

What Has Been Successful? Experience of Government and Other Policy Institutions.

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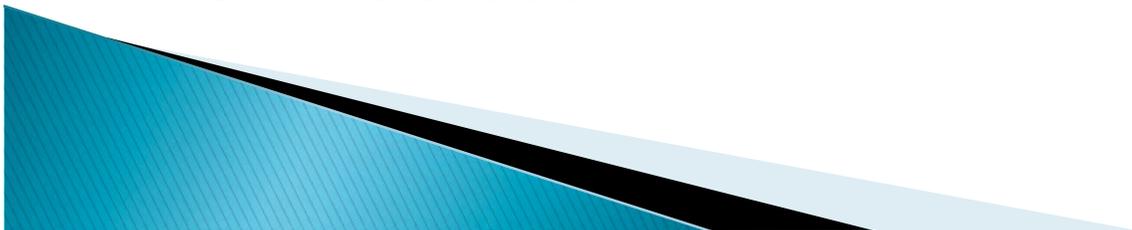
Outline of My Fuzzy Thoughts

- ▶ **What Experience Do I Have That is Relevant?**
- ▶ **My World Bank Experience: as a Manager and Policy Advisor,**
- ▶ **CGIAR Experience as Chair of The Technical Advisory Committee (TAC),**
- ▶ **As A Member/Chair of Board of Trustees– Danforth Center, CIMMYT,**
- ▶ **Lessons Learned–**
 - **Keep the Models Simple.**
 - **You Got To Have Numbers.**
 - **Don't Be a Boss Pleaser.**



Relevant Experience?

- ▶ 1. World Bank– 5+ years as a Bank Director – Senior Agriculture and Rural Development Manager.
- ▶ 2. Seven Years as Chair of the Technical Advisory Committee (TAC) of the CGIAR – Advice to Donors on Research Priorities and Resource Allocation.
- ▶ 3. Service on Non–Profit Organization Boards of Trustees.



World Bank Experience – 1

- ▶ As Director of Agriculture and Rural Development (ARD) participated in three types of activities– CAS, ESW and Policy Advice to Countries–take each in turn.
- ▶ About every three years the World Bank prepared a **Country Assistance Strategy(CAS)** which analyzed the current state of affairs and proposed a Bank lending/assistance strategy for each client country.
 - The CAS built on **Economic and Sector Work (ESW)** which always contained estimates of Macro performance– growth, fiscal balances, BofP, inflation and sectoral estimates of production, exports and imports, income projections, poverty reduction and food security.

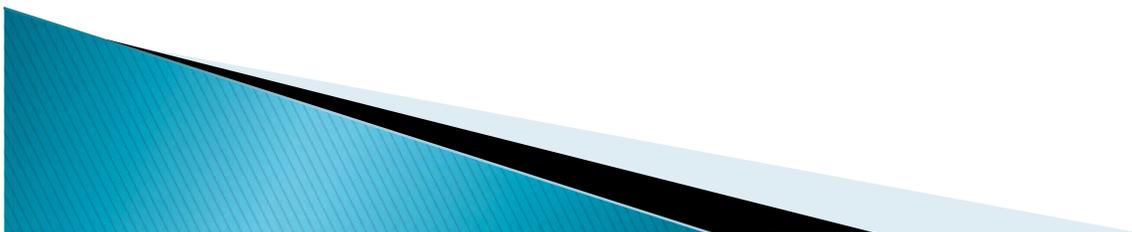


World Bank Experience – 2

- It was supposed to be objective economic analysis but it also implicitly framed sectoral priorities. Given that Regional Sector Managers gained or lost budget and staff based on the volume of lending, CAS's were also a political document.
- Therefore encouraged the use of standard models for macro estimations and transparent methodologies for projections.

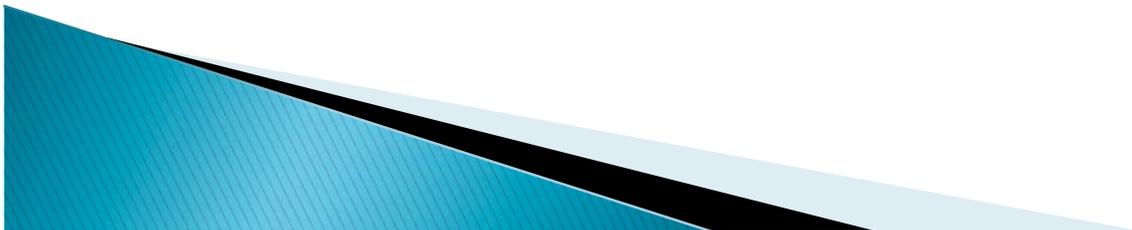
Bottom Line on CAS's –the successful ones had numbers based on transparent or trusted models and wove those into conclusions about potential impacts.

- ▶ **The second form of analysis was Economic and Sector Work (ESW) which was a critical input into CAS's.**
- ▶ **For ARD this involved evaluating sector performance which included estimates of production which in turn required estimation of supply functions.**



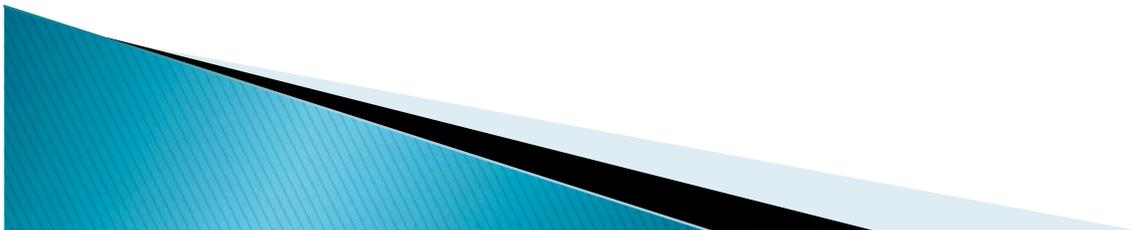
World Bank Experience-3

- ▶ Estimating supply response to investments or policy changes was critical in determining financial feasibility and economic benefits, two of the three critical tests for Bank projects– technical feasibility, financial viability and economic benefits.
- ▶ Then supply response had to be translated into poverty impacts by assessing marketable surpluses and projecting market prices.
- ▶ Again models had to be able to be explained and the numbers had to be plausible.
- ▶ The third form of Bank activity I periodically became involved with was **policy advice to clients**– Secretaries/Ministers of Agriculture and occasionally Presidents.



World Bank Experience-4

- Here one was frequently either providing ammunition to the Minister in his/her arguments with the Minister of Finance or arguing for one project versus another within the sector.
- Here your case was stronger if you could argue quantitatively about real impacts on production, import substitution or exports, farmer income or rural employment.
- The difficulty here is that one seldom had much notice of these events and even less information about what questions might come up.
- Therefore another lesson is that continually building up and up-dating empirical estimates is important. This led frequently to annual reviews of sector performance in important client countries.



CGIAR – TAC Experience–1

- ▶ When the **Consultative Group on International Agricultural Research (CGIAR)** was formed in 1971, a crucial element was independent technical advice on priorities & resource allocation from a **Technical Advisory Committee (TAC)**.
- ▶ TAC produced periodic Priority Papers advising donors on which commodities should be eligible for CGIAR funding and which should not.
- ▶ The early ones were basically qualitative documents indirectly based on the relative importance of the commodity to world food needs.
- ▶ As CGIAR became bigger and more complex and money became tighter there were expanded demands for analysis on how much should be spent on: plant breeding and, on what commodities; natural resource management; farming systems; policy analysis; and capacity building.



CGIAR – TAC Experience–2

- ▶ They also wanted advice on regional allocations e.g. Africa vs. Asia.
- ▶ So TAC experimented first with congruence analysis and subsequently applied a sequence of modifiers to adjust congruence shares by incidence of poverty, difficulty of the environment, indigenous research capacity, etc.
- ▶ We produced elegant tables with lots of numbers and it engendered some of the most intense and forward looking debates I ever experienced in the CGIAR. Decisions were made, resources were allocated and the world went on.
- ▶ But the approach was heavily attacked by economists who argued that the only theoretically defensible way to measure the economic benefits and costs was by the use of economic surplus analysis.



CGIAR – TAC Experience–3

- ▶ And here in lies the dilemma. The TAC analysis seemed to Foreign Aid donors to be real –it took explicitly into account concerns about poverty, less favored areas, declining per capita food supplies in Africa etc. etc.
- ▶ Whereas the conceptually obtuse and theoretically complicated notion of consumer surplus– or is it the four consumer surpluses– was incomprehensible to them. Therefore they did not know how to interpret any numbers being presented and were suspicious of their value.
- ▶ This is not unlike the debate about why, when estimates of very high rates of return from investments in agricultural research have been coming out for 30 years, investments declined precipitously for the last 20 years.
- ▶ If you don't understand the model and the results seem implausibly high you are unlikely to act on the basis of the numbers.
- ▶ And yet many economists have few alternatives to offer to the old standard –congruence analysis which says –spend in proportion to the importance of the commodity in food supplies.



Board of Trustee Experience

- ▶ I have served on the Board of Trustees of the **Donald Danforth Plant Science Center** for nearly 10 years. It is a cutting edge plant science research center.
- ▶ It is now approaching a 20 million\$ annual budget and has an 120 million\$ endowment.
- ▶ Yet economic analysis has not played a significant role. Why?
- ▶ Similarly I Chaired the Board of Trustees of **CIMMYT**, an original CGIAR Center with a 40 million dollar budget, for more than five years.
- ▶ Again other than periodic reports on rates of return in investments on wheat and maize research, agricultural economic research played a limited role.



Board of Trustee Experience-2

- ▶ Yet we went through a financial crisis and came close to bankruptcy. We desperately needed financial analysis.
- ▶ When it was proposed we sell some of our assets to restore critical reserves, it was voted down without analysis because “you don’t eat your seed corn”.
- ▶ Would it have been a better deal than short term borrowing at high interest rates?
- ▶ The only time economic analysis seemed relevant was – should we sell our 80 hectare home station when it was proposed to move the Mexico City airport next door and use the proceeds to build a new bigger and better station further out in the country.
- ▶ Politics killed the airport and the analysis was not done.



Lessons Learned-1

- ▶ As My old Professor Willard Cochrane said when he came back four years advising the Secretary of Agriculture on policy reform-“you gotta have numbers”
- ▶ And policy makers want a point estimate, not a probability distribution.
- ▶ They don't like scenario analysis though with help they can learn that they are useful.
- ▶ But you can't pull the number out of the air.



Lessons Learned-2

- ▶ Even though qualitative analysis maybe more realistic, better able to grasp the problem's complexity and more capable of articulating the policy options.
- ▶ It wont cut it because you can't give numbers, the holy grail "real" decision analysis.
- ▶ So you need a quantitative methodology/model but it has to be one you can explain.
- ▶ So the simpler the better- policy makers hate black boxes.
- ▶ Which may explain why nobody believes what comes out of complicated CGE's



Lessons Learned-3

- ▶ So the first two lessons seem inconsistent—you have to produce numbers but you can't invent them.
- ▶ But policy makers won't believe quantitative models they don't understand.
- ▶ The solution is that policy makers need to understand the power of models in dealing simultaneously with many more variables than can be done in your head or in diagrams on paper.



Lessons Learned–The end

- ▶ Therefore your challenge is provide compelling simple intuition about what the model is doing.
- ▶ You must forever be the teacher but it will take time to build confidence in your models.
- ▶ The best way to build confidence is to do your best analysis and present the results as they turn out even if the boss doesn't like them.
- ▶ Being a boss pleaser maybe the stereotype of the consulting firm but it is suicide for a policy analyst who wants to be respected.

