

## INTERNATIONAL WORKSHOP OF EXPERTS

### CONTRIBUTION OF AGRICULTURE AND THE RURAL MILIEU TO SUSTAINABLE DEVELOPMENT AND FOOD SECURITY IN THE NEW INTERNATIONAL CONTEXT, JULY 8-9, 2008

#### MAIN CONCLUSIONS

A workshop of international experts was held on July 8 and 9 to discuss in detail the contribution of agriculture and the rural milieu to sustainable development and food security in the new international context. The event, which was organized by IICA, was attended by specialists from international cooperation and finance institutions (IDB, the World Bank, FAO and ECLAC), representatives from academic and research institutions (Purdue University, *Universidad Javeriana de Bogotá*, University of Missouri, RUPRI, EMBRAPA and CATIE), experts in specific topics and professional staff from IICA.

The agenda for the workshop allowed for a lengthy discussion of the topics that have led to the current crisis in food prices and the noted effects on the consumer and on the production sector. The second part of the workshop discussed the agencies' vision of the role of agriculture and rural life in development and the need for differentiated policies that are keyed to the diversity of circumstances in the countries.

Finally, there was a discussion of the new needs dictated by the international context in terms of sectoral policies and the current institutional framework. The main challenges in policy formulation, the duration of the periods for their implementation and the supporting institutional framework that is required were also identified.

The following are the main conclusions that ensued from these discussions:

#### ***THE MAIN CONSEQUENCES OF THE "FOOD CRISIS"***

*The main problem with the increase in food prices has not been the price level achieved, but rather the speed at which the increase has taken place:* Although the rapid increase in the current prices of basic agricultural commodities over the past two years has been significant, the actual level of current prices (constant) continues to be similar to price levels that obtained in the nineties and is far below levels in the mid-seventies. The most important element is the speed at which prices have risen, which has made adjustments by economic agents difficult and thereby triggered negative effects for consumers, especially in those countries where domestic food supply relies heavily on imports.

With regard to the extent of the increase, the increase in the prices of basic agricultural commodities has not compensated for the increase in other prices of basic products and services (fuels, minerals, etc.). There have been similar increases in food prices in previous years. However, there are some differences in relation to these periods: widespread increases in all basic agricultural commodities, high price volatility (especially in grains and oils) and rapid increases in other nonagricultural products, such as fossil fuels and their derivatives, which are

directly transmitted to the prices of fertilizers and agrochemicals. These rapid and widespread rises in nominal prices have been accompanied by inflationary outbreaks.

***The food crisis is not solely the result of the increase in food prices:***

Economic and social policies applied in the region over the last two decades failed to solve the majority of structural problems that beset agriculture and the rural milieu and, in some cases, even exacerbated them. These factors are largely responsible for today's worldwide food crisis.

A few questions emerge, however. If these structural factors that have been in the making for many years were fully identified and quite obvious, why didn't the market agents familiar with these factors react earlier? Why didn't these factors manifest themselves until grain stocks shrank as a result of increased world demand? There are those who contend that when the big investors saw the structural factors and additional signals given by the market, they took long-term positions, anticipating an increase in food prices which, added to speculative factors, made these expectations of the upturn a reality.

***Trade flows start to narrow down to just a few countries:*** Big countries, which were previously net exporters of food, are driving world food demand (USA, China, Korea, Japan, India, etc.), whereas world food supply depends on what is happening in Brazil, Argentina, Australia and New Zealand.

***The rise in food prices has not been passed on to local markets in their entirety:*** Although there has been an exponential increase in food prices, these increases have not been passed on to the local markets in their entirety, mainly because of trade policies, government price regulation and competition with regard to individual markets. Price transmission to local producers has been significantly less than it has been to agricultural inputs (fertilizers, seeds, fuels, etc.)

***Although there is consensus that nominal food prices will never go down to pre-2005 levels, what we do not know with certainty is when those prices will go down:*** this will depend on the adoption of new technologies, trends with purchasing power in the developing countries, the use of agricultural products to produce agro-energy, etc.

**THE MAIN IMPACTS OF THE "FOOD CRISIS"**

***The increase in agricultural prices will pave the way for more competitors on domestic and international markets:*** at current price levels, some products that previously were not profitable now are. Because of this, many marginal agricultural areas may now be included in production and new producers will enter the domestic market.

***At the micro level, the final impact will depend on whether or not the economic agents are net food producers or consumers:*** America is a net exporter region, but the majority of its inhabitants are net consumers and will be negatively affected by rising food prices. In fact, 80% of the population of LAC are net food consumers and this group includes a high percentage of small-scale agricultural producers.

***The poorest segments of the population will bear the brunt of the effect of rising food prices:*** the poorest spend a higher percentage of their income on food consumption and, moreover, their diet

consists of foods for which prices have risen most. This proportion of the population has little chance of substituting for these foods or reducing food consumption and avoiding even higher levels of under-nourishment and poverty.

***Ground gained in reducing poverty and under-nourishment is at risk as a result of rising food prices:*** ECLAC holds that a 15 per cent increase in food prices could push ten million people into extreme poverty, whereas the World Bank cautions that continued increases in food prices will set us back seven years in our fight against poverty.

***Given the importance of family agriculture in the regional economy, any impact that the new context has on this sector will be extremely important for the entire region:*** family agriculture is one of the most important sectors in the region, in terms of job creation, income redistribution, poverty alleviation, food production, etc. The contribution of family agriculture to the value of agricultural production varies from 67% in Nicaragua to some 27% in Chile. In LAC, the average size of a farm is 67 hectares, although nearly one-half of these are less than five hectares. In the developed countries, on the other hand, the average size of farms is increasing, whereas it is decreasing in the developing countries. The impact on small-scale agriculture is even more troubling when one takes into account the fact that the income of entrepreneurial farmers working for themselves clearly deteriorated in the nineties in Latin America and, in some cases, fell below the poverty line.

***In general, the countries that appear to be most vulnerable as a result of rising food prices are those that need to rely on international markets to meet high levels of consumption of basic agricultural products:*** These countries are forced to contend with declining international stock inventories and rapid price increases, which aggravates the difficulties when this situation also occurs on markets for raw materials and oil.

***Countries that stand to gain most from rising prices of basic agricultural commodities are those that have surpluses of products for which international prices have risen most:*** These countries will be able to meet all of domestic supply and, in addition, market surpluses on the international markets.

***Conditions in the agricultural markets and short-term policies to alleviate the crisis are benefiting developing countries:*** The high prices of basic agricultural products, added to the reduction in internal economic support measures and tariffs in the developed countries would improve the relative competitiveness of the developing countries.

***The impact of climate change on agriculture will not be neutral:*** The most affected countries will be the tropical countries, which have large rural areas, where agriculture accounts for a major share in economic development, which have a high incidence of poverty (especially rural) and which are highly vulnerable to natural disasters. Due to the potential impact of climate change on agriculture and the importance of this sector in terms of food supply, job creation and poverty alleviation, adaptability will be vital in mitigating the negative social impacts.

***Markets have increased the value of agriculture and natural resources even though this increased value is not yet reflected in the formulation of public policy for the sector or in rural income.***

#### ***DEVELOPMENT AGENCIES AND THEIR VISION OF AGRICULTURE AND RURAL LIFE***

The approaches promoted by the international agencies to support agriculture and the rural milieu have evolved over the years. Results have, however, not been entirely satisfactory. The proposals of the agencies have been based on increasing the value of knowledge, technology and innovation, in addition to the timely support mechanisms to alleviate poverty and food insecurity.

The current crisis in food prices must be seen as an opportunity for the agricultural and rural sectors, provided that the historical limitations of the sector are surmounted, international price increases are passed on to local producers and long-term policies are designed as a response to national development plans. Some of the main limitations to be surmounted include support services for agriculture (technical assistance, post-harvest management, storage, credit, etc.), technology, financial investment capital, integration in production food chains, faulty price transmission, strategies for mitigating climate change, etc.

It is imperative that the design of policies for agriculture and the rural milieu include topics that were previously neglected by the sector, such as good governance, transparency, follow-up and evaluation, empowerment of the small-scale producer, research, access to land, environmental management, the nonagricultural rural economy, conditional transfers and youth affairs.

The vast majority of responses prepared by the countries are designed to address the crisis and not necessarily to correct structural development problems.

Notwithstanding, today there is recognition that family agriculture is a determining factor in rural life. This topic needs, however, to be developed further and there are few indicators to make a proper evaluation.

To date, the cooperation and finance agencies have been supporting the countries on the basis of work programs that do not necessarily reflect the new needs of the international context. It is therefore important to: i) tailor work plans to the new contextual needs; ii) simplify the banking procedures of the multilateral organizations; iii) achieve greater coordination among the agencies in sending appropriate messages; iv) develop analytical capability; v) support the design of policies, taking into account the various national and local realities.

More than defining positions on each of the topics, however, what the development cooperation agencies need to do is focus on building scenarios and managing information and knowledge to enable countries to formulate policy. The agencies cannot take a position because within the region, there are countries with different interpretations and positions on these very complex issues, such as food security, food sovereignty, self-sufficiency, state intervention, the role of family agriculture, etc.

In short, the development agencies advocated for assertive cooperation and technical assistance, respect for the working agenda and an effort to avoid making the mistakes of the past. Lastly,

they felt that there should be some degree of consensus within the agencies and the countries, over and beyond that of the ministries of agriculture.

### ***AGRICULTURE AND RURAL LIFE FROM VARIOUS REGIONAL PERSPECTIVES***

For the Northern Region (not including Mexico), the rural milieu has experienced a major upswing in recent years. This has been the result of the inclusion of agriculture in the formulation of national policies and in sectoral budgets, thanks, for the most part, to the biofuels boost. Even so, rural development spending within legislation continues to be limited. Although the rural sector is vital in terms of improving the conditions of the poorest, its share in international trade continues to be reduced, and in the case of the Northern Region, it is not the main driving force of the economy.

The representative from Brazil introduced the models known as “identity territories”. These scenarios show one of the most important advances made in territorial development, which has enabled them to lay claim to the territory as a policy objective. This has resulted in more local empowerment as well as major strides in territorial and social cohesion. Some of the basic composites that gave rise to the development of identity territories are environmental management, culture and tradition. The integrated management of these territories has also relied on inter-institutional relations (involvement of the ministries), strategic and technical planning, building of conglomerates, social control, etc.

The Caribbean presented a vision that suggests the rethinking of its development model. That model was designed for a different reality where the prices of food and fuels were low, the impact of climate change was not taken into account, the developed countries established trade preferences for the poor countries, etc. The realities of the Caribbean are now totally different and require radical changes in the formulation and implementation of policies for the agricultural and rural sectors:

- The region bases its agriculture on the export of certain basic products, like banana and sugar, tropical fruits, products from the sea, rums, etc., which involve some complexities on their main export markets in the United States, the European Union and Canada.
- There is high reliance on imports for the domestic food supply.
- Natural disasters have a high impact and there is limited conservation and mitigation capability.
- New opportunities exist for the production of biofuels (Samoa fiber).

The presentation on the Andean Region focused on the challenges that lie ahead for the countries where development is falling behind, not only in terms of the rural milieu, but also in terms of the economy as a whole:

- While the countries of the region have instituted modernization processes for their agricultural and rural sectors, these processes have fallen short and have been without direction.
- There have been frequent frictions between countries, which has affected the regional integration process.

- While export agriculture has been promoted by some countries of the region as a national development model, its results have not been positive for all and have left aside the poorer producers.
- The position of all Andean countries in the human development index (HDI) has gone down, and only two countries –Peru and Bolivia-- have managed to lower poverty levels.
- This region has the highest indices of land concentration and the lowest indices of rural public investment, levels of education and good governance.
- This region has been particularly affected by natural disasters and climate change.
- The pending agenda for the region includes basic conditions such as lasting peace, improved relations among the countries of the region and the redefinition of medium-term policies.

In the Central Region, where various types of rural development strategies have been in place for five decades, the common denominator is a weakness in agriculture, in the rural milieu and in food security. Although the agricultural potential of the región places it in a position where it could take advantage of the new agricultural market conditions, there are factors that limit its performance: decapitalization of the rural sector, increase in production costs, low credit levels for the sector, constant decline in agricultural exports, decline in international cooperation, high impact of natural disasters, degradation of agricultural lands, high pressure on the natural resource base, high indices of poverty and illiteracy, etc. Overcoming all of these restrictive factors in the region means increasing, as a matter of urgency, the amount of agricultural and rural investment as well as improving its quality and efficiency.

#### ***ELEMENTS FOR THE NEW INSTITUTIONAL FRAMEWORK***

Any short-term actions on the part of the countries to relieve the pressure of high food prices should:

- Be part of long-term development strategies;
- Be time specific and not become long-term policies;
- Include sound financing measures for implementation;
- Be geared towards i) increasing food supply; and ii) mitigating adverse effects, especially on the more vulnerable groups.

In facing the current food crisis, what is needed, in addition to immediate short-term actions to relieve the pressure of price increases, is a new development model. This model must recognize the rightful value of agriculture from its multidimensional perspective and from the standpoint of its multisectoral contributions to development and must make the rural sector the central axis in facing global problems of poverty, nutrition, food security, climate change, sustainable energy and border disease control, etc.

To use the new international context as an opportunity for the agricultural sector, the countries of the hemisphere must:

- Institute balanced macro policies;
- Resume strong policies, without repeating the mistakes of the past;
- Propose more comprehensive sectoral policies, based on a broader visión, and taking into account the diversity of agricultural systems

- Assess the value of production and trade policies as part of the solution package and avoid new protectionism;
- Reclaim the importance of other traditional crops and foods;
- Increase investments in the rural milieu: increased rural public spending that is more effective, incentives for investment in technology (including irrigation), etc.
- Promote the use of sources of energy other than oil-based sources (fossil fuels) that are environmentally friendly and that do not compete with food. An effort must be made to maintain balance insofar as energy is concerned.
- Improve technology and research to increase agricultural output, especially for small-scale family agriculture. What is needed is a “new green revolution”.
- Ensure that technology reaches the small-scale producers so that they can increase their agricultural output and also because technology is a means of helping to lift people out of poverty;
- Prepare for difficult scenarios as a result of climate change;
- Promote a positive image of agriculture;
- Improve access for small-scale producers to assets;
- Promote the development of markets and instruments to reduce price volatility and improve transparency in price transmission;
- Improve markets, while not neglecting those aspects that the market does not resolve.

In addition to policies targeting agriculture and the rural milieu, the countries are instituting macroeconomic, fiscal, trade, monetary, exchange and other packages that have direct effects on the outcome of sectoral policies. This is why congruency and synchronization in the design and application of such packages is essential. In the countries of the region, the vast majority of macronational policies do not respond to the objectives of the sector and decision makers from the agricultural sector are not included in their formulation or implementation.

In tandem with the formulation and implementation of public policies to enhance the value of and boost agriculture and rural life is the imperative need for an institutional framework that is attuned to the needs of the current context and that is based on established policies, which must necessarily involve the modernization of companies, trade associations and the state.

The institutional framework of the agricultural and rural sectors must respond to the new needs of the international context, and the following is therefore necessary:

- A review of the roles of the public and private sectors in agriculture and rural life, which require more public goods, independently of who is producing them;
- Rebuilding of extension systems on a new basis and with new institutional arrangements;
- Decentralization of public policies and building of a new institutional framework for agriculture and the rural milieu;
- Improvement of the ability of the rural population, agribusiness operators and the State itself to anticipate different scenarios, evaluate the context and formulate policies;
- Interconnection of topics related to education with topics that are related to the development of agriculture

- Coordination of both the messages on and responses to the crisis on the part of the agencies, since the agencies send out a variety of messages and policy recommendations, which makes it difficult for decision makers in the countries to understand; and
- Understanding of nutrition as a human right

### ***HOT TOPICS IN RECOMMENDATIONS ON POLICY AND THE INSTITUTIONAL FRAMEWORK***

***Family agriculture:*** Boosting and developing family agriculture must be an imperative among short-term actions and in the formulation of rural policies, since it impacts job creation and income generation and has little impact on the environment. It also has a more equitable impact on income distribution. This why priority must be given to the design and execution of policies to increase access by small-scale agriculture to production assets and appropriate technology, which will also enable them to have more direct participation in marketing.

***Climate change:*** If adequate support is not provided, agriculture's adaptability to climate change will have a higher cost and will not be effective. Farmers will be able to conduct adaptability processes on their own; however, these processes will be more costly, take more time and will not respond to best practices. Processes for adapting to climate change must include an infrastructure for irrigation and crop drainage, territorial planning, information sharing, the creation of insurance plans against climate risk, early warning systems and improvement in the ability to make use of climate predictions. In addition, knowledge of adaptive strategies used by farmers who already have experience in facing changes in climate must be upgraded and proper management of water resources must be made a priority.

***Trade negotiations:*** The successful conclusion of the Doha Round is part of the package recommended for solving the food crisis. The climate is now conducive to this since the price increase facilitates coming to agreement on topics related to access and domestic support measures: the rise in prices has reduced protectionism in the countries which have started to lower their import tariffs on products, inputs and machinery. What is more, the developed countries, like the United States and the countries of the European Union have reduced their subsidies on production, thereby paving the way for acceptance of the cuts that are part of the agricultural proposal in the Doha Round.

***Biofuels:*** The use of agricultural crops to produce fuels means evaluating not only the energy density and the productivity of crops, but also the unique conditions in each country for cultivation of such crops, processing and use. This is a process that takes time and must be accompanied by adequate policies. Compared with the other models to produce fuels from agricultural products, models that use sugarcane, instituted in Brazil, have less carbon dioxide emissions per kg/ha, less conflict with food for nutrition, greater energy density, greater energy balance and lower production costs (without subsidies).