



Favourable policies for family-based maize production in Ecuador

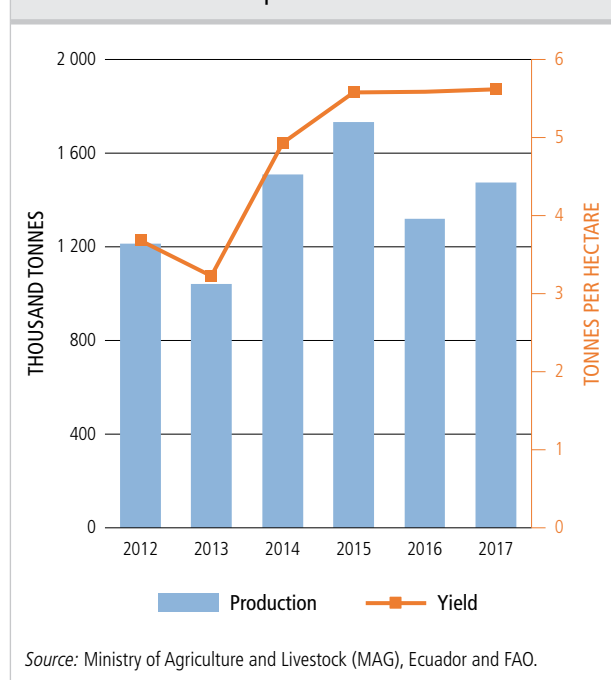
Importance of maize in Ecuador

Maize production contributes a significant 4.4 percent to Ecuador's agricultural gross domestic product (GDP) and represents a fundamental source of income for more than 180 000 people in 2017. According to the last census, the sector consists of approximately 104 000 producing units. The vast majority are small farmers (less than 10 ha), medium size famers (10–20 ha) account for 6.3 percent and only 0.5 percent are big farmers (more than 20 ha).

The productivity performance is encouraging. With an average production yield of 5.6 tonnes/ha, Ecuador outperforms neighbouring countries such as Colombia and Peru (Figure 1).

Ecuador's maize sector is strongly linked to the poultry sector, as maize is the principal input for the poultry feed industry.

FIGURE 1. Yellow maize production in Ecuador 2012–2017



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KEY MESSAGES

- ▶ The minimum support price for maize, although an ongoing policy, was effectively not operative since the market prices were higher.
- ▶ Agricultural unions must go through processes of unification to allow them to negotiate with the government in a more expeditious manner.
- ▶ The *Gran Minga Agropecuaria* represents an opportunity for small farmers to receive the necessary incentives to remain part of the rural economy.

The production of maize in Ecuador is concentrated in the provinces of Los Ríos, Manabí, Guayas, Loja, Santa Elena, El Oro and Orellana.

Market price above the minimum support price

Until 2017, a minimum support price of USD 14.90 was in place. However, national production did not satisfy total industry demand and, therefore, the real price has been higher than this value, which effectively converted the minimum support price into a non-operational policy in the last years.

On the other hand, in multiple occasions, wholesalers took advantage of the national increase in storage capacities since 2012. They are speculatively buying for less and selling for more from the market (including small farmers), thus keeping the price above the potential equilibrium price.

The Ecuadorian Ministry of Agriculture and Livestock (MAG) reacted to this behaviour. It enacted a trade policy comprising a price range for the quintal of maize from the winter harvest of 2018 (with a ceiling price of USD 17.20 and a floor price of USD 13.50). The ceiling price is expected to work as a tool to avoid further speculations.

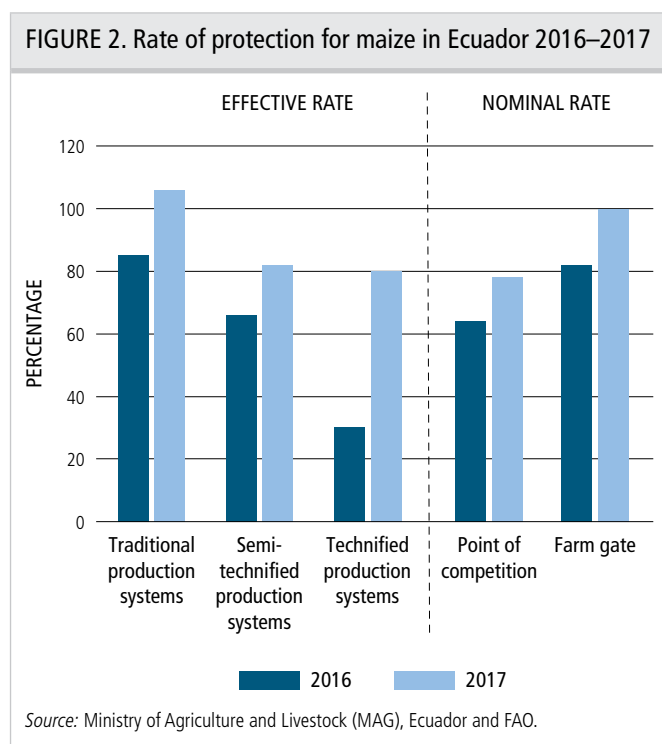
Both productive and trade policies protected small producers

The commercialization of maize is regulated by domestic prices, import tariffs/quotas, and the absorption of national harvest by the *Empresa Pública Unidad Nacional de Almacenamiento*, which puts pressure on the national budget.

In spite of imposing price distortions at the national level, both the productive development policies (high-yield kits) and trade policies (minimum support prices and tariffs) adopted by the government, also generated high levels of protection for the producers.

When examining the Effective Rate of Protection (ERP) – which is based on the calculation of the value-added generated by maize – it is observed that the producers that work under a traditional production system have higher protection compared to the medium and large scale producers with semi-to-fully-technified production systems, achieving the objective of protecting small producers (Figure 2, left panel).

Productive policies and trade policies allow producers to enjoy benefits on two levels. Firstly, higher yields are achieved from the subsidized inputs, which puts again pressure on the national budget. Secondly, insufficient supply creates an attractive price for small producers.



Pricing policies generate high protection for producers and wholesalers

Trade policies through prices adopted by the government to protect domestic maize production, such as minimum support prices until early 2018, price brackets thereafter and quotas on imports, generate impacts that go beyond the producer level and spread throughout the entire maize supply chain.

When analysing the Nominal Rate of Protection (NRP) – which allows for the examination of the impact of trade policies on the price paid to producers and traders for primary products – it can be observed that there are significant gaps between local and referential prices, creating high levels of incentives for wholesalers and also especially for producers (Figure 2, right panel). On the other hand, this high support in maize prices converges in disincentives to the final consumer, especially through poultry, which is the most consumed protein nationally and therefore affects families with lower purchasing power more.

The policy of setting prices has also benefited intermediaries because there is a limited supply of maize for the industrial sector. When the price tends to rise, it does so in similar proportions at all stages of the supply chain prior to the production of animal feed. The industry increases the purchase price to the collection centres and in turn, the collection centres increase the purchasing price to the farmer to satisfy the demand. However, this type of practice harms those small producers of animal protein that do not have the financial capacity to cover high maize costs.

Policy options to promote a sustainable maize supply chain

It is necessary to analyse the value chain of chicken to generate a better understanding of the economic integration of both products. The analysis should provide a comprehensive understanding from an agricultural policy perspective.

An economic evaluation, at the farm level, of the use of new storage technologies would be useful for managing maize reserves.

Finally, considering the pressure productive and trade policies put on the national budget, it would be worth exploring new alternatives and promoting complementary strategies that, while requiring lower public spending, would still be more effective.