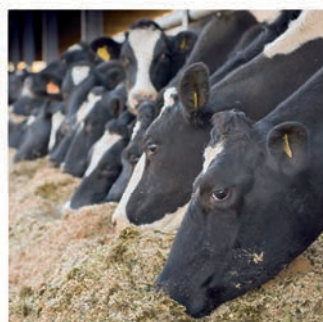
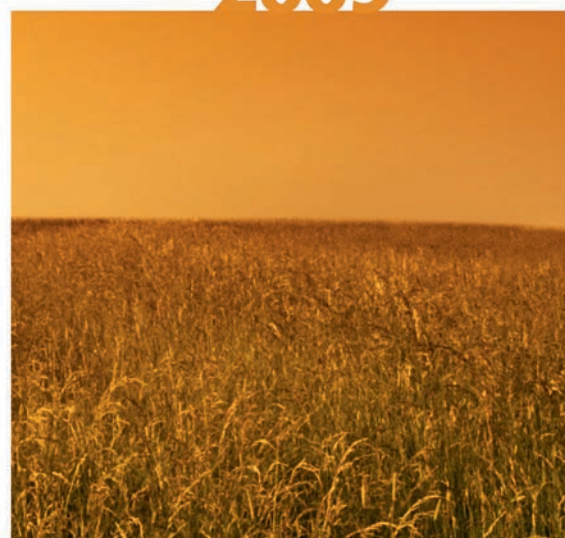


The Outlook for Agriculture and Rural Development in the Americas: A Perspective on Latin America and the Caribbean

Executive Summary

2009



UNITED NATIONS

ECLAC





Executive summary

The economic crisis, together with recent economic events, has produced an unprecedented international scenario of highly volatile food prices. At the same time, Latin America and the Caribbean (LAC) have lost the gains in reducing poverty and hunger they had achieved in the past 15 years. The region is facing both short-term challenges, linked to the economic slowdown and its impact on well-being and the soundness of government budgets, and long-term ones, involving the need to ensure economic development, and use the region's potential as a provider (and self-supplier) of food, while making sure to preserve its natural resources. All of this is taking place in a more insecure international environment due to the volatility of markets and the probable effects of climate change.

ECLAC, FAO, and IICA believe in the leading role to be played by the rural environment and agriculture, understood in its broadest sense, in dealing with these challenges, and they are of the view that an integrated, intersectoral, long-term approach is needed, as proposed in this document, along with more and better investment to trigger inclusive economic recovery.

This book is divided into three sections. The first one covers structural factors underlying the evolution, recent trends, and outlook of the agricultural sector and its four main subsectors: agriculture, livestock, forestry, and fishing and aquaculture, with an emphasis on policy recommendations. The second section takes the same approach to addressing rural well-being and agricultural and rural institutions. The third section is devoted to the current economic situation—namely, price volatility, and its causes and future uncertainties—which is particularly relevant for decision-makers in the sector.

Section I– Sectoral Analysis

Sectoral context – Not to diminish its economic importance, but the sector's relevance goes beyond its contributions to GDP, since agriculture is an important source of foreign exchange and, above all, a generator of employment and income. The sector has demonstrated its dynamic nature in the past, but due to its heterogeneous geography, climate, and production, important differences are apparent among countries and groups of countries. Moreover, in the short run, both the economic crisis and the increased volatility and lack of investment (for instance, in research and transfers of technology) limit opportunities for growth in production. This means that LAC has an enormous potential to contribute to food security in the world because of its food supply, but this does not per se guarantee a reduction in domestic poverty, especially during a period of economic contraction. Agriculture is also facing challenges, such as the need to become a supplier of energy in a scenario of unstable production due to climate change. The sector must maximize its efficiency and use of resources, by taking a new approach, based on sectoral integration.

Agriculture – Intraregional differences were seen in 2007 and 2008, with gains in the agricultural terms of trade in some countries, and losses in others. Despite the expected increase in demand for agricultural products, the increase in international agricultural commodity prices was not necessarily reflected in prices paid to the producers, who at the same time saw their production costs rise. In order for LAC to realize its potential in production of food and biofuels, it should adopt not just sectoral policies, but integral ones, that provide public goods (research, technology transfers, public services, etc.)

and support services to increase the competitive advantage of commercial agriculture and foster inclusion and the contribution of small- and medium-scale agriculture, which plays a key role in agricultural production and sectoral employment in LAC. Moreover, the region should look for ways to adapt to and mitigate climate change, invest in productive infrastructure, and effectively guide small-scale agriculture, with differentiated policy instruments in keeping with the quantity and quality of the assets involved.

Livestock – Livestock production will benefit from the growth in domestic and global demand for animal products. In addition, small-scale production provides jobs and food security to millions of persons in the region. However, specific investments and policies are required for it to strengthen its productive and social role. The important position of the sector as a global exporter was achieved to a great extent at the cost of serious environmental consequences, but production will be unsustainable in the long run if productivity cannot be increased and the environmental impact reduced. A sustainable increase in productivity is possible, because the required technologies exist. Producers need policies that give priority to the sustainable use of resources, and to better animal health, to improve production and reduce the impact of zoonoses. To accomplish this, investment in research, development, and technology transfers is needed, and in lines of credit so that commercial breeders, including small operators, can recover degraded areas, form sustainable agri-forest-livestock systems, and improve productivity, while reducing pressures on the environment. Systems of payment for environmental services could help mobilize resources, so that producers could incorporate technologies to improve efficiency in use of resources and respond, in the medium and long run, to a growing demand for products capable of reducing the carbon footprint.

Fishing and Aquaculture – Due to their comparative advantages, their economic importance in the region is expected to grow rapidly. Small-scale aquaculture and fishing make

a substantial contribution to employment and food security in rural areas in various countries of LAC. The vulnerability and risks facing fisheries and aquaculture have become apparent in recent years, which will require them to manage the natural resources on which these activities rely in a responsible and sustainable manner. A strengthened capacity to adopt sustainable production technologies and integration with other productive sectors are critical to achieving lasting development. Moreover, strengthening vaccination and traceability systems will enable small producers to be competitive by incorporating them into value and market chains. These factors, together with the development of organizations and clusters, will offer the sector better development opportunities and the chance to achieve self-sufficiency in production, economic sustainability, and a better quality of life for the businesses and workers.

Forestry – The sector suffers from a lack of up-to-date, reliable information. Despite this, it occupies an important economic place in Latin America and the Caribbean, and especially in the Southern Cone where, due to the scale of the countries, it is a key factor in forestry production and exports and has good prospects for expansion in the coming years. Public policies should be strengthened to take advantage of the great potential of the sector to generate positive environmental, economic, and social spill-over effects. This potential is best expressed when emphasis is placed on the synergies of the forestry sector with other production activities and services. Forests are also a strategic natural resource, capable of providing irreplaceable services, such as a source of biodiversity, carbon capture, and protection of water and land. The use of mechanisms capable of identifying and paying for these externalities should be a priority of the governments in the region. Development of the sector can be achieved only when the stakeholders who work and live from the forests are involved in designing policies for their management, and the property and use rights of persons or communities are recognized, as long as such use is sustainable.

Section II – Rural Well-being and Institutional Framework

Rural well-being – Agriculture together with rural areas are a driving force for economic development, and governments should focus more attention on them in their efforts to revitalize their economies. At the same time, donors should fulfill recent financial commitments to international agricultural cooperation. Rising food prices could present an opportunity for small-scale family farmers to contribute to rural development, but only if governments provide effective support, through short-, medium-, and long-term policy packages. The governments of the region should invest in integrated policies for social protection, food security, rural development, and environmental protection that offer the rural population opportunities to produce more food and obtain more income in a sustainable manner, while at the same time reduce negative environmental effects and social risks. Moreover, a greater effort is required in development and transfer of technologies that take into account the new challenges of climate change, among other things, and in creation of public goods in rural areas, and improving access to productive assets. These policies may not produce benefits overnight, but in the long run, they are needed to protect the most vulnerable members of society from price volatility, to improve food security, and to reduce the migration of youth and the flight of skills from rural areas to the cities. By giving rural youth hope in the future and breaking the poverty cycle, governments will be doing a favor for future generations.

Institutional arrangements – The process of change in institutions for agriculture and rural development has been analyzed and planned in some countries of the region. Institutional modernization is critical, and governments should assign it priority and resources. The new paradigm of rural development is oriented towards territorial integration that goes beyond a sectoral approach. There are also adjustments in the legal framework and in organizations and new forms of work that

favor consensus-building, decentralization, and participation of new civil society actors. The new legal frameworks and institutional arrangements also address the problem of food security, and in some cases, small and medium-scale agriculture with scarce resources. An analysis of key agrifood market chain structures in the region show a growing concentration in links where there is greater integration of value and knowledge, and of matters related to logistics and distribution. However, because of the limited availability of public assets, operators are dispersed, and they are usually small producers and consumers, with relatively little organizing and negotiating skills. In this situation, the use of practices that limit competition is increasingly frequent in the agrifood sector. It is important to focus attention on an increasingly widespread phenomenon of appropriation of land by states and multinationals, adding a potential factor for conflict.

Section III – Volatility of agricultural prices

Volatility – The volatility of prices of most food raw materials has intensified, especially in 2008, as the result of new factors that are expected to continue influencing the global market in the medium- and even the long-term. Countries that have specialized in a limited number of agricultural exports are particularly exposed to the effects of volatility. In addition, heightened uncertainty poses the risk of discouraging production and investment in the agricultural sector, weakening the local food supply, and exacerbating the challenge of food security for the poorest families. Given this scenario, the state plays a key role in controlling volatility and in mitigating its most serious effects on vulnerable groups.

Price transmission – The real effects of the volatility of international prices on local markets and the income level of farmers are not really known and have been little studied. Two studies

endeavor to interpret these phenomena and offer the possibility of making a few comments. Price transmission is seen on some markets more than on others, depending primarily on protectionist policies and on the defects of wholesale markets. Although transmission of international prices to domestic markets in the long run allows for a better allocation of resources, in the short run it can affect and significantly complicate decision-making by producers. Finally, based on available data, some producers have benefited from higher prices of products sold, even with increased production costs. Therefore, in some areas, and under certain conditions, the more efficient farmers have improved their net income.

Policy options – Agricultural production requires long-term investments, but the market so far has not offered income protection mechanisms

that go beyond one or two agricultural cycles. Thus government participation would appear to be needed to guarantee the income of sensitive groups (producers and consumers), in accordance with its own policy objectives. The short-term objectives and long-term effects should be adequately weighed by governments in adopting policies, so that the tools applied lead to effective progress in reducing the vulnerability of the affected segments, and measures that could ultimately prove to be counterproductive by promoting greater protectionism or increased market distortions are avoided. At the same time, government action should take into account the complexity of the socioeconomic effects triggered by price volatility. To deal with this complex situation, government policies should generate synergies and ensure coordination, to maximize the positive effects of public and private investments.