
Stimulating Latin America and the Caribbean's Agriculture Supply: The Bank's Response to Food Security in the Region



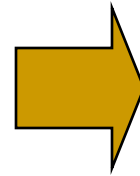
October 2009

Main characteristics of agricultural supply

- Price-inelastic in the short term
 -
 - But sensitive to macroeconomic and sector policy
 - Thus, over the medium term agriculture can serve as an engine of development.
-

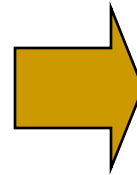
Future positive shifts in agricultural supply will depend upon sector public policy today

Efficient allocation of resources
Comparative advantages



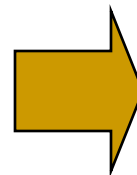
Economic Efficiency –
No distortions

Participation of large number of
producers, w/emphasis on small
farmers



Wide coverage of
producers

High economic returns



Welfare increase of
rural families

Main Agricultural Policy Instruments

1. Price support mechanisms (including trade policy)
 2. Direct support programs
 3. Agricultural services
-

1. Price Support Mechanisms

- Transfers from consumers to producers
 - Policies that create gaps between domestic and border prices of a given product, at the farm level:
 - Tariffs
 - Trade restrictions
-

2. Direct Support Programs

- Transfers from taxpayers to producers
 - Support payments to producers based on:
 - Compensatory payments
 - Subsidies on rural credit
 - Subsidies on agriculture insurance
 - Subsidies on input use: electricity, water
 - Incentives for non-farming of land
 - Incentives for technology adoption
 - Incentives to promote market chains/clusters
-

3. Agricultural Services

- Fiscal resources that are provided to agriculture collectively
 - Policies based on the provision of public goods:
 - Technology innovation
 - Agricultural health and food quality
 - Information systems
 - Land titling and tenure regularization
 - Rural infrastructure: transportation, energy
-

Characteristics of Agricultural Policy Instruments

| Instrument | Fiscal Impact | Distortion Level | Coverage | Economic Return |
|-------------------------|----------------------|-------------------------|-----------------|------------------------|
| Price Support | Medium/ High | High | Low | Low |
| Direct Support Programs | Medium | Medium/ Low | Low | Medium/ High |
| Agricultural Services | Medium | None | High | High |

Monetary Equivalency of Resources Allocated to Agriculture in Selected Countries, by Policy Instrument (%)

| POLICY INSTRUMENT | HA (2005) | NI (2007) | CR (2003) | GU (2005) | ES (2003) | PN (2006) | HO (2003) | RD (2003) | BR* (2007) | CH* (2007) | ME* (2007) |
|---------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| Price Support Mechanisms | 81.7 | 92.5 | 86.3 | 97.6 | 97.0 | 89.1 | 59.8 | 40.2 | 29.9 | 8.1 | 23.5 |
| Direct Support Programs | 10.8 | 1.5 | 1.3 | 0.9 | 2.5 | 0.8 | 29.9 | 55.3 | 47.1 | 54.5 | 62.5 |
| Agricultural Services | 7.5 | 6.0 | 12.4 | 1.5 | 0.5 | 10.1 | 10.3 | 4.5 | 23.0 | 37.4 | 14.0 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Based on OECD reports: http://www.oecd.org/document/59/0,3343,en_2649_33773_39551355_1_1_1_37401,00.html

Strategic Areas of Intervention

Assist Governments in the elimination of obstacles in price-transmission mechanisms to ensure that domestic producers benefit fully from favorable price shocks.

Ensure long-term competitiveness of agriculture through provision of agricultural services and rural infrastructure.

When necessary, combine with direct support programs to promote technology adoption and/or market access.
