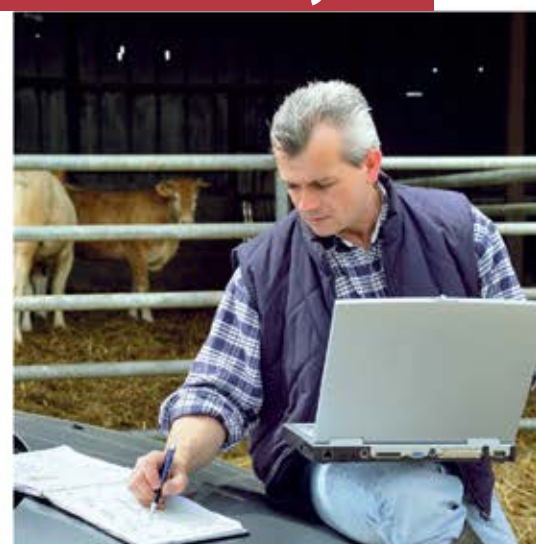


# The Outlook for Agriculture and Rural Development in the Americas:

A Perspective on Latin America  
and the Caribbean

## 2011 - 2012

### Executive Summary





# Executive Summary

Just as the world economy was showing signs of a recovery, a new global recession and a financial crisis in Europe are looming on the horizon. The economies of the great majority of countries grew in 2010, albeit at different speeds. While growth in the most developed countries was sluggish and in Latin America and the Caribbean (LAC) averaged a little over 4%, the production of the developing economies rose by more than 6.5%, with China and India, the new engines of the world economy, leading the way.

Paradoxically, the specter of recession has appeared when the global economy is also showing growing inflationary pressure, fueled by the behavior of the emerging economies, in which food and energy weigh more heavily on consumption. A rise in the cost of the food basket has once again turned the spotlight on the problem of food security and highlighted the climate of instability in the markets, reflected in the volatility of commodity prices.

These conclusions are based on the macroeconomic and sectoral contexts presented in the first part of the latest report prepared jointly by the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), the Regional Office for Latin America and the Caribbean of the United Nations Food and Agriculture Organization (FAO) and the Inter-American Institute for Cooperation on Agriculture (IICA) for 2011, entitled *The Outlook for Agriculture and Rural Development in the Americas: a Perspective on Latin America and the Caribbean*. The report is divided into four sections, comprised of 11 chapters and a statistical annex.

## Section I. Macroeconomic Context

This section contains an analysis of the interactions among the volatility of agricultural prices, the financial and macroeconomic conditions of the international context and the performance of the region's economies.

International food prices began to rise again during the second half of 2010 and this upward trend continued in the first half of 2011. Following sharp increases in 2007-08, prices stabilized in 2009, due to the combination of the economic downturn and the financial crisis that affected the global economy during the second half of 2008 and in 2009.

The analysis considers the factors responsible for the fluctuations in agricultural prices and highlights the importance of governments being able to respond more quickly and with more suitable policies to any future price spikes. It concludes that variations in prices are due to a complex set of variables, some related to structural determinants of supply and demand, but also to cyclical factors. Furthermore, the behavior of domestic macroeconomic variables, responding to specific policies, affects the evolution of international prices. Some examples of this are the pressure on the real and financial demand created by expansionist monetary policies, and the stimulation of the region's imports as a result of the devaluation of the dollar.

The analysis concludes that the relationship is two-way, with the behavior of the macroeconomic variables impacting the evolution of international prices, and vice versa.

Other issues analyzed in this section are: a) the channels via which volatility is transmitted, in order to understand the manner and speed of the transmission of international commodity prices to domestic prices; b) the differences between countries (depending on whether they are net food importers or exporters, or their level of dependence on imports); c) the influence of the structure of production and policies; and, d) the impact of international price shocks on the macroeconomy, specifically on inflation levels. Based on the results of the analysis, it is recommended that the outlook for commodity markets be included explicitly in the formulation of macroeconomic policies, as a way to reduce speculation and help combat inflation.

The analysis presented in this section suggests that the volatility of international commodity prices impacts the stability of the countries' exchange rates due to two factors: a) variations in the value of exports and imports; and b) the effect on the capital account and the expectations of the financial agents, which discourage investment. The effects are felt by not only the sectors impacted directly by changes in prices, but also by the production structure as a whole and the long-term objectives of social policies and policies designed to develop production.

## Section II. Sectoral Analysis

**Sectoral context.** This section focuses on the growth of agricultural activities in LAC in an international environment characterized by rising, cyclical and volatile prices. The data on Agricultural Value Added (AVA), adjusted to reflect better the growth of the real income of the factors of production, shows that there were cycles during the last decade in which real income grew much more strongly than production volumes. Real agricultural income in LAC grew by 13.3% in 2002, 10.2% in 2003, 10.9% in 2007 and 10.1% in 2008, while growth in the volume of production never topped 5% in those years.

The rate of adjusted AVA has varied in different parts of the region. While the Southern Cone has experienced annual average rates of growth of

4.5%, the rate in the other sub-regions has not exceeded 2.5% (2.5% in Central America, 2.4% in the Caribbean, 2.3% in the Andean Region and 2.2% in the Northern Region).

In recent years, the trend in real agricultural income in LAC has largely mirrored that of international prices. It is predicted that agricultural prices will continue to rise in the long term, but with major fluctuations in the medium term and great volatility in the short term. The biggest cause of price variations and volatility are the cycles or fluctuations around the trend, suggesting that the most important challenge is to establish countercyclical policies to cushion the negative effects when prices fall (or rise for buyers) and reduce the costs associated with the uncertainty of not knowing in which direction prices are headed in the short term.

The chapter concludes by recommending that the countries endeavor to gain a better grasp of the structural and cyclical factors that restrict the growth of the supply, so they can adopt better policies to tackle the challenges posed by a structural increase in the demand for agricultural products, and take advantage of the opportunities that arise. The report also recommends analyzing the confluence of the demand and supply factors responsible for the trends, cycles and volatility of agricultural prices, with a view to designing much more strategic public policies, with differentiated actions for the short, medium and long terms, and for comprehensive risk management.

**Agriculture.** The report notes that agricultural production in LAC was higher in 2010 than in 2009 and that, in general, the results were quite good. Cereals performed the best, with production up more than 7% over 2009. The factors chiefly responsible for the variations in production were changes in climatic conditions, followed by changes in the area under cultivation and in prices.

Agricultural production is expected to grow in 2011, with cereals leading the way, but **measures to improve the performance of agriculture will be needed in the long term.** Some of the most important predictions are that: a) energy and

food prices will rise in real terms over the long run; b) China will continue to be one of LAC's most important partners, demanding more food products, which will help revive agricultural trade flows; c) the need to achieve food security will make it necessary to produce more good-quality food and to do so competitively; and, d) the development and improvement of research, innovation and information in the countries will continue.

The report concludes that the agricultural sectors of LAC should view the long-term trend of higher agricultural commodity prices as an opportunity, because some countries have land available that could be incorporated into production and the region possesses a relative abundance of water, biodiversity and human resources. However, it also highlights the continued existence of major technological gaps, which – if overcome – would raise yields and thereby increase food production significantly.

**Livestock.** The report states that global meat consumption rose by 2.5% in 2010, with poultry and pork consumption up 4.2% and 2.7%, respectively, and beef consumption down -0.2%. Milk production varied significantly in the different geographical areas: while in North America, Oceania and Europe it grew at below average rates, in South America (especially in Brazil, Chile, Colombia and Venezuela) and in Asia growth was much stronger. The outlook for 2011 is good, especially because the industrial meat and milk sectors have achieved significant horizontal integration.

Thanks to the growing demand for meat and milk, the outlook for the livestock sector in the years ahead is one of great opportunities. However, given the increasing use of biofuels, it is predicted that there will be continued pressure on the prices of some inputs, especially grains. In addition, the biggest challenge that the commercial, intensive livestock sector will face will be to achieve greater efficiency and a better balance between the financial benefits for companies and the social benefits for consumers and communities. The strengthening of family livestock production and its integration into markets would appear to be an important strategy

for improving the supply of protein foods and enhancing food security programs in vulnerable communities. The promotion of innovation, free competition and training for human resources will be of key importance for this sector. Two other challenges for the sector in the years ahead, related to the environment, will be climate change and natural resources management.

**Fisheries and aquaculture.** Commercial fishing has reached its maximum sustainable production level in LAC, with falls in the catches of some species suggesting that overfishing is occurring. Strong growth is one of the reasons why aquaculture has become increasingly important over the years. Despite the fact that the rate of growth in Latin America and the Caribbean fell from 13.3% per year in 1999-2004 to 6.3% in 2004-2009, it remains the fastest-growing activity in the food production sector.

South America continues to be the regional leader in commercial fishing and aquaculture. The latter activity is still developing at a moderate rate in many countries of the region and diseases remain a threat, especially in Chile and Mexico, where epizootics have affected production and employment.

The LAC countries need to take a fresh look at small-scale producers in the fisheries sector and create a new institutional architecture to improve sectoral governance. The chapter emphasizes the need to gain a better understanding of the species exploited by the fisheries sector, and of the dynamics of the populations involved. Therefore, it is recommended that scientific and technological development focus on production activities that are adaptable to climate change. It is also recommended that the countries make renewed efforts to promote their domestic markets, in order to formulate national strategies to encourage the consumption of fishery and aquaculture products; increase and improve sectoral information; and strengthen regional support structures in order to reduce the risk associated with aquaculture.

**Forestry.** According to data produced by FAO, 23.6% of the world's forests are to be found in

LAC, with the countries that have planted the most forests in the region being Brazil, Mexico, Chile, Peru and Uruguay.

The loss of forest cover between 2005 and 2010 was slightly less than during the period 2000-2005, when up to 4.8 million hectares were lost each year. Forestry's contribution to the region's GDP has increased steadily, rising from US\$30 billion to US\$40 billion, and accounting for 6% of the world total. On the other hand, the total carbon stored in the forest biomass fell during the period 1990-2010 and official information about non-timber forest products (NTFPs) continues to be in short supply. The problems faced by countries in the region include soil degradation and changes in land use, while the limited amount of water available is a serious problem in the Andes and on some Caribbean islands.

Some of the public policy options recommended are as follows: a) encourage, as part of the region's forest development strategies, investment by the private sector in the establishment of forest plantations; b) further develop mechanisms for payments for environmental services that benefit rural communities; and, c) promote the management of forest resources by rural communities. Actions of this kind would help reduce poverty rates in the region.

### Section III. Rural well-being and the institutional framework

**Rural well-being.** This section of the report contains an analysis of the effects of the 2008-09 economic crisis on the rural milieu, which concludes that the negative impact was less than expected. Also highlighted is the fact that the trend in the rural poverty rate is similar to that of the evolution of agricultural production and the economy in general.

The analysis shows that while both urban and rural poverty fell between 2000 and 2007, thanks to the growth of the region's economy and agriculture,

the crisis caused it to rise again. However, in 2009 poverty in the LAC region as a whole rose by only 0.1% and extreme poverty by 0.4%. The increase was slightly higher in rural areas than in urban areas. What the crisis did highlight was a general trend towards a downturn in the job market.

The impact on poverty was limited for a number of reasons, including: a) the strategies implemented by households, which combined agricultural and non-agricultural income, to cope better with the crisis; b) the positive trend in income from non-agricultural work, which partly offset the fall in income from agricultural work, income from self-employment and, in some countries, the remittances received from abroad; and, c) income from transfers under public programs.

The chapter concludes with a series of policy recommendations. One issue that is highlighted is the need for the region to include in its political agenda a debate on the situation of the rural labor market and the creation of decent employment, to help reduce rural poverty.

**Institutional framework.** During 2009-2010, nearly all the LAC countries, to varying degrees, promoted general, sectoral and social policies to address the volatility of commodity prices, including fossil fuels and other related aspects such as climate change and the financial crises of the most important economic centers. In general, the increase in social assistance programs and conditional cash transfers made it possible to offset the impact of the global economic crisis in 2009 and reverse the trend in the growth of poverty from 2010 onwards.

It is worth noting that both net importing and net exporting countries opted for defensive policies designed to guarantee their citizens sufficient income to meet their consumption needs; and that nearly all the policies implemented to promote production consisted only of stopgap measures.

Furthermore, the measures adopted by the countries to guarantee producers income and promote food production included purchases by the State,

guaranteed prices, direct payments, arrangements within chains, stabilization funds and the re-establishment of extension systems. However, most countries made only limited efforts to enhance the institutional framework and assign more financial resources for that purpose. Consequently, many of the actions implemented will not be sustainable unless there are improvements in those areas.

The region weathered the 2009 crisis with good results and if the hoped-for economic recovery materializes in 2011, it will help consolidate the region's long-term growth. Nevertheless, there is an urgent need to reverse the inequalities within and among countries in the region **in order to provide solutions to the needs, not only of rural inhabitants, but also of the population as a whole.**

With the region expected to continue to be a major supplier of food and raw materials, it is anticipated that the countries will gradually recognize agriculture's true importance as an engine for development. That should be reflected in greater public investment and more efficient public spending, and in the definition of the medium- and long-term policies required to enable the sector to realize its potential.

It is recommended that the countries strengthen the legal frameworks for the public agricultural institutional framework, to facilitate the implementation of policies; gradually develop State policies rather than purely sectoral ones for agriculture, with a medium- and long-term vision; incorporate climate change into their policies; and increase investment in agriculture following the logic of development objectives.

## **Section IV: Use of ICTs in agriculture and rural development**

The Special Report, which on this occasion focuses on the use of information and communication technologies (ICTs) in agriculture and rural development (chapters IX, X and XI), analyzes

the role that ICTs can play in tackling the new challenges of agricultural development in LAC. It is argued that, as in every other area of society, ICTs have the potential to transform the relationships among the stakeholders in agriculture and the rural milieu. The incorporation of ICTs into agrifood chains would enable those who produce, process and market agricultural products to better monitor and forecast harvests; reduce risks related to climatic conditions, price volatility and the spread of diseases; create and strengthen small family businesses; facilitate transactions; and spur the development of innovations throughout the chain. Similarly, the adoption of ICTs by institutions working in the agricultural sector and the rural milieu could make the processes of those institutions more transparent, increase their geographical coverage, save human and economic resources, and expand the range of products offered.

Although positive results have already been achieved with regard to both production and institutions, efforts to increase access to and the use of ICTs in agriculture and the rural milieu in LAC are still at an embryonic stage. While most of the stakeholders in agrifood chains use ICTs for communication and basic searches for information on the Internet, ICTs have largely been used by the public institutions with responsibility for agriculture to facilitate their internal administrative and budgetary management processes, with little importance being attached to the use of such tools for technical assistance or extension activities, or to enable their clients to process documentation.

If the LAC countries wish to increase the impact of ICTs in agriculture and the rural milieu, they must endeavor to increase connectivity in rural areas, and devise and implement public policies to promote access to such technologies and increase their use throughout the national institutional frameworks (e-government, digital agenda, etc.). Actions of this kind are essential to laying the groundwork for subsequent efforts to reduce the cost of technology, increase the usefulness of the content available on line, and reduce the reluctance of rural agents to adopt new production and business management technologies, among others.