

A Policy Taxonomy for Agricultural Transformation

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What are the policies that drive agricultural transformation? And how can they be classified to support decision making? These are the key questions that drove the development of a policy taxonomy for agricultural transformation, with a focus on those that affect prices in agricultural markets.

This taxonomy is derived from the original framework of four broad categories and nine sub-categories used in *Transforming Agriculture in Africa and Asia: What Are the Policy Priorities?*¹ and an assessment of over 250 articles ([See here](#)). This taxonomy moves beyond the category approach. Instead, it examines the underlying target of the policy, i.e., whether the policy is primarily targeting agricultural markets,² the rural economy,³ the macroeconomy,⁴ or the institutions⁵ that shape socioeconomic relationships. This shift in approach was designed to help decision-makers prioritize options.

Figure 1 shows the policy taxonomy for agricultural transformation. Definitions for the terms used below can be found in the [glossary](#). For more detailed information please see the longer report *Agricultural Bias in Focus*.

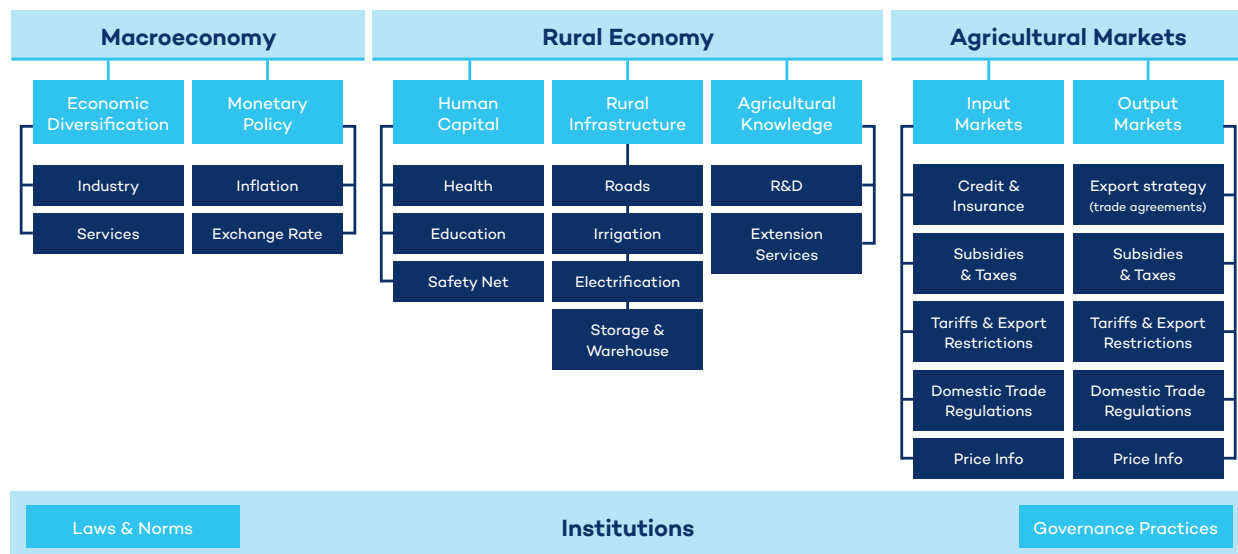


Figure 1. Policy taxonomy: Agricultural transformation

¹ The four broad policy categories are: (1) public investment, (2) price interventions, (3) macroeconomic policies, and (4) land and other institutional reforms. The nine sub-categories are: (1) research and development (R&D) and extension, (2) rural infrastructure, (3) rural health and education, (4) anti-agricultural bias, (5) trade policy reform, (6) monetary and exchange rate policy, (7) economic diversification, (8) land reform and (9) credit.

² Agricultural markets include input markets, such as seeds, fertilizer, and equipment, and output markets such as grain exchanges and livestock auctions. The policies in this area are typically the most common source of agricultural bias.

³ The rural economy includes farm and non-farm productive activities in non-urban areas, and relies on sources of social, physical, and knowledge capital, which are vital to inclusive agricultural transformation. A thriving rural economy depends on strong social services, outreach and extension services, infrastructure, financial services and functioning markets.

⁴ The macroeconomy encompasses the economic policies that affect the economy as a whole, and the interaction of policies whose effects are reflected in the wider economy. It includes monetary policies, policies for economic diversification, exchange rates, and policies governing foreign exchange, interest rates and employment markets.

⁵ Institutions define and enforce rules. They may be public or private, governmental or non-governmental, formal or informal. Examples include gender norms, labour mobility, and business cultures, all of which can affect agricultural transformation.



An Inventory of Policies

There is a wide range of policies within each target area. Figure 2 provides a non-exhaustive inventory of policies, limited specifically to those that target agricultural markets and the rural economy, given that these have the most direct impact on the process of agricultural transformation. The inventory does not include those policies involving the macroeconomy or institutions.

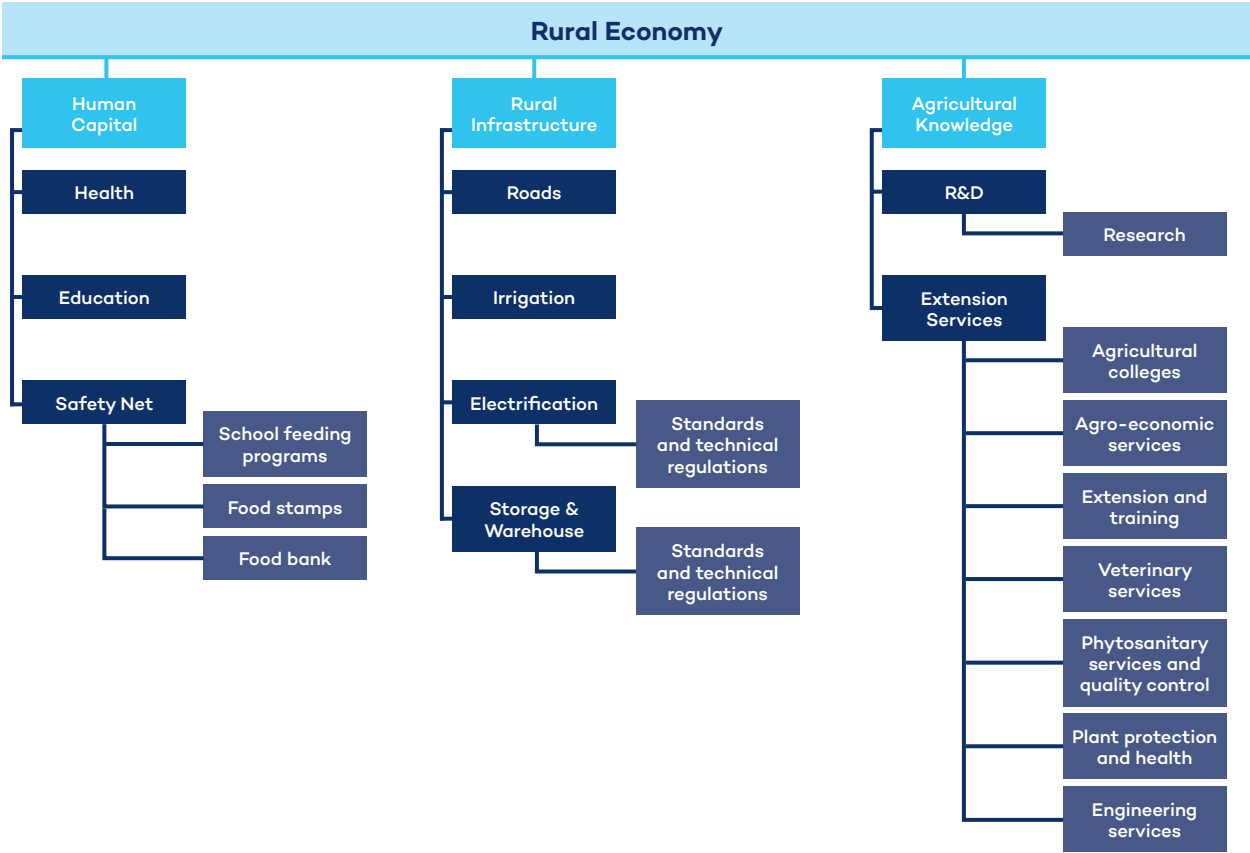





Figure 2. A granular approach to the policy taxonomy

Source: Authors' extraction based on OECD Producer Support Estimate (PSE) database



The inventory includes tariffs and non-tariff trade policies on hundreds of products; farm programs that provide subsidies to farmers, and in some cases to processors; and policies that provide social safety nets.

Some of the policies have an impact on market prices for farm outputs and inputs. For example, market prices can be affected by trade policies, such as import tariffs, export taxes, export subsidies, export restrictions or prohibitions, safeguard measures and commodity boards. Many of these policies generate government revenue.

Other policies listed include subsidies and investments that lower producer costs, such as subsidies for fertilizers, seeds, insurance, and credit, or programs for land conversion to agriculture. In most cases, these policies require funding from public budgets.

There are also those policies that involve transfers from the government to farmers that support income without a direct link to production—often called direct payments. Separately, there are government-funded social safety nets, such as food stamps or food banks, which are directed toward consumers to facilitate their ability to purchase or access food more cheaply, and which also benefit farmers by increasing demand.

Additionally, some policies in the inventory involve public expenditures not directly targeted at farmers, but that can improve their business conditions. These policies might involve the provision of a useful service free of charge, or at minimal cost, that would not otherwise be provided by private markets. Published and accessible market price information can be an important service for farmers relying on market intermediaries, for example. Extension services that address production challenges are another.

Finally, there are policies not specifically targeted at farms but that have an important effect on rural economies. These policies include bioenergy programs, as well as the regulation of land and water use.

Understanding How Policies Affect Agricultural Prices

The report *Transforming Agriculture in Africa and Asia: What Are the Policy Priorities?* showed that in the past, successful agricultural transformation depended on interacting agricultural policies as well as the broader economic policy environment. A key finding was that agricultural transformation took off when governments removed the policies and addressed the market failures that disadvantaged the agricultural sector relative to the rest of the economy. We referred to this relative disadvantage as the anti-agricultural bias.

The concept of agricultural bias derives from the observation that policies can provide positive assistance, remain neutral or penalize agriculture relative to the rest of the economy. A broad range of policies drive a country's agricultural bias, most of which have a direct impact on agricultural markets, either on the output or input side. Figure 3 illustrates those policies: the darker the shade of green, the more direct the impact is on the agricultural bias. The boxes in grey have a very indirect impact.

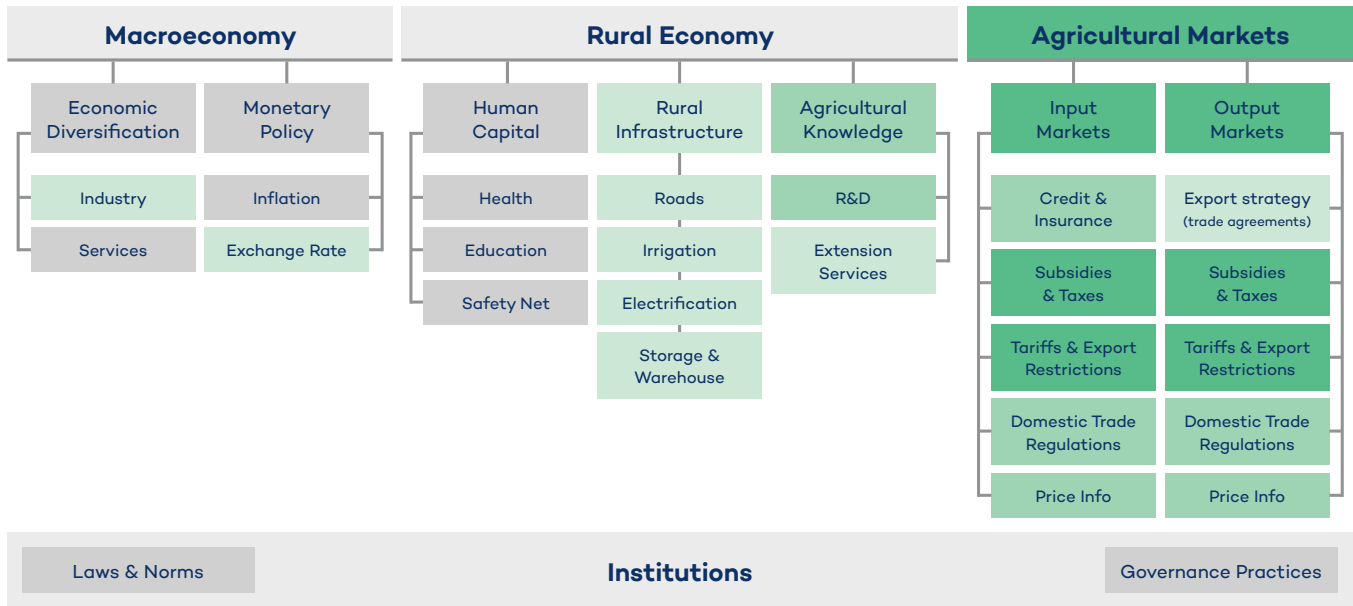


Figure 3. The source of the anti-agricultural bias

Since the 1960s, many governments have chosen to favour other sectors, especially industry, over agriculture. This pro-industry trend led to much of the historical anti-agricultural bias. However, bias can also be the result of market failures, in some cases, due to policies that distort agricultural markets. In other cases, market failures are the result of an absence of policies. Both types of market failures ultimately place small-scale producers at a particular disadvantage. For example, one source of a market failure involves public investment in areas such as infrastructure and education that are disproportionately focused on urban areas compared to rural areas, making the environment in which farms operate relatively less favourable compared to sectors located in or nearby urban areas.

An anti-agricultural bias deters investments in agriculture and reduces the income of economic agents working in the sector, such as small-scale producers and rural workers. Detecting and assessing the size of that bias is a crucial step toward achieving agricultural transformation and ensuring that the sector can thrive, as seen in Brazil and Vietnam. Those countries have largely removed that bias and seen agricultural transformation take hold. Meanwhile, countries that have not yet transformed their agricultural sector are also those that continue to show an anti-agricultural bias, such as Ethiopia, Malawi, Togo and Uganda.

Eliminating the bias alone is not sufficient for achieving agricultural transformation, but it is an important precondition. Other policy interventions are often needed to minimize market failures and distortions that disproportionately hurt small-scale producers.



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