



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
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des
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pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

The State of Food and Agriculture

REGIONAL REVIEW

Executive Summary

LATIN AMERICA AND THE CARIBBEAN

TRENDS AND CHALLENGES IN AGRICULTURE, FORESTRY AND FISHERIES IN LATIN AMERICA AND THE CARIBBEAN

**FAO REGIONAL OFFICE FOR LATIN AMERICA AND THE CARIBBEAN IN
COOPERATION WITH THE AGRICULTURAL AND DEVELOPMENT
ECONOMICS DIVISION**

July 2005

This work is a collective effort, coordinated at the Regional Office by the Policy Assistance Branch under the leadership of Luis Gómez Oliver, with the collaboration of Carolina Lennon, María José Montero and Patricia Morales. The various drafts and updates have been enhanced by contributions from several specialists at the Regional Office as well as from FAO headquarters in Rome. It has also been discussed, by electronic conference, with other experts, academics, government representatives and social organizations of the countries of the region. The electronic version of the Executive Summary was revised and edited by Slobodanka Teodosijevic, Agricultural and Development Economics Division (ESA).

The full report can be found at <http://www.rlc.fao.org/prensa/tendencias/default.htm>

EXECUTIVE SUMMARY

The countries of Latin America and the Caribbean face major challenges as they strive for food security and agricultural and rural development. In recent years, these challenges have extended far beyond issues such as the relative scarcity of natural resources or vagaries of climate, the difficulties faced by small-scale producers, or the technical problems of primary agricultural production.

Food insecurity in the region is not just a matter of production levels; it is also caused by obstacles that prevent a large part of the population from gaining access to the food that is available. These stem largely from poverty and exclusion; and rural areas have more than their fair share of both of these scourges.

The basic components of any analysis of food security in the region therefore include the pace and characteristics of economic growth, income distribution (both family and regional), the fight against poverty, and a deliberate strategy of agricultural and rural development.

The increasing interdependence of national economic processes is reflected in business cycles of global compass, involving major fluctuations in international capital flows and changing conditions on international markets. Such disturbances increasingly affect the profitability of productive activities, economic growth, and the financing conditions faced by developing countries. Their impact on the potential for progress in Latin America and the Caribbean is particularly significant.

Progress in agriculture and rural development, and possibilities for poverty reduction and greater food security in the region, also depend on significant inter-relationships in the national development framework.

Agricultural and rural development responds not only to variables within agriculture; macroeconomic policy, the availability of infrastructure, access to services, the quality of institutions and administrative efficiency, all have a decisive influence on possibilities for progress in the rural domain.

Development of the sector depends not only on raising productivity in primary production; trading conditions, production and consumption are also decisive factors in the profitability of agricultural activity. The competitiveness that matters encompasses the whole production chain.

Rural development is not confined to agricultural production. In Latin America and the Caribbean, non-farm economic activities in the rural sector account for a large and growing share of employment, and generate nearly half of all income earned by the rural population. Farming and non-farming rural activities are not mutually exclusive but positively related, since progress in one favours development in the other.

Rural development requires a land-based approach that encompasses all productive possibilities in the various types of activities, and takes account of the synergies existing between them, including urban-rural relations.

Changes in the economic system

International trade currently accounts for 25 percent of world production; and the proportion is set to increase further in the years to come.

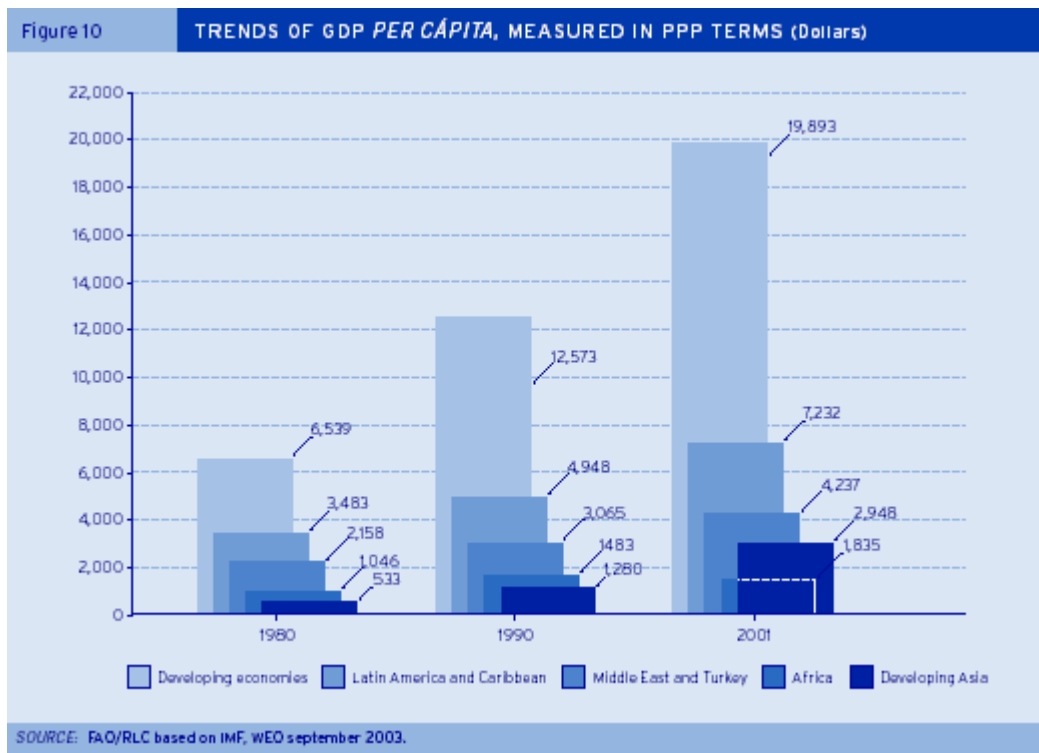
Economic processes increasingly transcend national borders. World trade today no longer implies buyers and sellers that are wholly separate; there is close transnational coordination of productive, commercial and consumption processes, and also of their financing. In practice, competition on international markets nowadays takes place between economic chains and systems, rather than between factories or firms.

Competitiveness increasingly depends on partnerships based on the development and exploitation of technological know-how. Intellectual capital is increasingly important and intangible; but while it is also becoming more transferable, gaining access to it depends on the availability of knowledge and human and social capital. This generates a cumulative dynamic in which developing countries face major disadvantages.

The development gap

An increasingly homogeneous economic system does not mean less variety in productive capacities and living standards; the development gap is not narrowing but continues to widen. *Per capita* income in developing countries is not converging, even slowly, on developed country levels; on the contrary, the differences are becoming larger. In 1980, *per capita* income in Latin America and the Caribbean was just over half of the developed country average; today it is barely one third. If current trends persist, this growing polarization will become even more accentuated in the future.

Developing countries face enormous disadvantages in participating in the current global economic dynamic. As well as lower productive and financing capacities, the region suffers from major shortcomings in infrastructure, transport, communications, health, services and institutional development.



Specific features of Latin America and the Caribbean

The early over-borrowing by Latin American countries has resulted in external debt conditions that are much more onerous than in other regions. In the last five years, Latin America and the Caribbean as a whole has spent 41 percent of its total export earnings on servicing external debt; in Argentina and Brazil the figure amounted to over 70 percent.

Despite the economic liberalization and trade openness of the last few years, the economies of Latin America and the Caribbean have the lowest coefficients of outward orientation: exports represent just 21 percent of GDP, compared to 30 percent or 40 percent in other regions. The region also has the largest inflow of foreign direct investment (FDI) in relation to GDP. These two features make Latin America and the Caribbean the most vulnerable region in the world to changes in external financing flows.

It is also the only developing region with a substantial surplus in agricultural trade. The fact that agriculture, including agribusiness, is a strategic component of the region's economic development makes it more sensitive to changes in international agricultural markets, and more affected by distortions in those markets.

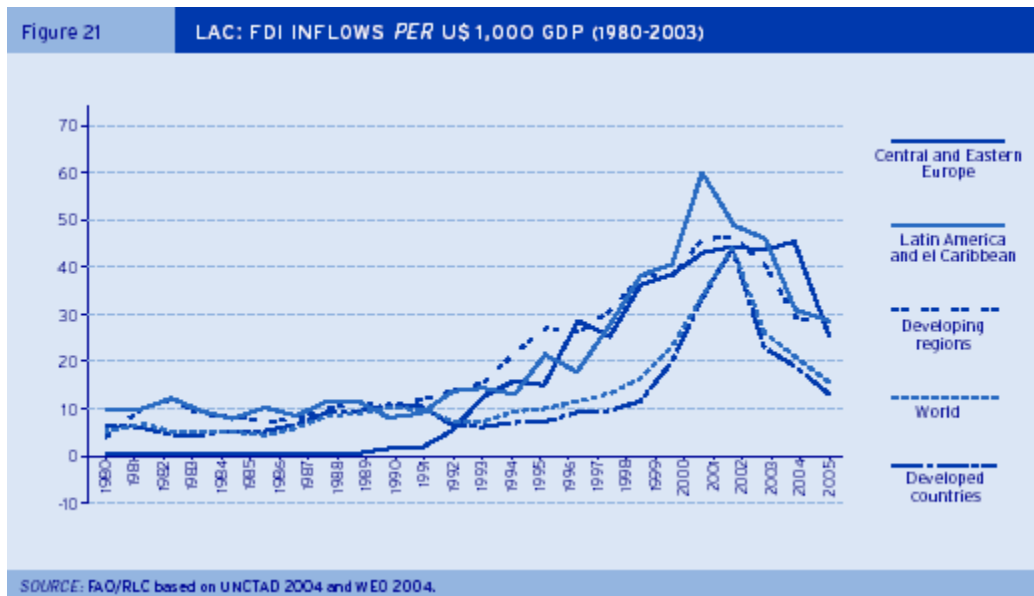
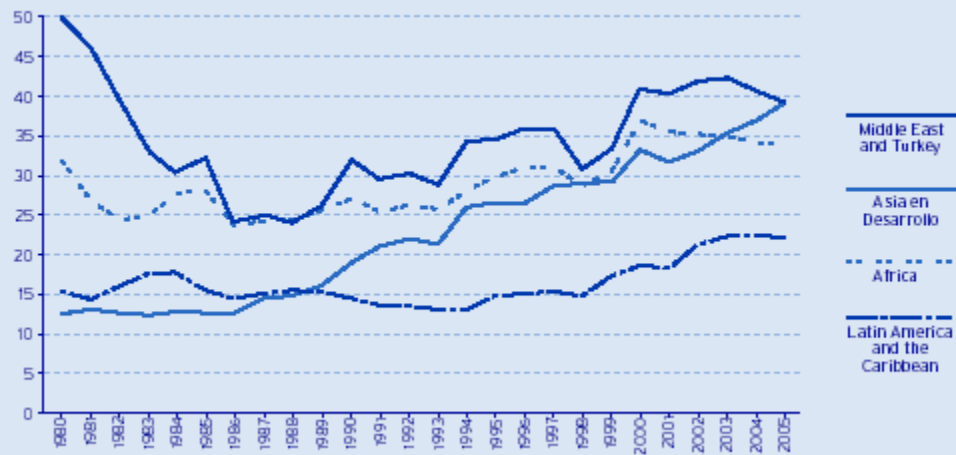
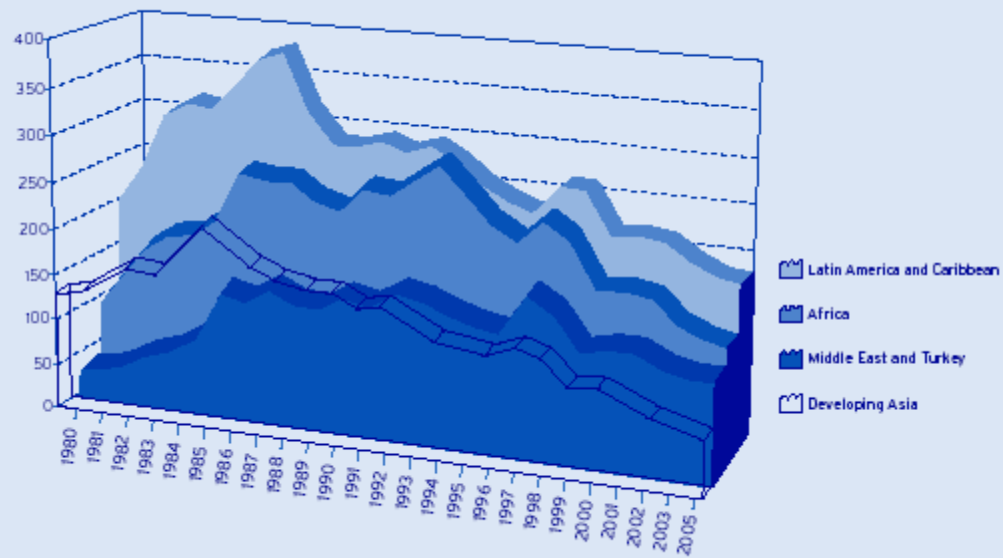


Figure 30 EXPORTS / GDP IMF (1980-2005)



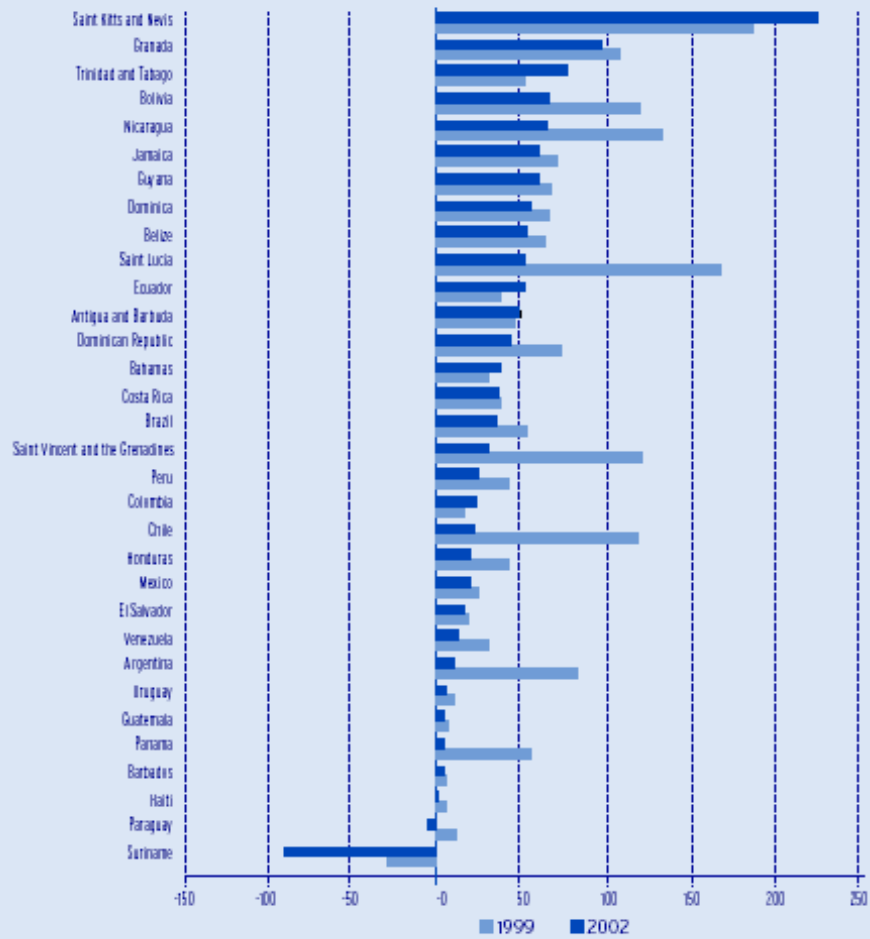
SOURCE: FAO/RLC on the basis of IMF, WEO april 2004.

Figure 32 DEBT IN RELATION 1980-2005 (Percentage)



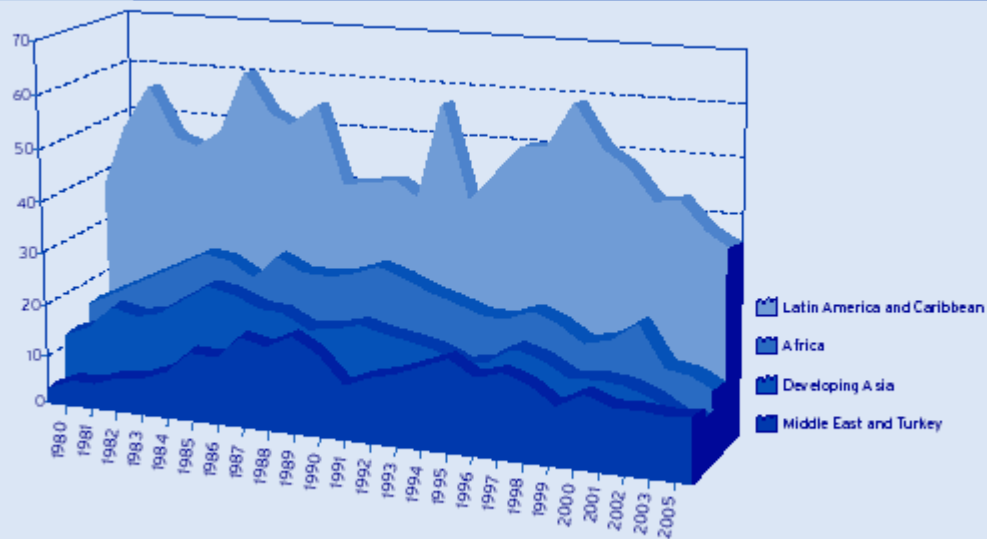
SOURCE: IMF based on WEO, april 2004.

Figure 24 LAC: FDI INFLOWS IN RELATION TO GDP (Percentage)



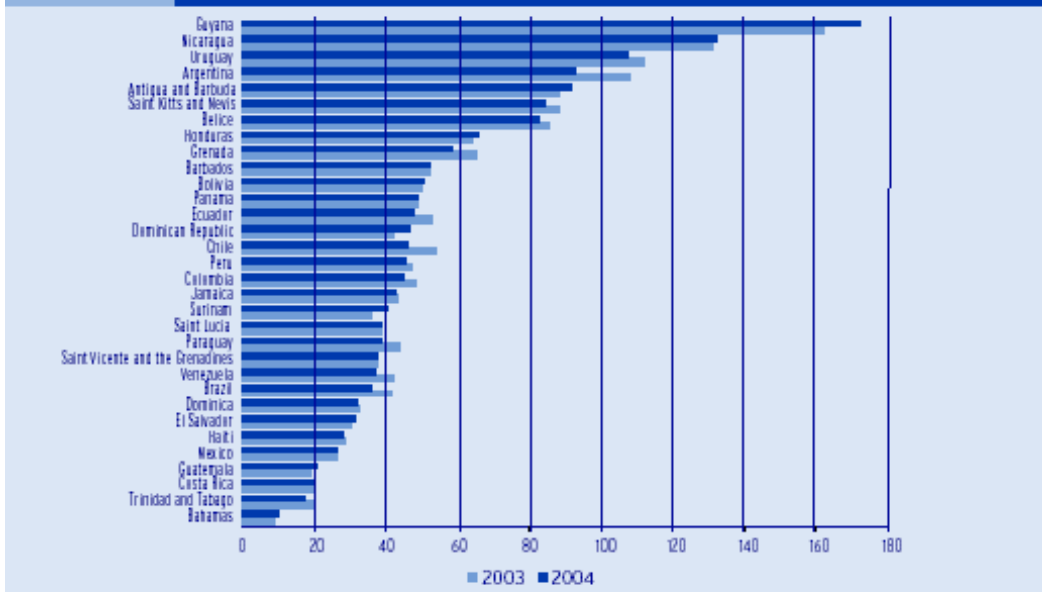
SOURCE: GDP FAO; FDI UNCTAD 2004.

Figure 34 DEBT SERVICE IN RELATION TO EXPORTS 1980-2005 (Percentage)



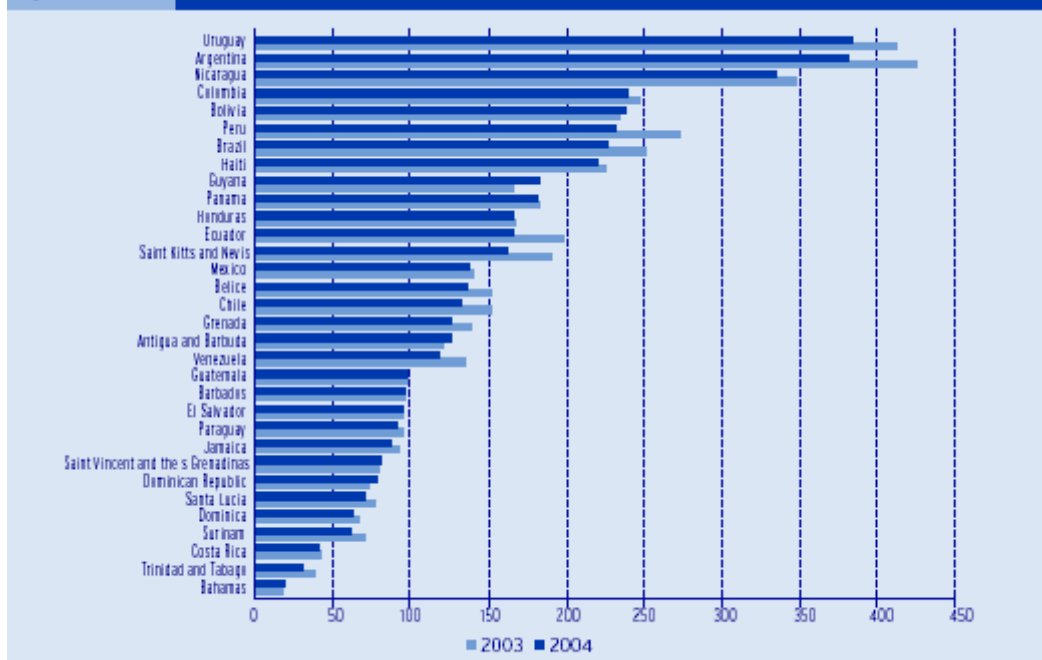
SOURCE: IMF, WEO, april 2004.

Figure 37 LAC: DEBT IN RELATION TO GDP (2003-2004)



SOURCE: FAO/RLC based on IMF, WEO abril 2004.

Figure 38 LAC: DEBT IN RELATION TO EXPORTS (2003-2004)



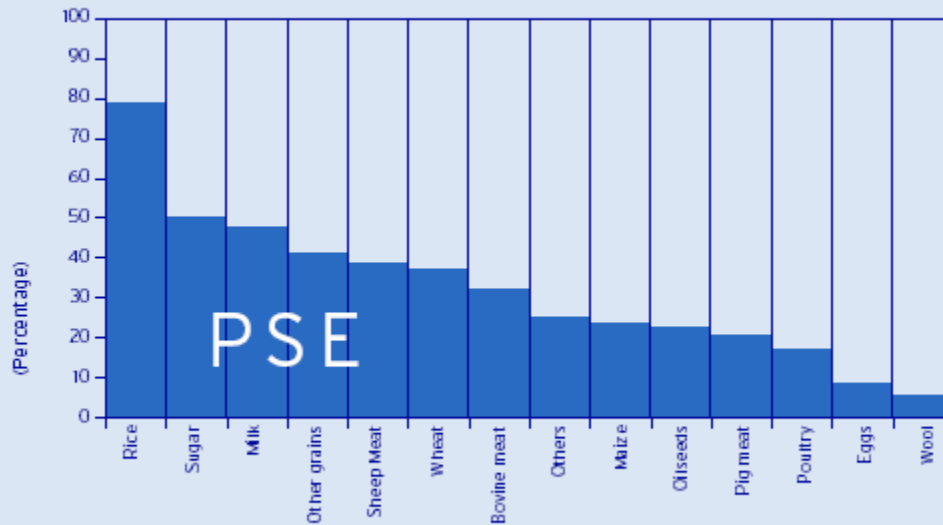
SOURCE: FAO/RLC based on IMF, WEO abril 2004.

Subsidies and the other forms of agricultural support provided in OECD countries are the main cause of distortions on international markets for agricultural products. The global value of such support exceeds US\$ 320 billion. On average, farmers in OECD countries obtain 31 percent of their total income from support (the figure is over 60 percent in Korea, Iceland, Japan, Norway and Switzerland); and the domestic prices of

agricultural products are 31 percent higher than prices on the border (over 75 percent higher in the case of rice, sugar and milk).

Figure 12

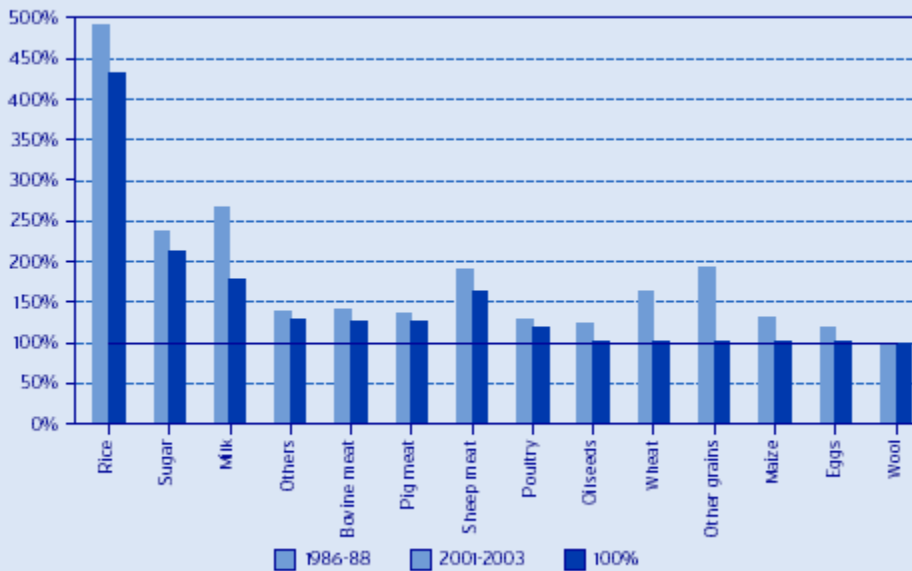
OECD COUNTRIES: AGRICULTURAL SUPPORT BY PRODUCT (Average 2001-2003)



SOURCE: OECD, Agricultural Policies in OECD Countries, 2004.

Figure 13

PRODUCER NPC IN OECD COUNTRIES



SOURCE: OECD, Agricultural Policies in OECD Countries, 2004.

	Total support estimate	Producer support	PSE per full-time farmer equivalent	PSE per hectare of agricultural land	PSE	Producer NPC
	(Millions of dollars)	(Millions of dollars)	(Thousands of dollars)	(Dollars)	(%)	(%)
OECD	324,053	238,310	11	182	31	1.31
Australia	1,282	1,552	2	2	4	1.00
Canada	6,331	7,002	10	57	19	1.12
Korea	20,253	21,465	23	9,307	66	2.78
Czech Republic	1,091	32,058	5	196	23	1.17
United States	95,128	44,239	19	112	21	1.13
Hungary	1,846	391,932	5	205	24	1.15
Iceland	164	12,741	27	65	63	2.33
Japan	56,489	5,359	23	9,828	59	2.37
Mexico	8,050	72,005	1	71	22	1.21
New Zealand	221	221	1	5	1	1.01
Norway	2,857	20,741	38	2,254	68	2.70
Poland	2,129	7,379	1	114	15	1.17
Slovakia	389	14,005	3	127	21	1.12
Switzerland	5,483	7,586	30	2,958	73	2.91
Turkey	7,618	8,001,477	n.c.	125	18	1.19
European Union	114,720	102,708	15	670	35	1.33

SOURCE: OECD Agricultural Policies in OECD Countries, 2004.
a/ Based on data OECD, Agricultural Policies in OECD Countries, 2003.

Economic growth

The regional economy grew by 5.5 percent in 2004, the fastest rate for 25 years, and international conditions played a decisive role in this rapid progress. The world economy also expanded faster than at any time in recent decades. International demand and commodity prices grew strongly, driven by imports into the United States and China, thereby benefiting the region's exporting countries. On the other hand, several countries that have deficits in these goods, including a number from Central America, endured severe difficulties this year.

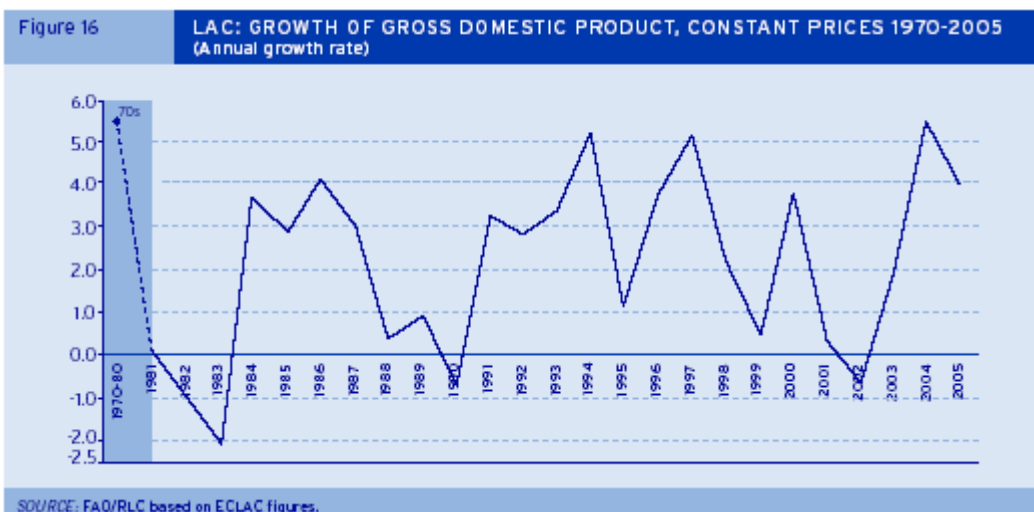


Figure 18

LAC: GROWTH OF GROSS DOMESTIC PRODUCT AT CONSTANT PRICES 1970-2005
(Annual growth rate)



SOURCE: FAO/RLC based on ECLAC.

The presence of a number of positive features in the region's economies suggests the current expansion could prove more durable than in previous growth cycles—in particular the healthier macroeconomic framework prevailing in most countries, and the unprecedented current-account surplus recorded for the second year running. From a medium and long-term standpoint, however, the growth process in Latin America and the Caribbean over the last 25 years has been characterized by weakness, instability, vulnerability, and a high degree of concentration.

Recurrent economic crises in Latin America and the Caribbean have generally been associated with international upheavals: external debt in 1983, adjustment and hyperinflation in the late 1990s, the “tequila” crisis in 1994, the Asian crisis in 1997, and the stock market crash at the turn of the millennium. The most likely scenario for the future is that new international economic crises will continue to occur.

Although international financial conditions are beyond the control of the region's countries, the level of a country's vulnerability and the intensity of the negative effects are also influenced by domestic conditions and policies. In the next few years, the countries of the region will need to establish policies to improve a number of fundamentals: the current account balance, the degree to which domestic saving finances development, the fiscal balance, the quality of the financial system and bank supervision, the legal and juridical framework, external debt conditions, macroeconomic stability, predictable exchange-rate policies and transparent regulations governing capital movements.

Equity

One of the most worrying features of the current economic paradigm, with negative effects on both economic growth and equity, is the fact that a large part of the population is excluded from development processes. While globalization eliminates borders and fosters multiple linkages in economic growth, the region's structural heterogeneity breaks these processes up, blocking and distorting the use of resources

and preventing numerous agents from participating in economic circuits. Ultimately, this excludes a large part of the population from current streams of progress.

Latin America is the most unequal region in the world; and in recent decades, far from improving, the region's income distribution concentration has actually worsened. The prevailing growth model is not leading Latin American countries towards the more equitably shaped income distributions seen in developed countries; on the contrary, high levels of concentration in the distribution of family income are being perpetuated and are spreading in the vast majority of the region's countries.

Economic heterogeneity and intergenerational transmission of poverty—since children in poor families have less access to opportunities in terms of education, training and healthcare, and grow in depressed economic environments, lacking infrastructure and services—are the main difficulties in overcoming the structural problems of underdevelopment and ensuring widespread access for the population at large to minimum acceptable levels of well-being. It is essential to achieve a development model that eliminates exclusions and generates employment and income opportunities for the large number of population that lives in poverty. This does not mean aiming at a homogeneous society, which is totally unrealistic, but certainly much greater equality of opportunity than prevails today.

Bottlenecks in human resources, and in physical and service infrastructure, cause heterogeneity in production, economic polarization, environmental deterioration and social exclusion, with the result that much of the population is excluded from the progress that economic growth brings in its wake. Such constraints also hinder efficient exploitation of national resources, prevent domestic saving from playing a larger role in the financing of development, and heighten social tensions—thereby also generating a climate of political instability, social violence and problems of governance, which undermine the potential for sustained economic growth.

From a medium- and long-term perspective, achieving greater equity is not negatively related to the pace of economic growth; in fact the two processes are mutually stimulating. Yet, when differences in access to assets, education, health, services and consumption are perpetuated from one generation to another, the economic growth process produces a polarizing dynamic that diverges from equal opportunities and continuously widens economic and social differences, thereby undermining the growth base.

Lasting economic progress requires sustainable use of resources and efficient participation by the population through democratic institutional arrangements. Moreover, political democracy needs to be sustained by social democracy; and this, in turn, is only possible in a solidarity-based society, where equal opportunities contribute to social mobility and coexistence amidst inevitable inequalities.

Far from being mutually exclusive, economic growth and equity reinforce each other. Resource allocation alternatives that are exclusive in the short run are less important than complementarity in the long term.

Table 18

GINI COEFFICIENT BY REGION

Region	1970s	1980s	1990s	Overall average
Latin America and the Caribbean	48.8	50.8	52.2	50.5
Asia	40.2	40.4	41.2	40.6
OECD	32.3	32.5	34.2	33
Eastern Europe	28.3	29.3	32.8	30.1
Changes		70-80s	80-90s	70-90s
Latin America and the Caribbean		2.4	1.3	3.7
Asia		0.2	0.8	1.1
OECD		0.2	1.7	1.9
Eastern Europe		1.0	3.5	4.5
Differences in Gini points relative to LAC				
Asia	8.3	10.4	10.9	9.9
OECD	16.1	18.3	18	17.5
Eastern Europe	20.2	21.6	19.4	20.4

SOURCE: Based on WIDER 2000 figures.

Table 17

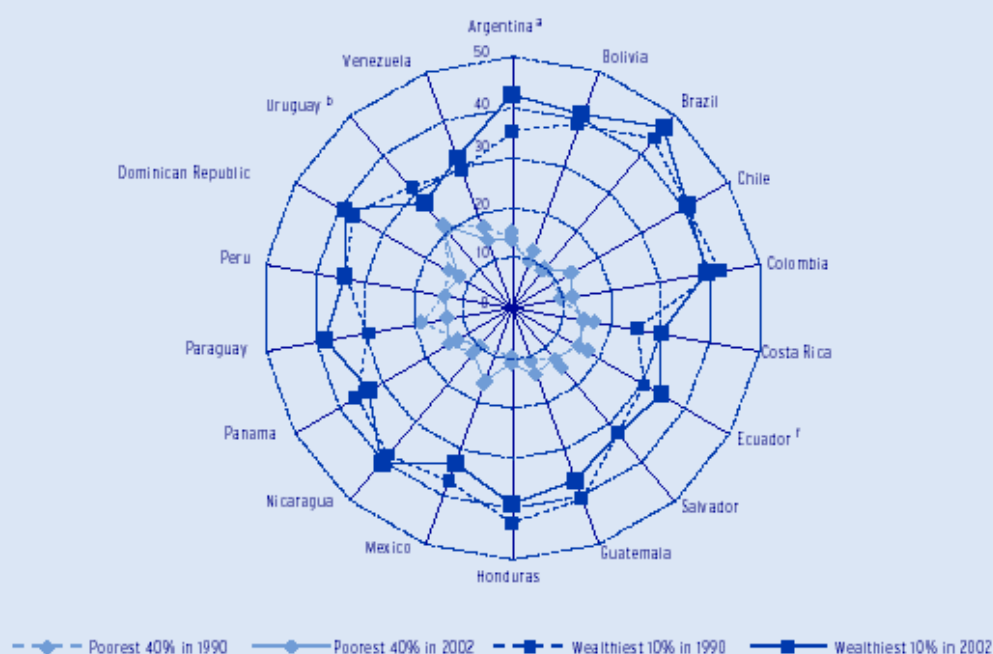
INCOME DISTRIBUTION (PSE)

Region	Income received by	
	Wealthiest 5%	Poorest 30%
	% of total income	
Latin America and the Caribbean	25.0	7.5
Africa	24.0	10.2
Southeast Asia	16.0	12.0
Developed countries	13.0	14.0

SOURCE: IDB calculations based on Deininger and Squire (1996a). IDB 1998, "América Latina frente a la Desigualdad".

Figure 47

LAC: INCOME DISTRIBUTION IN 1990 AND 2002.



SOURCE: FAO/RLC based on ECLAC 2004

a/ Greater Buenos Aires.

b/ Urban total.

Poverty

Poverty is the main cause of food insecurity in Latin America and the Caribbean.

The absolute number of people living in poverty in the region has been growing continuously; from a level of 110 million in 1960, the figure had risen to 136 million in 1980 and currently stands at 226 million. The proportion of the total population who are poor has remained broadly unchanged, however, with just under half (44 percent) of the Latin American population currently living below the poverty line.

In absolute terms, poverty is mostly an urban phenomenon, with urban areas accounting for nearly two thirds of the total, and over half in the state of indigence. In relative terms, however, poverty and indigence are both much more prevalent in the countryside: 62 percent of the rural population is poor, and 38 percent indigent—proportions that have remained virtually static since 1990. On the contrary, the corresponding figures in the cities are 38 percent and 14 percent.

Broadly speaking, the rural area functions as a mechanism that absorbs unemployment and underemployment, by providing modes of subsistence to population groups that are excluded from the main dynamics of the current development model. It thus serves as a stabilization factor combining productive activities within the family unit and community life to offer adequate survival strategies based on very low monetary incomes.

The fragmentation of urban-rural development has been accompanied by gender segmentation. Rural women suffer segregation in labour markets, in terms of systematically lower pay, and they also face discrimination in access to credit and landownership.

Poverty is particularly severe among indigenous peoples; and the fact that such population groups are also subject to exclusion to an even greater degree has rendered several traditional communities economically unviable. As the ways of life and modes of organization of indigenous communities are closely linked to the rural domain, poverty relief that continues to rely mainly on migration to the cities is likely to entail the loss of cultural and social heritage among such communities, and the vast diversity of ways of life in the Latin American and Caribbean countryside will be diminished.

Deteriorating employment conditions are one of the major causes of poverty, which always spreads in periods of crisis or recession. As poverty increases in the absence of viable strategies to counteract the negative effects of economic downswings, sustained economic growth is a necessary, albeit insufficient condition for reducing poverty.

A more equal income distribution is also essential for poverty reduction, and there are some population groups that form nuclei of core poverty resulting from their exclusion from economic processes; addressing such situations requires specially targeted measures.

Figure 57

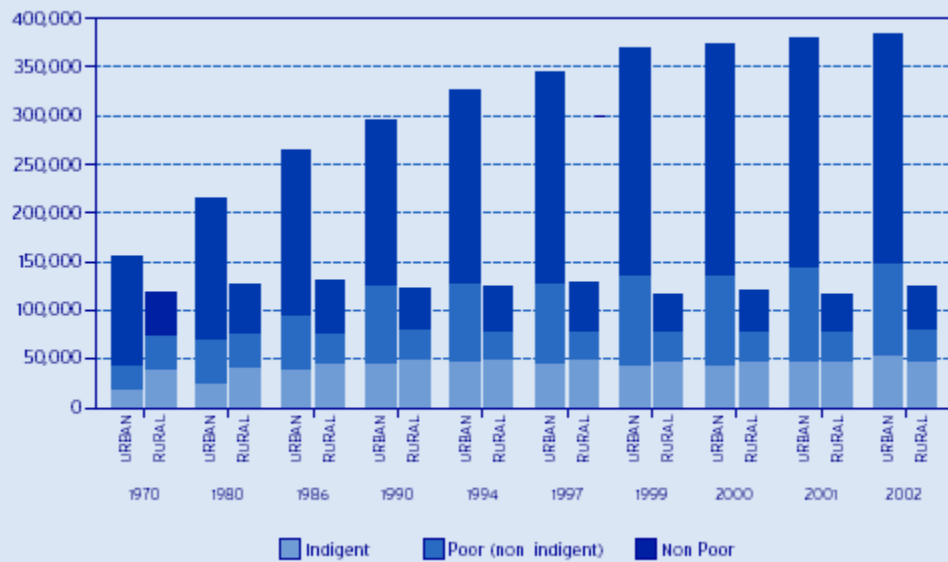
LAC: INDEX OF PER CAPITA GDP AND POVERTY (1970-2004)



SOURCE: FAO/RLCP based on ECLAC 2004.

Figure 62

LAC: POOR AND INDIGENT POPULATION (Thousand of people)



SOURCE: FAO/RLC based on CEPAL 2004.

Table 22

MAGNITUDE OF POVERTY AND INDIGENCE IN LATIN AMERICA (1990-2002)

	1990		1999		2000		2001		2002	
	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence	Poverty	Indigence
	(Percentages of population)									
Argentina ^a	28.5	8.2	19.7	4.8	24.7	7.2	30.3	10.2	n.d.	n.d.
Bolivia	64.2	39.5	60.6	36.5	60.6	36.5	61.2	37.3	62.4	37.1
Brazil	48	23.4	37.5	12.9	36.5	12.3	37.5	13.2	n.d.	n.d.
Chile ^b	38.6	12.9	21.7	5.6	20.6	5.7	20	5.4	n.d.	n.d.
Colombia	56.1	26.1	54.9	26.8	54.8	27.1	54.9	27.6	n.d.	n.d.
Costa Rica	26.2	9.8	20.3	7.8	20.6	7.9	21.7	8.3	20.3	8.2
Ecuador ^a	62.1	26.2	63.6	31.3	61.3	31.3	60.2	28.1	n.d.	n.d.
Salvador	60.2	27.7	49.8	21.9	49.9	22.2	48.9	22.1	n.d.	n.d.
Guatemala ^c	69.1	41.8	60.5	34.1	60.1	33.7	60.4	34.4	59.9	30.3
Honduras	80.5	60.6	79.7	56.8	79.1	56	79.1	56	77.3	54.4
Mexico ^b	47.8	18.8	46.9	18.5	41.1	15.2	42.3	16.4	39.4	12.6
Nicaragua	77.6	51.4	69.9	44.6	67.5	41.4	69.3	42.3	n.d.	n.d.
Panama	45.7	22.9	30.2	10.7	30	10.7	30.8	11.6	34	17.4
Paraguay ^e	63	35	60.6	33.9	61.7	35.7	61	33.2	n.d.	n.d.
Peru	56	25	48.6	22.4	48	22.2	54.8	24.4	n.d.	n.d.
Dominican Republic	n.a.	n.a.	n.a.	n.a.	46.9	22.1	n.a.	n.a.	44.9	20.3
Uruguay ^d	17.8	3.4	9.4	1.8	10.2	2	11.4	2.4	n.d.	n.d.
Venezuela	40	14.6	49.4	21.7	48.8	21.2	48.5	21.2	48.6	22.2
Latin America	48.3	22.5	43.8	18.5	42.5	18.1	43.2	18.5	44	19.4
	(Thousand people)									
Argentina ^a	9,270	2,667	7,206	1,756	9,147	2,666	11,359	3,824	n.d.	n.d.
Bolivia	4,220	2,596	4,934	2,972	5,047	3,040	5,212	3,176	5,437	3,233
Brazil	71,019	34,622	63,092	21,704	62,198	20,960	64,710	22,778	n.d.	n.d.
Chile ^b	5,057	1,690	3,259	841	3,133	867	3,080	832	n.d.	n.d.
Colombia	19,618	9,127	22,729	11,095	23,074	11,410	23,499	11,814	n.d.	n.d.
Costa Rica	799	299	798	307	829	318	892	341	852	344
Ecuador ^a	6,374	2,689	7,893	3,885	7,752	3,958	7,754	3,619	n.d.	n.d.
Salvador	3,077	1,416	3,066	1,348	3,133	1,394	3,130	1,414	n.d.	n.d.
Guatemala ^c	6,046	3,657	6,709	3,782	6,842	3,837	7,059	4,020	7,185	3,634
Honduras	3,920	2,951	4,988	3,555	5,076	3,594	5,201	3,682	5,214	3,669
Mexico ^b	39,781	15,646	45,660	18,011	40,636	15,029	42,456	16,460	40,128	12,833
Nicaragua	2,967	1,966	3,452	2,202	3,423	2,099	3,609	2,203	n.d.	n.d.
Panama	1,096	549	849	301	857	306	893	336	1,004	514
Paraguay ^e	2,658	1,477	3,247	1,816	3,391	1,962	3,438	1,871	n.d.	n.d.
Peru	12,079	5,392	12,262	5,652	12,318	5,697	14,299	6,367	n.d.	n.d.
Dominican Republic	n.a.	n.a.	n.a.	n.a.	3,927	1,850	n.a.	n.a.	3,883	1,755
Uruguay ^d	553	106	311	60	340	67	383	81	n.d.	n.d.
Venezuela	7,801	2,847	11,711	5,144	11,795	5,124	11,947	5,222	12,195	5,571
LA ECLA Cf	200.2	93.4	211.4	89.4	206.6	88.4	213.6	91.7	221.4	97.4

SOURCE: FAO/RLC based on ECLAC figures.

From 2000 to 2001 microsimulations are projected on household surveys carried out in the respective countries.

a/ Urban area only.

b/ The figure shown for 1999 corresponds to the 1998 measurement. The figure shown for 2000 is based on household surveys.

c/ The figure shown for 1999 corresponds to the 1998 measurement.

d/ The figure shown for 1999 corresponds to the 1997 measurement.

e/ The figure shown for 1994 corresponds to the urban area.

f/ Totals in millions for LA differ from the sum of the individual countries because the latter are obtained from ECLAC, Social Panorama 2001-2002.

n.a.: not available.

Table 23

LA: MAGNITUDE OF POVERTY AND INDIGENCE^a (1970-2002)

year	Poverty ^b				Indigence			
	Urban		Rural		Urban		Rural	
	(Thousand people)	(Percentage)	(Thousand people)	(Percentage)	(Thousand people)	(Percentage)	(Thousand people)	(Percentage)
1970 ^c	41,600	27.0	71,200	63.0	18,700	12.0	41,300	37.0
1980	62,900	29.8	73,000	59.9	22,500	10.6	39,900	32.7
1986	94,400	35.5	75,800	59.9	35,800	13.5	45,600	36.0
1990	121,700	41.4	78,500	65.4	45,000	15.3	48,400	40.4
1994	125,900	38.7	75,600	65.1	44,300	13.6	47,400	40.8
1997	125,700	36.5	78,200	63.0	42,200	12.3	46,600	37.6
1999	134,200	37.1	77,200	63.7	43,000	11.9	46,400	38.3
2000	131,800	35.9	75,300	62.5	42,800	11.7	45,600	37.8
2001	138,700	37.0	75,200	62.3	45,800	12.2	45,900	38.0
2002	146,700	38.4	74,800	61.8	51,600	13.5	45,800	37.9

Source: RLCP based on ECLAC 2003 figures.

a/ Estimation based on 19 of the region's countries.

b/ Includes population living in conditions of indigence.

c/ Figures for 1970 obtained from ECLAC, Social Panorama 1994.

Crop production

Viewed from a long-term perspective, the region's agriculture has been growing slowly, mainly because of low levels of sectoral investment stemming from lack of profitability. Since 1994, however, growth has been stronger thanks to renewed expansion of harvested areas, which probably reflects a revival of investment in response to higher returns.

Agricultural output growth is heavily concentrated in a few product lines and a small number of countries. This basically reflects the explosive growth of soybean production in Argentina and Brazil, based on a highly efficient economic model involving technological progress and modern management methods. Other crops are progressing much more slowly.

There are many reasons for the generally low profitability of regional agriculture, many of which fall outside the bounds of primary production. These include failings throughout productive chains, falling prices and the high transaction costs faced by the vast majority of farmers. Prices remain relatively low on domestic markets because of sluggish growth and the concentration of income, which do nothing to stimulate higher consumption among the population at large. Furthermore, major distortions on international markets also help to keep prices low.

Livestock production

Within the prevailing patterns of market integration and ever greater competition, livestock production displays increasing differentiation and specialization, and this will probably tend to accentuate in the coming years. In some product sectors, particularly poultry, the development of new technologies has fuelled strong growth; other products, in contrast, have stagnated or declined.

The development and dissemination of more efficient technologies needs to embrace not only production but also the processing and marketing stages. Health, quality control and safety issues are also very important here.

International cooperation will be essential for progress in terms of animal health and better-functioning markets.

Stronger economic growth is likely to generate greater demand along with more stringent quality requirements, which will pose major challenges both for producers and for systemic quality.

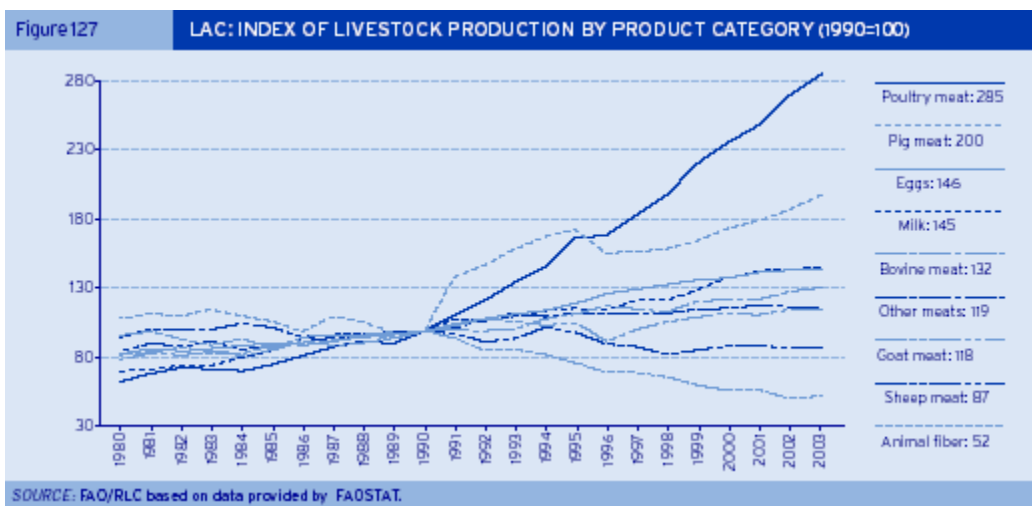


Table 39 LAC: VALUE OF LIVESTOCK PRODUCTION BY PRODUCT CATEGORY (Billions of dollars and percentage)

	1980		1990		2003	
	MUS\$	%	MUS\$	%	MUS\$	%
Total livestock	38.3	100	48.0	100	75.2	100
Poultry meat	3.7	9.6	5.8	12.2	16.6	22.1
Bovine meat	18.3	47.8	23.3	48.5	30.7	40.8
Carne Caprinos	0.1	0.4	0.2	0.4	0.2	0.3
Pig meat	3.2	8.4	2.9	6.1	5.8	7.7
Sheepmeat	0.5	1.4	0.6	1.3	0.6	0.7
Animal fibre	0.6	1.5	0.6	1.2	0.3	0.4
other meats	0.3	0.8	0.3	0.6	0.4	0.5
Milk	9.3	24.4	11.1	23.1	16.0	21.3
Eggs	2.2	5.8	3.2	6.6	4.6	6.1

SOURCE: FAO/RLC based on data provided by FAOSTAT.

Fishery production

The fish catch has increased beyond the limits of resource sustainability, particularly in the 1980s; and weather patterns have also had a major impact on the development of this activity. The future of fishery production is thus facing major challenges. It will be essential to develop institutional forms (agents, mechanisms and market stimuli) that promote efficient and sustainable activity.

The structure of fishery production in the region has changed significantly as a result of the production of diadromous and freshwater fish in Chile. Over the last two decades, this country has introduced and developed a productive process that has made it the world's leading salmon producer. Processes of this type, within a

framework of environmental sustainability and respect for biological diversity, need to be replicated over the next few years to respond efficiently to current challenges.

Despite recent progress, aquaculture in Latin America and the Caribbean accounts for just 6.4 percent of the world total and is a very small part of the region's fishery production. Better technological models need to be developed for this sector over the next few years.

Table 44 VOLUME OF FISHERY PRODUCTION

Category	1980	1990	2001	Rate of growth %		
	Metric tons			1980-90	1990-01	1980-01
Pelagic fish	6,967,236	12,507,230	12,845,172	7.3	-1.0	3.2
Demersal fish	1,200,510	1,526,509	1,624,314	3.0	1.0	2.7
Diadromous ^a and freshwater fish	322,725	517,617	1,283,077	4.5	8.0	5.4
Crustaceans	281,865	382,296	562,739	3.1	3.0	2.9
Cephalopods	44,848	89,552	437,939	7.5	15.0	14.5
Molluscs	211,582	301,545	368,007	4.9	3.5	2.3
Aquatic animals and mammals	39,034	35,516	54,488	4.3	4.4	3.4
Aquatic plants	124,321	295,386	352,266	4.6	3.8	3.5
Other marine products	485,725	1,000,565	713,890	7.4	-2.0	1.8

SOURCE: FAO/RLC based on FISHSTAT plus a/ Samois.

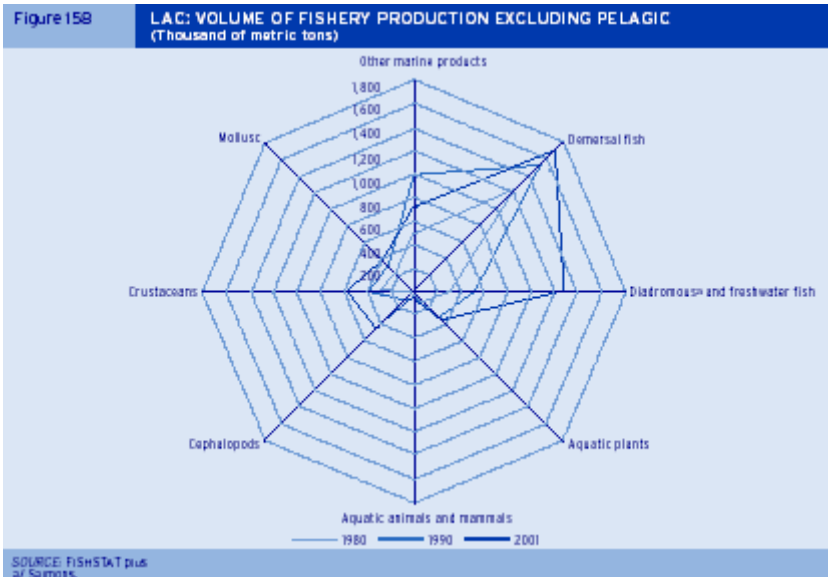


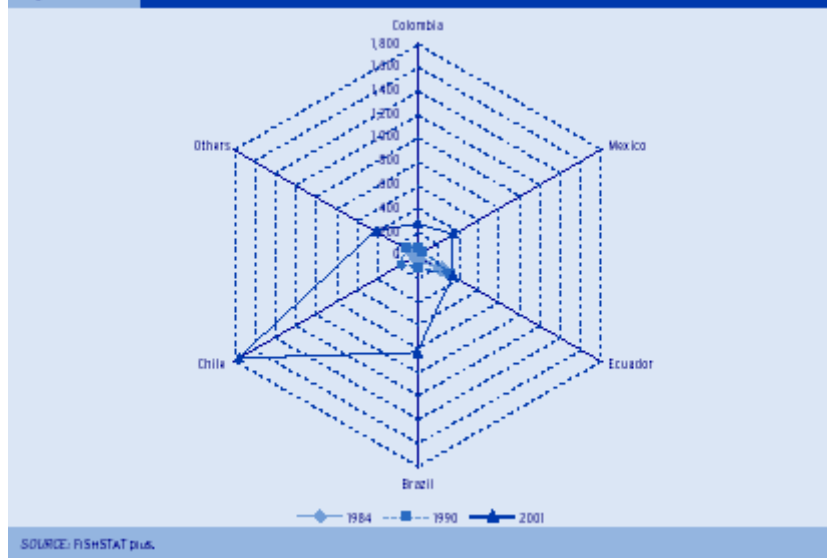
Table 45 LAC: VOLUME OF AQUACULTURE PRODUCTION (Metric tons)

Product	1980	1990	2001	Growth rates %		
	(Tons)			1980-90	1990-01	1980-01
Pelagic fish	0	1000	532	n.a.	-13.4	n.a.
Demersal fish	0	3	2,224	n.a.	62.9	n.a.
Diadromous ^a and freshwater fish	14,054	80,595	831,499	14.5	20.6	19.8
Crustaceans	10,992	102,628	193,751	21.9	5.0	12.6
Aquatic animals and mammals	0	140	848	n.a.	19.6	n.a.
Aquatic plants	1,455	38,122	65,578	34.3	0.7	19.3
Molluscs (excl. cephalopods)	1,873	7,343	83,316	11.3	23.7	17.5
Others	0	484	25	-5.2	-36.3	-26.2

SOURCE: FAO/RLC based on FISHSTAT plus a/ Samois.

Figure 159

LAC: VALUE OF AQUACULTURE PRODUCTION (Millions of dollars)



Forestry production

Although Latin America and the Caribbean contain one quarter of all the world's forests (956 million hectares), the region has only 12 million hectares of plantation forest—just 6 percent of the world total.

The structure of forestry production in the region reveals its low level of development. Fuel wood and logs continue to be the most heavily exploited products, whereas developed countries tend to specialize in products such as pulp and fibres, along with paper and paperboard.

The development of forestry resources and their sustainable exploitation require progress to be made in the institutional and technological framework over the next few years, to promote investment and sustainable patterns of exploitation.

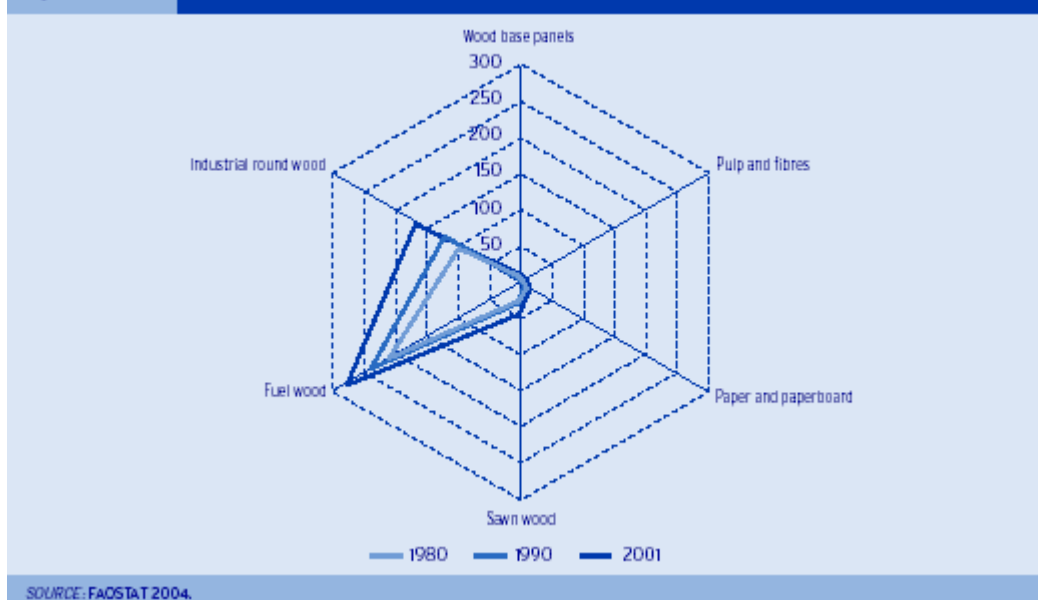
Table 47

LAC: VOLUME OF FORESTRY PRODUCTION

Product	Production in millions				Growth	
	1980	1990	1998	2002	1980-90	1990-02
Primary products:						
Sawn wood (m3)	25.84	28.86	34.99	38.66	1.62	2.37
Wood-based panels (m3)	4.33	4.93	6.82	10.39	1.53	5.88
Industrial roundwood (m3)	96.41	121.04	141.69	166.43	2.83	2.58
Fuel wood (m3)	206.62	235.21	257.37	272.57	1.31	1.2
Processed products:						
Pulp and fibres (ton)	4.77	6.52	10.51	11.65	3.81	4.83
Paper and paperboard (ton)	7.73	10.77	13.67	15.97	4.62	3.52

SOURCE: Faostat 2004.

Figure 189

LAC: VOLUME OF FORESTRY PRODUCTION (Millions de m³)

Trade in forestry, crop, livestock and fishery products

Latin America and the Caribbean is the only developing region with a surplus in its agricultural trade. This is essentially due to crop growing and fishery activities. Livestock and forestry products generate very small trade balance (either positive or negative): a surplus in the bovine meat and poultry segments is offset by a deficit in dairy products; while the deficit in paper and paperboard far outweighs the surplus in other forestry products.

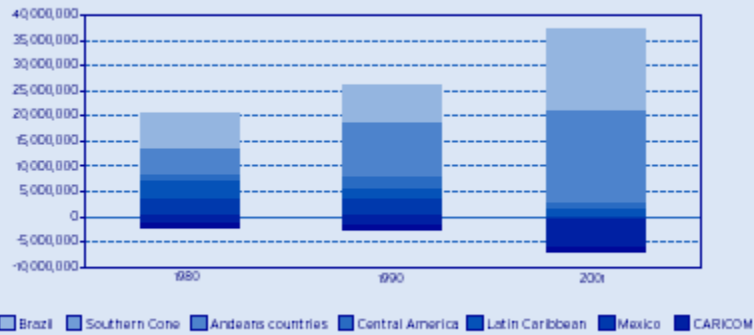
Forestry and fishing are the sub-sectors where trade is growing fastest, albeit on the basis of absolute quantities that are smaller than crop and livestock trade. Crop exports are greatly influenced by the behaviour of prices in a market that has great capacity to respond to price stimuli. In the livestock sector, improvements in health conditions are likely to play a key role in the future.

The fact that Brazil and Argentina are the region's main exporters, with rapidly growing shares, underscores the importance of developing specific niches for other countries of the region.

Brazil is the leading exporter of livestock products (48 percent); and, in conjunction with the southern cone countries, it accounts for over 80 percent of total regional exports. The leading importer is Mexico (58 percent of total regional imports).

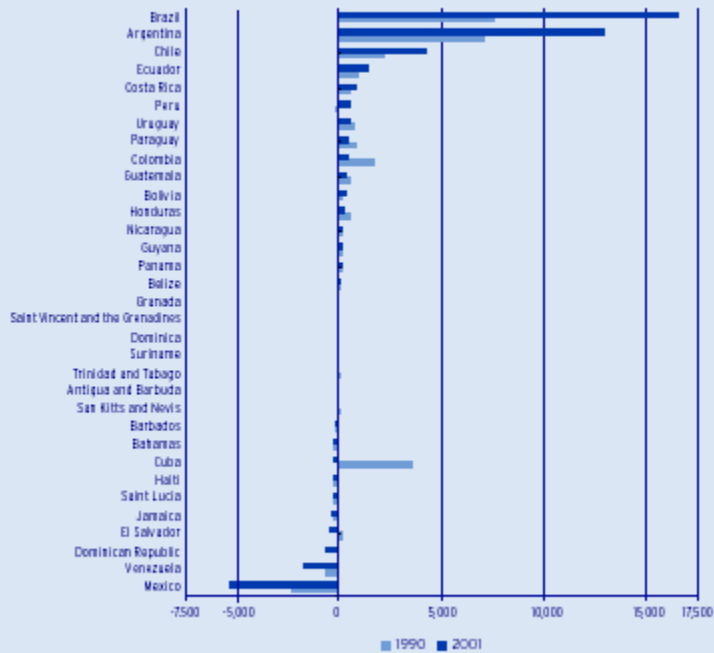
As much as 80 percent of forestry exports come from Brazil and Chile, while the region's other countries mostly run deficits.

Figure 210 LAC: BALANCE OF TRADE IN AGRICULTURE, FORESTRY AND FISHERY PRODUCTS (Thousands of dollars)



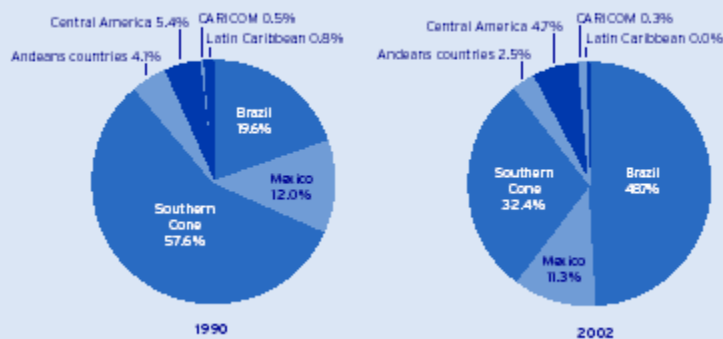
SOURCE: FAO/R/LC based on FAOSTAT and FISHSTAT plus.

Figure 211 LAC: BALANCE OF TRADE IN AGRICULTURE, FORESTRY AND FISHERY PRODUCTS (Millions of dollars)



SOURCE: FAO/R/LC based on FAOSTAT.

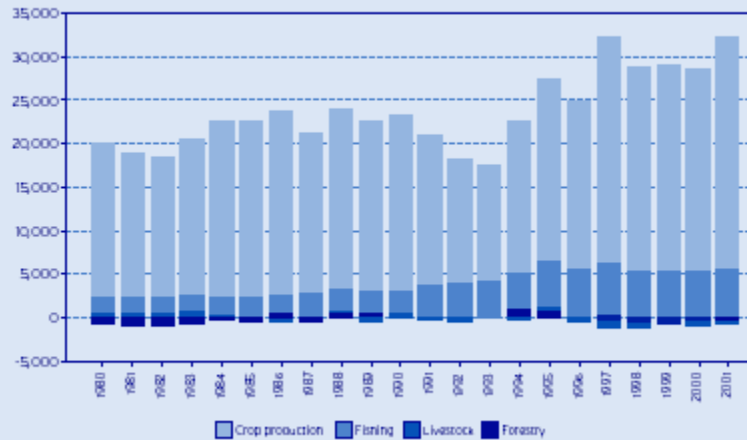
Figure 262 LAC: SUBREGIONAL SHARES OF LIVESTOCK-PRODUCT EXPORTS (Percentage)



SOURCE: FAOSTAT.

Figure 213

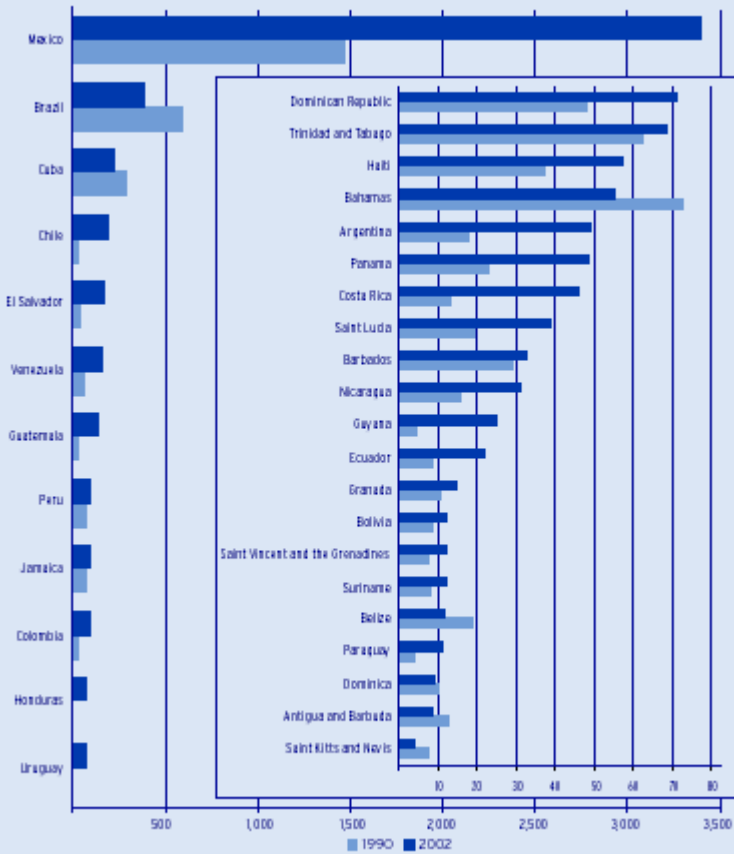
LAC: BALANCE OF TRADE IN AGRICULTURE, FORESTRY AND FISHERY PRODUCTS BY SUBSECTORS (millions of dollars)



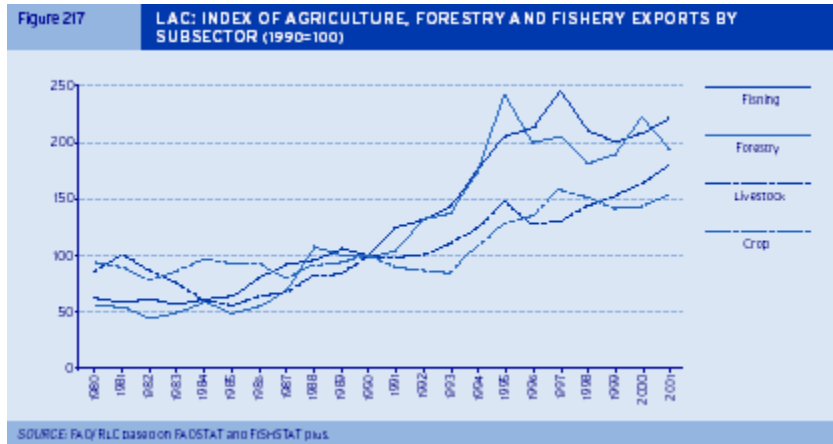
SOURCE: FAO/RLC based on FAOSTAT and FISHSTAT plus.

Figure 272

VALUE OF LIVESTOCK IMPORTS (Millions of dollars)



SOURCE: FAOSTAT 2004.



Components of development policy

Simultaneous pursuit of the recovery of sustained economic growth and improvements in equity require a complex strategy that includes the following: an economic policy designed to promote inclusive development; a full range of social policies and universal coverage of basic services; explicit incorporation of environmental sustainability criteria; human capital support programmes; institutional development and strengthening of social capital; reduction of peoples exclusion; and targeted support to address the most urgent and pressing needs.

The first requirement is to restore *rapid and sustained economic growth*, for, without this, there is no viable way to meet the region's major development challenges and overcome the poverty and exclusion that afflict much of the population.

Although rapid and sustained economic growth is necessary for reducing poverty and exclusion, it is not sufficient. The current model is highly polarizing and causes income to become increasingly concentrated in the economically most privileged segment of the population. In such conditions, it is hard for corrective mechanisms, such as targeted public expenditure, to offset the polarizing effects of income concentration from outside the economic process. Government mechanisms to promote equity are futile if the production and distribution process constantly intensifies concentration, and societies reproduce and strengthen polarization. One priority component in the development strategy is therefore an *economic policy design* that takes explicit account of variables affecting investment and employment.

In addition to an economic policy that promotes inclusion, complementary *social policies* are needed to reduce exclusion. Investments to improve education, health, training and the conditions of social participation among population groups living in poverty (considering the family unit as a whole in its community surroundings) are unquestionable priorities in such policies, along with the development of programmes to expand coverage of social services. People living in conditions of poverty also need assistance to broaden their access to productive resources.

Overcoming the challenges currently facing the region necessarily requires a long-term perspective that encompasses conservation and expansion of the natural resource base and preservation of the environment, within a sustainable development process. Development policy should contain explicit guidelines on environmental sustainability.

Efficiency in policy design and implementation entails reorganizing productive and distributive processes, to adapt them to the new development conditions. New types of stakeholder need to be developed—both public and private—along with new forms of relationship and a better regulatory framework. This *institutional development* means more efficient modalities for gaining access to and using natural resources, markets, financing, and both formal and informal standards.

Direct, targeted, temporary and transparent support can be provided to respond to current urgencies, resolve the most serious deficiencies, and avoid cumulative deterioration among poor families.

As development programmes (particularly consumption subsidies and programmes to alleviate poverty through direct support) are inevitably temporary, programmes to *develop productive capacities* need to be implemented to offer marginalized population groups an exit from social support programmes.

The marginality suffered by low-income population groups is often more than economic; as well as exclusion from goods and labour markets, such groups also tend to be excluded from social programmes and suffer from a variety of other problems that prevent them from participating normally in social life. Accordingly, *citizenship rescue* programmes are needed that help this population group participate more fully in social policy decision making.

The agricultural and rural development policy approach

Although the task of rural development reaches far beyond the sphere of agricultural production, agricultural policy nonetheless plays a fundamental role in any strategy. While rural development implies a diversification of job sources and greater vertical integration among economic activities in rural areas, there is a direct relation—a positive dynamic—between agricultural and non-farm rural incomes. Although the need persists to reallocate very low-productivity human resources currently located in the rural area, the simplistic idea of expecting industry to generate job opportunities and incomes has been superseded by an approach which, rather than seeing the different sectors as antagonistic, stresses their links. The competitiveness that matters encompasses the whole production-processing-trade-consumption chain. Such global systemic competitiveness largely depends on the macroeconomic setting and degree of intersectoral coordination; it is not a question of seeking relative advantages for isolated products. What is essential is to construct and develop the competitiveness of the system as a whole, including various forms of intersectoral integration and territorial coordination.

The competitive capacity of agriculture, and the profitability of sectoral activities, do not depend on indices of rural productivity alone. Agronomic progress is always desirable, and it is essential to exploit the wide-ranging potential for returns if available technologies were to become more widespread. But to achieve rapid and sustainable agricultural growth, it is essential to address elements that fall outside the remit of agricultural technology and farmers' capacities, such as those caused by changes in the international setting and in the macroeconomic framework, or shortcomings in infrastructure and services, among others.

Recently, rural development has once again been attracting the attention of national authorities and international organizations, but for reasons other than the traditional

arguments in defence of agriculture that adduce the importance of certain specific products, or paternalistic arguments relating to small-scale producers. The current emphasis on productivity and competitiveness, reduction of the State's field of action and the new international setting, have shifted the axes of potential agricultural policy towards the creation of conditions to absorb technical and productive capital, and the promotion of an urban-rural development process that aims to reduce poverty by creating jobs and generating local incomes.

The new argument in favour of agricultural and rural development differs from earlier demands on behalf of the rural sector and farming families—which at times were little more than rhetoric—in two key respects: the scope of the new approach, and the role assigned to it within economic and social development.

The new approach has several key dimensions:

- (a) It supersedes the narrow sectoral view that was confined to primary agricultural production alone, highlighting instead the importance of intersectoral coordination and the concept of the agribusiness sector, emphasizing productive chains and product systems.
- (b) Rural development is no longer seen as depending on agricultural progress alone, and non-farm economic activities have a key role to play. Rural development policy embraces all dimensions of people's lives and their subsistence strategy.
- (c) Various forms of linkage between the rural and urban economies are highlighted.
- (d) The three elements mentioned above mean that policy agents and instruments will also be different.

The way the role of agriculture is conceived has changed radically; instead of a narrow sectoral view, intersectoral coordination and multifunctionality are now the order of the day. The performance of agriculture has effects that reach beyond sensitive product markets; in the reality of the production chains prevailing in most of the region's countries, agriculture is an essential element in building systemic competitiveness and enhancing trade and agribusiness integration. It also affects natural resources as the environmental basis of development, beyond their directly productive potential; and it plays a major role in overcoming regional imbalances and in the territorial organization of development. Agriculture is also fundamental in terms of opportunities for progress among broad swathes of the population living in rural areas, and in exploiting programmes to alleviate rural poverty.

The new approach highlights the influence of agriculture on important issues such as:

- (a) Food supply and food security: in addition to the key dimension of food availability, lower prices benefit poor population groups in particular, since most of their spending goes on such goods.
- (b) Real incomes, through food prices; and overall systemic competitiveness, through greater exploitation of the natural resource base, and its effect on wage and raw materials costs.
- (c) Job creation and income generation among population groups that tend to be excluded from modern commercial circuits.

- (d) Poverty reduction, achievement of greater equity and progress towards more equal opportunities.
- (e) Incorporation of extensive zones that are currently excluded from the economic growth process; overcoming regional imbalances and the territorial management of development.
- (f) Improvements in environmental sustainability and sustainable exploitation of natural resources. Erosion, desertification, deforestation and loss of genetic wealth are closely linked to poverty and exclusion in rural areas, and to the technological orientations of the corresponding productive processes.
- (g) Recovery of cultural wealth, and its relation to the preservation of natural environments.

Institutional requirements for policy implementation

To respond to the new development orientations, agricultural policy needs to be highly participatory and neutral with respect to relative prices. It should not be reduced merely to promoting primary production, but must respond to market demand and the linkages and ties with agribusiness and agricultural trade processes. Particular emphasis needs to be placed on investment in human capital, reducing transaction costs for small-scale producers and encouraging their participation in the rural (or urban-rural) development strategy, and on addressing important differential needs. The complementary aspects of development also need to be considered from the standpoint of the national-global dynamic. In particular, the new approach highlights the building of new rural institutions (in the broad sense of the term), as part of the process of strengthening social capital to underpin a new agricultural and rural growth cycle.

New policy instruments represent significant institutional development in themselves. The concept of institutional development is not limited to organizational changes in the public sector, or to a mere shifting of responsibilities towards the private sector; it also encompasses the rules and mechanisms of interaction that determine how social stakeholders interact. The establishment of policies—and the laws and mechanisms that give them validity and make them operational—thus represent a clear example of institution development.

Allocation of productive resources through market mechanisms, the new role of the State in development and progress in administrative decentralization all require agricultural and rural development policy to be highly participatory. The tasks of policy design, implementation and evaluation need to be addressed jointly by public-sector bodies and civil-society agents.

The new instruments tend to involve highly participatory programmes, executed in decentralized fashion, consistent with the constraints of the macroeconomic framework and the exigencies of international participation, and with other efforts to achieve greater intersectoral integration; they also provide a complementary basis of support for rural poverty reduction programmes.

Nonetheless, these new policy instruments also require specific institutional modalities and developments, differing radically from those of traditional agricultural policy, which are very important for achieving policy objectives. Just as important as

obtaining funding for the new instruments is the need to design mechanisms that attract widespread support and participation from the various stakeholders involved, and which can reach the target population, while respecting the established regulations and operating with low administrative costs.

Policy areas and instruments

The thesis of State subsidiarity recognizes that there are important areas where State action is irreplaceable; but it also argues that the State should only intervene in cases where the market fails—public goods, externalities, natural monopolies, asymmetric information, economies of scale, and so forth. In the last few years, this negative definition of the areas of State intervention—by its exclusion from situations that the market can resolve on its own—has been enhanced by a positive list of State activities that can help the market become more efficient. This has led to the realization that areas of action exist where a proactive policy that is compatible and consistent with market mechanisms—and not contrary to them—can achieve positive results. The current approach, which has superseded the false State vs. market dichotomy, recognizes the usefulness of the State in developing markets and making them more efficient. This is a question of promoting development among the different agents and enriching the modes and mechanisms in which they interrelate, through better rules and organizational forms.

Where the participation of economic agents is highly unequal, such as in the rural sector, markets lose their competitiveness and their efficiency and capacity to resolve productive problems; and they become mechanisms that accentuate polarization, requiring complementary interventions to keep their outcomes within acceptable levels of equity. Recognition of the huge inequality of opportunities endured by the rural population justifies a set of differential policies to correct this situation.

An important area of agricultural and rural development policy for Latin American and Caribbean countries concerns international consensus and multilateral negotiations to achieve more favourable trading rules. There is a burgeoning agenda of priority agriculture and food issues that transcend national boundaries, such as trade negotiations, agreements on investment, animal health, plant protection, food safety and quality, and environmental sustainability. Systems of rules and regulations need to be altered in a wide variety of areas, to bring them into line with international standards and create coordination mechanisms at the corresponding levels. Political and technical improvements for the elimination or meaningful reduction of subsidies and commercial protection mechanisms in developing countries are also of prime importance.

Special efforts are also needed to develop analytical instruments for *ex-ante* and *ex-post* estimation of the effects of economic and trade integration agreements. Such instruments would make it possible to design programmes to exploit new opportunities, by lifting the various barriers that restrict export potential. It would also make it possible to formulate policies and programmes to minimize the economic and social costs of productive restructuring stemming from trade openness.

At the national level, an initial sphere of action involves the development of markets for the main factors of production: land, natural resources, labour, capital and technology—including steps to establish a clear framework of property rights over land, water, biodiversity, forests, technological patents, and so forth. Conditions also

need to be established to foster the development of rural financial markets, and to regulate the rural labour market, since both display special characteristics. The efficiency of these markets largely depends on institutional development.

Recognition of the role of microeconomic policies assumes that the domain of productive activities is the market economy—not defined by the theoretical paradigm of pure and perfect competition, but imposed as an objective reality, and as the most efficient mechanism for allocating productive resources.

It also acknowledges that the role of the State is not only to fulfil non-economic functions and take responsibility for the macroeconomic framework. The spontaneous effects of changes in relative prices on agricultural production can be severely hampered by market failures and by the unfavourable “climate” that persists in many of the region’s economies. The opportunity provided by higher prices in several productive sectors is occurring at a time of serious economic difficulties for producers, severe financing constraints and significant distortions in market operations. To maximize the positive effects of trade liberalization and economic integration, it is essential to develop an agricultural policy which assures that better prices are actually perceived by farmers, and that these have capacity for productive response.

Agricultural policy—with the collaboration of all agents involved—thus needs to overcome the bottlenecks that persist in credit, marketing, infrastructure, services, phytosanitary and zoosanitary requirements, quality standards, management systems, market information, technical assistance and input supply. Only within such a policy can producers benefit from better relative prices and harness the stimulus thus provided to raise productivity and increase production.

The reduction of public investment channelled into agriculture following crises and adjustment processes, seriously impaired sectoral development. The impact was felt particularly in the rural domain because public investment—in communications, electrification, basic services, and so forth—also acted as a major stimulus to private investment. The simultaneous reduction in the availability of public services compounded by financing difficulties discouraged investments still further. In some areas, such as irrigation, the systems for operating and managing existing infrastructure were also drastically altered. In Latin American and Caribbean countries the State has traditionally played a key role in the development of productive infrastructure, for example in irrigation, and in transport, communications and marketing infrastructure. Such development does not necessarily have to be financed exclusively with public funds; but State action is crucial in terms of stimulus, organization and financial support for these activities.

To promote the capitalization of agriculture, programmes could be designed for investments that are cofinanced between the State and farmers, in order to raise investment levels in targeted areas. Generally speaking, this is a matter of establishing the possibility of subsidies or bonuses within guidelines that are consistent with sector development priorities. A wide range of potential new policy instruments exists in this area, consistent with the macroeconomic framework and with the exigencies of international participation.

Even though the international setting and macroeconomic rules impose constraints on market intervention, there is still considerable room for programmes that stimulate production, using market-friendly, transparent and participatory mechanisms that enhance resource use and favour productivity

growth. There are plenty of examples in the region of public funds being used to stimulate private investment in a whole range of areas, including investments in irrigation, reforestation programs, mechanization, genetic enhancement, promotion of priority crops or payment for environmental services.

One of the most serious unresolved problems in the region's agricultural development policy concerns financing. The stabilization and adjustment policies of the 1990s undermined the traditional mechanisms of agricultural credit operated by official development banks, which were based on rediscount lines at negative interest rates, large nonperforming portfolios, and frequent debt forgiveness. These mechanisms entailed heavy fiscal costs and had major negative effects on efficiency, equity and transparency. A large percentage of rural producers were reliant on informal sources of finance.

Many rural producers still continue to obtain financing through a variety of informal sources; credit from suppliers has been growing rapidly, along with financing provided by agribusiness and crop and livestock product dealers, remittances sent home by migrant workers, and other sources. In several countries microfinancing systems have been developed, with operations supported by NGOs.

Difficulties in developing efficient credit mechanisms are targeting the search on flexible solutions that combine formalization of existing financing sources with a new regulatory framework that supports efficiency and transparency, and incentives for microcredit and complementary actions by development banks. More than an agricultural credit mechanism, the aim is to develop rural financial systems that encompass credit, insurance and saving. The inclusion of mechanisms to capture savings could open up better alternatives for channelling remittances into productive investment, and would also allow for broader financial coverage and better knowledge of customers. This, in turn, could reduce transaction costs and information asymmetries, thereby increasing synergy in the different activities of the system. Progress in the construction of such systems basically depends on institutional development that promotes participatory mechanisms subject to clear regulations, with government support to foster the necessary trust.

Progress in terms of the recognition and stability of property rights over land, subject to principles of efficiency and equity in land tenure, are also important mechanisms for expanding access to credit and developing rural financial markets.

Another mayor issue in agricultural policies concerns the basic design of crop and livestock technology transfer and research systems, which require considerable institutional development. The objectives here are as follows: ***open systems***, where universities participate along with other public- or private-sector bodies, either national or international, involved in agricultural research and technology transfer; ***competitive systems***, funded by the State and other financing agencies (multilateral banks, regional research funds, international cooperation) on the basis of results and achievement; ***dynamic systems***, with capacity to respond to the challenges of domestic and external competition; ***environmentally sustainable systems***, i.e. with technological proposals that help arrest the deterioration of natural resources; and ***decentralized systems*** that ensure participation from producers and other private

stakeholders and provide opportunities for them to contribute to the financing and orientation of activities.

Moreover, to enable the rural poor to access such services on a more widespread basis, specific modalities of rural technical assistance will be needed that differ significantly from traditional agricultural extension activities. In general this population group lacks a profitable and competitive agricultural project, and does not have the means to adopt pre-existing technology packages. Moreover, peasant farming economies have very diverse forms of interaction with the market, combining commercial production with self-consumption activities, together with income generated outside the family farm. Although agricultural activities are a major pillar of the system, their coexistence with numerous non-farm activities means that it is the overall set of activities that gives the rationale to the survival strategy. Instead of trying to make farmers aware of efficient technology that is already validated and available in the technology-generation system, in the case of the low-income rural populations it is a matter of providing technical assistance to enhance productivity in the various income-generating activities that farming families and communities already engage in.

The development of rural extension modalities that are accessible to poor rural populations requires support from the demand side of technical assistance; i.e. help for communities to translate their knowledge of problems and assistance needs into specific technical assistance demands. It also entails helping them to develop the means to finance such demands. On the supply side, it is essential to strengthen capacities, in order to overcome the inertia that tends to direct support towards agricultural technologies and neglect other possibilities. Technical assistance capacity needs to match the diversity that exists in demand. Moreover, technical support for agricultural production should not be restricted to primary production activities, but should also emphasize marketing, value-added and management, among other aspects. Consideration should also be given to demands for technical support in non-farm activities (including linkages with activities outside the community that play a part in the population's survival strategy through remittances or services).

A priority requirement in operating technical assistance in this modality is community control, which basically means that the beneficiaries themselves decide on payment of the service. The resources available to farming families often need to be complemented with subsidy mechanisms (which should be partial, temporary and transparent). The community should have decision-making power over how resources as a whole, including subsidies, are used.

Lastly, the emphasis on policy neutrality favours the use of direct transfers. The underlying justification for direct support to agricultural producers is its capacity to promote income growth, sometimes on a cumulative basis, while recognizing that the country-city polarization remains an expression of unequal opportunities and a fundamental mechanism for intergenerational transmission of poverty. Perhaps the best example in the region is PROCAMPO (Programa de Apoyos Directos al Campo), in Mexico, which has channelled direct support amounting to some US\$ 1 billion benefiting around 3 million producers per year. There are also several important direct transfer programmes in Brazil.

Direct support has the advantage of raising living standards according to the exclusive criteria of the beneficiaries themselves. Results achieved in terms of improving the

family's human capital, capitalizing the family farm, or making some immediate productive use of the funds received, stem from autonomous decisions.

These transfers do not distort trade; the amount of the support is not tied to production or to changes in market prices, and they are fully funded from fiscal resources, without any transfer from consumers. Accordingly, they comply fully with international commitments.

The subsidies are targeted and transparent, and the fact that they are established with a known time-limit allows decision making to take this into account.

The targeting of support requires a beneficiary register to be created, which raises the problem of discrimination between different population groups and runs the risk of political cronyism.

The new policy instruments described above entail new requirements for institutional development. The establishment of decentralized and participatory policy instruments, operating in support of the market, clearly represents a major step forward from previous policies that tended to be vertical, narrow, paternalistic, bureaucratic and inefficient. Although these new instruments no longer spawn bureaucratic growth, they naturally require agent relationships that allow for effective deconcentration of decision-making and genuine participation. Elimination of the bureaucratic entity that embodied traditional policy thus forces the new policies to address the social dimension and rebuild rural institutions.

In traditional agricultural policy a crucial role in policy implementation was usually played by a government agency. These were specialized by field of action, type of support, or even branch of production; and often exclusively oriented towards productive development. Their mode of operation was essentially vertical—from the government body down to the beneficiaries. In such circumstances, the internal regulations of the entity in question, and its administrative procedures, resulted in policy decisions being made through a specialized technical team. Efficiency in implementation, and consistency with other policies, was also the responsibility of the government agency—a task that was made easier by its relatively narrow sectoral viewpoint.

In the new agricultural policy orientations, with instruments that are intended to enhance the functioning of the market, policy goals are firmly anchored in economic relations themselves. This requires policy to be designed on analytically very sound foundations, and shared with the various stakeholders involved in policy implementation: central government, decentralized government bodies, producer organizations, NGOs, etc. This setting, and the rationale of the policy itself, require a broader view of objectives that takes account of intersectoral linkages and consistency within the economic rationale of the various stakeholders. The need for governance capacity on the part of the State is therefore much greater.

The fact that participatory programmes naturally tend to be highly decentralized requires communication and dissemination systems, support for beneficiary organizations, administrative rules and procedures governing interaction between the various categories of stakeholder, and modes of coordination that ensure policy consistency in the national domain.

By replacing policies that were based on paternalism and an overblown bureaucracy, the new policy orientations allow for the democratization of

decision making and far more efficient resource use. Nonetheless, elimination of the simple vertical relation between central government institutions and passive beneficiaries, and its replacement by decentralized participatory policies, no longer allows for solutions that are merely administrative, but places heavy demands on institutional development in the rural domain.