bring about greater policy coherence between domestic agricultural policy and development objectives.

1. Create institutional mechanisms to ensure that the development perspective is taken into account when agricultural policy or policy reform is being formulated. As the discussion in this paper makes clear, this means more than links with agricultural Ministries, but also requires links with trade Ministries and agencies concerned with setting and monitoring food safety standards, intellectual property rights issues, and environmental protection.

2. Undertake empirical study of the impacts of higher world food prices for the developing country partners of your development assistance programme. While the more sophisticated studies now use general equilibrium modelling for this purpose, for policy purposes it may often be sufficient to adopt a more direct and transparent approach using partial equilibrium modelling or even impact analysis applying price changes derived from published studies.

3. Trace through the likely impact of border price changes on the distribution of rents within your developing country partners. Our research in Tanzania and Uganda shows that there is very limited price transmission of border prices to domestic farmgate and consumer prices within these countries, suggesting that changes in world prices are absorbed in the marketing chain. Thus the initial impacts on producer and consumer surplus, as shown in Table 4, would need to be modified to take into account the way in which border prices are dissipated along the marketing chain.

4. Examine the feasibility of potential export increases in the light of known SPS barriers. For example, projected livestock or meat export increases to high-value markets may not be feasible if the country's disease status does not allow it. This may suggest actions to try to relax these constraints, for example, by assisting in disease eradication, or helping to upgrade slaughtering capacity to meet OECD country standards.

5. Undertake a poverty profile using household budget survey data to identify the households likely to be affected by the modified agricultural price changes, whether consumers or producers. Commodity price changes from published studies will provide some of the required data to estimate the impacts on consumption bundles, but poverty researchers stress in addition the importance of factor market changes and changes in government revenue which will usually require output from general equilibrium models. The purpose of the poverty profile is to identify households which are specialised in producing particular crop combinations or in consuming food products likely to be affected either positively or negatively by agricultural policy reform.

6. Prepare a trade-proofing of development assistance activities in relation to the impacts of agricultural policy reform. What investments need to be supported if the recipient country is to be helped to take advantage of new trade opportunities? Is there a need to strengthen social safety nets to prevent an increase in the number of households living in poverty? How is policy dialogue with recipient countries being used to encourage aid recipients to develop policies more coherent with the new trading environment?

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