

4.6 Enhancing incomes and income distribution through institutional and agricultural policy reform

Background

The *ACIAR Corporate Plan 2001–06* states that ‘promoting poverty reduction and the sustainable development necessary to enhance prospects for stability will continue to underpin the aid program’, highlighting that activities that will lead to increases in incomes are seen as a key component of development. That ‘Australia’s aid program will continue to assist countries to take advantage of the opportunities of globalisation by helping them develop their capacities in key areas of trade policy, governance and financial reform’ is another tenet of the ACIAR plan.

Appropriate government policies, including those relating to institutional structures, are essential for realising improvements in incomes and income distributions. Moreover, higher national incomes enable developing countries to take a stronger position on socioeconomic policies such as the provision of ‘safety nets’ for the poor and the protection of the environment. Several strong trends are evident in recent policy reform and associated institutional restructuring. These include a growing emphasis on trade in the global environment, which has stimulated changes such as more liberal trade and investment policies. At the same time, there has also been a trend to smaller and more focused governments, and many government institutions have been privatised.

Policies and institutions can be targeted specifically towards agriculture or be more general, impacting on agriculture indirectly. The latter include policies relating to key rural

infrastructure, and the institutions involved in foreign exchange. Examples of specific policies include those that impact:

- on inputs, such as credit policies;
- on intensification or facilitating more extensive production, such as land ownership;
- on yields, such as extension policies;
- on output prices, such as export taxes and subsidies; and
- on market access, such as trade agreements.

Many failures of policy and institutions can be traced back to a lack of appreciation of the market, where it can work and where it fails. Research and development can address this aspect by providing better information on the underlying problem, and the impact of current and alternative policies. For example, analysis has shown that trade liberalisation would result in improved incomes for many developing countries but that a number of poor food-importing countries may require food aid or other support to compensate them for the higher food prices that will result in some countries from trade liberalisation. Policy and institutional research can produce high returns, as its adoption can be rapid and produce widespread benefits at low cost.

Key strategies

There is a need to undertake collaborative research with developing countries to enhance expertise in agricultural policy and institutions, such as trade-related policies, as well as income analysis. Some strategies may





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Linking Farmers to Markets



include work to ascertain where Australia's comparative advantage lies in institutional and policy research (e.g. collaborative research on trade-liberalisation policies). A regional focus can then be established. For example, research can be targeted where poor institutions and policies are adversely affecting income opportunities from agriculture, as is the case with transitional economies.



Implementing the strategies

- ACIAR will target areas where policy changes are more likely to be adopted, avoiding issues such as land reform. An example would be to undertake



collaborative research using Australian expertise in trade liberalisation in low-income regions in which it is accepted that such reforms will lead to increased incomes.

- Foster policy research on institutional adjustments that will improve links between farmers and markets, including research on trade and marketing, Sanitary and Phytosanitary Standards harmonisation, impacts of globalisation on remote communities, development of small and medium enterprises, rural infrastructure, and impacts of decentralisation.



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