

The Outlook for Agriculture and Rural Development in the Americas:

A Perspective on Latin America and the Caribbean

2015-2016

Executive Summary



SYNOPSIS

Like the five previous reports, this edition of “The Outlook for Agriculture and Rural Development in the Americas,” covering 2015-2016, is divided into the following four chapters:

Chapter I: Macroeconomic Context: The author analyzes the evolution and outlook for financial and macroeconomic markets, which determine the conditions in which agriculture in the Americas will have to operate.

Chapter II: Sectoral Context and Agriculture: The chapter begins with an analysis of the trends in the region’s main agricultural aggregates (sectoral context), followed by the trends and prospects for the various subsectors (crops, livestock, fisheries, and forests).

Chapter III: Rural Well-being: Based on the household survey data of twelve Latin American and Caribbean (LAC) countries, the author discusses the situation of young people and rural women with regard to labor markets and access to assets, as well as income inequality in the rural milieu.

Chapter IV: Policies and the Institutional Framework: This section contains a review of the principal changes that have taken place in agricultural policies and the public institutional framework of the sector, both in the LAC region and among its main trading partners. It also outlines the challenges facing the region as it endeavors to achieve more competitive, sustainable, and equitable agriculture.

A synopsis of each chapter of the document is presented below:

Chapter I: Macroeconomic Context

The global economy has not yet recovered from the impact of the 2008 financial crisis. The global growth rate remained at 3.3% in 2014, unchanged from the previous year, and is expected to reach 3.5% in 2015. The expected growth rate for LAC, on the other hand, is the lowest since 2009, but with significant differences among sub-regions and countries. The lack of dynamism, or contraction, of some of the region’s largest economies, especially in South America, accounts for the drop in the regional average.

The trends in some variables are the main reason for the region’s performance. Trade and investment accounted for most of the slowdown, while capital flows and remittances maintained or increased their dynamism. External financing, especially in the form of government bonds, remains fluid, thanks to the low interest rates recorded across the globe in recent years, and the fact that the expected hike in US interest rates has not yet materialized.

The prices of LAC’s commodity exports have shown a downward trend, leading to further deterioration in the terms of trade. The severity of the decrease has varied with respect to both the goods affected and the effect on the countries’ terms of trade, however. The Central American sub-region, a net importer of oil and foodstuffs, should benefit especially from this trend, providing a boost to gross domestic product (GDP) in 2015 and 2016.

The collapse in oil prices followed four years of stable prices. The value reached in January 2015 was the lowest since the spring of 2009, when the financial crisis was at its height. Several of the regional economies that finance

part of their public spending with income from state-owned oil companies will have to contend with the effects of the sharp drop in prices on their tax revenues. On the other hand, falling prices have had—and will continue to have—a positive effect on the fiscal variables and rates of inflation and growth of the region's oil-importing countries.

In spite of the good prospects for global growth thanks to falling oil prices, markets continue to be affected by uncertainty about how long energy prices will remain low, making them susceptible to volatility. In addition to that uncertainty, the growth prospects of Europe and China are major concerns. The growth forecasts for Brazil and Argentina, two of the region's biggest economies, were revised downwards, due not only to the effect of the fall in commodity prices but also to internal and external weaknesses. That has a knock-on effect on other economies in the region, via trade and investment. The slowdown in Venezuela may also have a negative impact on the economies of Latin America and, in particular, the Caribbean, which benefit from preferential bilateral trade and investment arrangements with that country.

Chapter II: Sectoral Context and Agriculture

i. Sectoral Context

The annual rate of growth of LAC's agricultural sector in the last three years was 2.9%, higher than the figure of 2.6% for the wider economy. Essentially, this was due to the outstanding performance of agriculture in 2013, when it grew by 5.5% over the previous year, more than twice the growth of the economy in general (2.5%).

The growth of LAC's agricultural sector was largely due to higher productivity. The most recent calculations suggest that the volume

of agricultural production grew at an average annual rate of 3.2%, with increases in productivity accounting for 2.2% of the total and the expansion in the use of resources (one percentage point) for the remainder. However, this chapter highlights significant differences in productivity and the use of resources among the countries of the region.

With regard to trade, most of LAC's local currencies have experienced a reversal of the situation that prevailed in recent years, with the trend now being towards devaluation. In the period 2012-2014, the US dollar appreciated by an average of almost 2%, which, of course, was reflected in a depreciation (in real effective terms for the agricultural sector) of the currencies of most LAC countries, regardless of their trade structure. The analysis presented in this chapter considers the variation in exchange rates and inflation in each country of the region with respect to that of their most important agricultural trading partners.

The devaluation of local currencies is expected to be beneficial in a context of sluggish LAC agrifood exports. In 2011-2013, the average annual increase in world agrifood exports was only 2.4%, with those of LAC posting a historically low rate (an average of 1.9% per year). Although in 2013 LAC showed signs of economic recovery with growth of 3.9% over the previous year, the figure was still moderate when compared with the global rate (5.6%).

The sluggishness of LAC agrifood exports was mainly due to a slowdown in global demand for agrifood imports, which grew by only 2.5% annually over the previous three years, a much lower figure than in the previous decade (11%). In this scenario of a deceleration in imports, LAC is one of the regions of the world whose food imports have slowed the most. In fact, in terms of long-term growth (10-year period), LAC is the region with the biggest fall in agrifood imports (more than 8%), followed by Asia (excluding China), with 7.7%.

In addition to the slowdown in international demand, it is forecast that in the next decade the positive long-term trend in international food prices observed over the last 15 years is going to be reversed and become negative. Although prices remain high in real terms compared to the 2002-2004 base period, by March 2015 they had fallen 26.6% from their high in December 2010, and are expected to continue to decline.

Finally, in this chapter it is proposed that higher agricultural productivity is LAC's best way to achieve the sustained, stable growth of the agricultural sector, especially given the anticipated slowdown in global demand for agrifood products (which will affect the growth prospects of LAC's production and exports) and the possible end of the super cycle in agricultural prices.

ii. Agriculture (Crops)

During 2013 and 2014, large volumes of cereals and oilseeds were produced in the Americas, with production of some specific crops even setting new records. This was made possible by good climate conditions, as well as an increase in the area planted with the crops in the countries in the northern and southern subregions of the Americas, prompted by an improvement in the relative prices paid for them. Conditions varied in other parts of the continent, however. In Central America, for example, drought conditions led to heavy cereal losses, while coffee production was badly affected by the leaf rust outbreak across the region.

In addition to the impact on agricultural production of the adverse climate conditions and pests and diseases during the years mentioned, LAC had to contend with increased competition in international markets as a result of the rapid growth in agricultural output in some Asian and African countries. Higher yields, the incorporation of new land, and cheap labor enabled countries such as Viet

Nam, the Philippines, Ghana, China, and Ivory Coast to overtake, and in some cases even double, LAC's production and exports of fruits (banana and pineapple), tubers (cassava), coffee, and cacao.

Despite these circumstances, the countries of the region have made major efforts not only to raise agricultural productivity, but also to increase the value added of their agricultural products and improve their marketing channels. The incorporation of technologies and innovations has been the main reason for the improvement in productivity. For example, the higher productivity achieved by commercial agriculture in the last two years was associated with the utilization of genetically modified organisms (GMO), increased use of zero tillage technologies, production under controlled environments, and, to a lesser degree, the incorporation of various information and communication technologies (ICT). Significant increases in productivity were also achieved by the region's family farmers, thanks to the gradual incorporation of new technologies and varieties of crops that are more resistant to pests, diseases, and abiotic factors.

Furthermore, farmers have become more aware of climate change, and of the need to produce using more environmentally friendly methods. This has resulted in greater use of bioinputs, which, while not yet widespread, will be one of the trends in coming years. With regard to value added and marketing processes, numerous countries in the region have made serious efforts to position themselves in the markets of healthy products, as well as highly nutritious or gourmet fruits and vegetables. In doing so, they have not only achieved a rapid increase in the production of organic products and crops that offer supposed health benefits (herbs, quinoa, chia, etc.), but have also constructed value added strategies based on differentiation by origin, the type of technologies employed, the people involved in the production process, and the environmental impact of the production system, among other factors.

To maintain and increase competitiveness in national and international markets, the countries will have to continue with the efforts to strengthen national innovation systems; promote value added and differentiation based on environmental, territorial, or cultural factors; and strengthen family agriculture's links with markets by promoting business skills, the development of alternative markets and marketing channels, improvements to risk management programs and instruments, and capacity building to make it possible to comply with new trade standards.

iii. Livestock

Global demand for meat, eggs, and dairy products is expected to rise substantially by 2050. Much of the growth in the demand for animal protein is set to come from developing countries, as they urbanize and disposable incomes rise.

LAC currently produces more than 25% of the world's beef and over 20% of its poultry. The focus of meat production in the Americas is increasingly shifting toward South America (and Brazil in particular), as livestock herds in the US continue to decline and struggle to recover following several years of devastating drought.

Growing livestock inventories and more efficient production continue to drive meat and milk production in LAC. Three countries account for 50%-70% of livestock inventories in LAC, and the top five producers for 70%-80%. LAC beef exports have doubled, while exports of pork and poultry by Brazil and Chile have quadrupled over the last decade.

The recent fall in the prices of oil and feed grains is facilitating a shift in the LAC livestock industry towards more intensive forms of production. High-income countries are using innovative, proven livestock production technologies to improve food security, the economy and environmental sustainability. In LAC, however, apart from some notable

exceptions, such know-how is not being harnessed to the full, since extension and technology innovation systems are very weak, and family farmers' access to technology and rural services is very limited.

With regard to animal health, it is estimated that around 85% of South America's cattle population is now recognized as free of foot-and-mouth disease. Major challenges lie ahead, however, given the need to improve epidemiological surveillance systems in a context of climate change, as well as integrated animal health management, the health of ecosystems, and public health, under the "One Health" approach.

iv. Fisheries

The global demand for fish products is growing, placing greater pressure on the main fisheries. LAC is no exception. Consumption of fish and shellfish in the region has increased considerably in recent years, with countries like Brazil, Peru, and Mexico recording figures above the world average. Consumption is being driven by greater awareness of the importance of eating healthy products, and the growing presence of products that are less exclusive and more affordable. With adverse environmental factors compounding the situation and leading to a marked decline in the amount of product being caught, there is an urgent need to develop tools for applying the ecosystem management approach within the fishing industry. This is especially important bearing in mind that fishing is the livelihood of a sizeable percentage of the LAC population. Small-scale fishing is a sort of "family insurance policy" that people in the region fall back on when agricultural harvests are poor and rural employment hard to come by.

Aquaculture continues to record the highest rate of growth of primary activities in LAC, making a growing contribution to domestic economies. In the last thirteen years, LAC aquaculture production posted its highest percentage of growth ever (71%). In addition

to accounting for an increasingly large share of agrifood exports (Ecuador's exports, for example, were worth nearly USD 1.6 million in 2014), micro and small-scale aquaculture is growing and complementing family farming.

Although aquaculture activity in LAC has benefited from the advances made by research and development (R&D), further investment will be needed in that area if sustained and sustainable growth is to be achieved. The LAC countries should also strengthen the institutional capabilities for regulating fishing, at both the national and local levels, if the activity is to be organized in such a way as to ensure the sustainable use of fishery resources and the sustainable development of aquaculture. A robust institutional framework is required, with regulations that ensure that fishing and aquaculture activities are carried out in a consistent, sustainable and responsible fashion.

One of the greatest challenges facing the region's fishing industry is climate change. The impact it is forecast to have on the region makes it essential that the countries address the issue in a consistent and responsible way. As phenomena associated with climate change occur, governments will need to make the issue a permanent part of their agendas, implement adaptation measures, and take decisions to tackle the direct changes and their externalities.

Regional cooperation should be a key element in addressing these challenges. Identifying good practices and sharing lessons learned will ensure that the management and sustainable use of fisheries and aquaculture takes into account the principles and pertinent standards of the Code of Conduct for Responsible Fisheries of the United Nations Food and Agriculture Organization (FAO).

v. Forests

Deforestation and forest degradation are one of the most important environmental problems facing LAC, and one that seriously affects the

livelihoods of millions of people. The countries of the region are making major efforts to address the problem. During the period 2010-2015, the annual rate of deforestation in the region was 2.2 million hectares, a reduction of 1.4 million hectares over the previous five years.

The main causes of deforestation are the preparation of land for crop and livestock production and land tenure problems. While land settlement on small properties continues to be a major cause of deforestation in many Central American countries, in South America the preparation of large swathes of land for extensive livestock production and mechanized agriculture is the principal cause.

A number of initiatives designed to address the issue of deforestation are under way. These include the REDD+ projects aimed at reducing deforestation and forest degradation within the framework of the United Nations Convention on Climate Change, and others aimed at promoting the conservation and sustainable management of forests.

Family farming and community forest management are gaining importance in several countries of the region. Strengthening these areas helps reduce rural poverty and the deforestation and degradation of forest ecosystems. International climate agreements should also contribute to the efforts to solve this problem. The implementation of REDD+ projects can bring about an important shift in the management and conservation of the region's forest resources.

Many countries are implementing agro-environmental policies as part of planning processes that integrate agriculture with other productive and conservation activities, strengthening family farming and the agriculture practiced by traditional peoples and communities. The agricultural and forestry activities carried out by rural communities are assuming greater importance, resulting in lower rates of deforestation, and progress being made toward the sustainable management of

forest resources. Nevertheless, it is important that countries correct any policies, instruments, and legislation that tend to foster deforestation, and continue their efforts to settle disputes over land tenure.

Chapter III: Rural well-being

This chapter considers the changes in rural well-being that occurred in LAC between roughly 2000 and 2012, with emphasis on income inequality, women and young people. The analysis draws on a household classification that is based on patterns of employment identified in household surveys conducted in the region. Based on the primary occupation of heads of household, the classification identifies six mutually exclusive types of household: 1) salaried agricultural households, 2) salaried non-agricultural households, 3) employer households, 4) own-account agricultural households, 5) own-account non-agricultural households, and 6) inactive households.

The data once again confirms that a transition is under way in the LAC countries, from agriculture to non-agricultural activities. In nearly all the countries considered, the number of households linked to the agricultural sector shrank, possibly due to the presence of very young skilled workers faced with a dearth of productive employment opportunities in agriculture, the skills mismatch or outdated skills of older workers owing to technological advancements in agriculture, or older household heads aging out of agriculture. In the same period, the countries experienced an increase in the proportion of households that engage in salaried non-agricultural activities. However, the transition was not continuous: many households moved to the “inactive” category, probably while their members sought opportunities for non-agricultural employment or acquired new skills.

Other important trends include: a) a significant reduction in poverty and income inequality, probably driven by recent social policies; b) an increase in the share of rural female household heads, especially women under 35 years of age; c) a growing tendency for older women to leave the formal labor market and participate in more informal activities in the agricultural and non-agricultural sectors; and, d) a decline in employment rates among the rural population under 25 years of age, among whom unpaid family employment is the dominant category, probably related to skills acquisition because they spend more time in the education system.

The results provide further support for recommendations discussed in earlier reports regarding the importance of policies to promote diversification of the rural economy (to create more employment) and skills acquisition (to take advantage of new employment opportunities). Policies intended to foster economic diversification should help to create adequate conditions for undertaking new productive activities, build capacities in the rural population, create the correct incentives and opportunities for young people to remain in the school system, and stimulate higher productivity family farming segments. Skills acquisition enables people to adopt new technologies and innovations and access higher-paying jobs, and facilitates the modernization of production. The analysis also suggests that social programs need to be maintained to avoid undermining the achievements made in reducing poverty and income inequality.

Chapter IV: Policies and the Institutional Framework

In recent years, the LAC countries have made important efforts to increase competitiveness and boost agriculture's participation in international markets, while at the same

time striving for inclusive development, the sustained management of natural resources, and greater adaptation to climate change, for which they have devised and implemented policies, programs, and strategies in three areas:

- i) **Equity and increasing smallholder incomes:** Most LAC countries have adopted two main approaches to help smallholders. On the one hand, they have endeavored to strengthen the human and social capital of the poor through assistance programs, access to basic needs and education, construction of rural infrastructure, access to productive assets, etc. At the same time, they have implemented policies to assist poor producers to link themselves with actors and institutions that afford them more favorable access to higher-value markets. The most important focus on aspects such as entrepreneurial skills development, value-added programs, and the promotion of alternative marketing circuits.
- ii) **Productivity and competitiveness:** In recent years, more competition with other productive regions and pressure to raise production levels more rapidly have resulted in practically all the countries of the Americas implementing policies aimed at promoting innovation and

the incorporation of technology into agriculture, increasing private investment in rural areas, establishing programs for the management of (mainly) productive and climate risks, and promoting linkages with multinational companies and exports to higher-value international markets.

- iii) **Environmental sustainability:** Although most of the issues related to this area lie outside its remit, the public institutional framework of LAC agriculture has stepped up efforts to promote the adaptation of agriculture to climate change, soil management, and the use of agricultural practices that have a lower environmental impact, among others.

Achieving competitive, sustainable, and equitable agriculture calls not only for the efforts of the public institutional framework for agriculture, but also those of other ministries and private enterprise. In addition to continuing to work on each category of the previous policies (financing, innovation, infrastructure, value chains, risk management, etc.), it is necessary to construct mechanisms that would permit greater interinstitutional coordination and the application of a participatory approach in devising, drafting and implementing policies for agriculture.