Transition policies for the agricultural sector in CAFTA-DR

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On August 5, 2004, the United States of America signed a free trade agreement with five Central American countries and the Dominican Republic. Known as CAFTA-DR, the agreement has come into effect between all the signatory countries, except Costa Rica.

In addition to the strengthening of political relations between the participating countries, CAFTA-DR generated many expectations to improve access to export markets. But it also created fear that reduced protection would result in more imports, lowering prices in domestic markets and harming the profitability of agricultural products.

The objective of this paper is to describe the context of the agricultural sectors in CAFTA-DR, to describe transition policies that are being implemented in each country, and to draw conclusions and implications for future policies and for their coordination. This report begins with a description of the agricultural sectors in the region; it then details the treatment of sensitive CAFTA-DR agricultural products, followed by an analysis of the feasibility of implementing effective transition policies, and the measures adopted to date in each country. It only considers the five Central American countries and the Dominican Republic. U.S. policies are not included because there are no explicit transition policies for sectors adversely affected by CAFTA-DR in that country.

The Experience of Mexico

The difficulty in applying successful policies and programs to facilitate the productive transition of small producers has been evident in the case of Mexico under the North American Free Trade Agreement, NAFTA. Different from strong growth in non-traditional farming exports and direct foreign investment for agro-industry, the benefit for the Mexican small farmer sector has been less apparent.

In 1993, the Mexican government initiated PROCAMPO, a program of delinked payments to support the income of basic crops producers, with the objective of facilitating their transition from subsidized prices to policies more oriented to international markets. In 1995, the Alliance for Rural Areas (*Alianza para el Campo)* began, to support producers to change their activities to non-traditional crops, such as

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fruits and vegetables, with infrastructure and sanitary programs. It also continued the PROGRESA program with conditional cash transfers to poor rural families. Despite these programs, small farmers, especially in southern Mexican states, have not diversified their production, enjoyed a noticeable improvement in competitiveness, nor experienced a substantial reduction of poverty (Taylor, *et al,* 2004).

A factor that reduced the progress of diversification was the ASERCA program, which offered price supports for marketing in surplus production regions, with negotiated prices until 2000. For some producers, the message was contradictory: change crops (PROCAMPO), but if you do not change crops, you will still receive aid (ASERCA). In 2003, President Fox agreed to look for additional measures to support the farm families affected by NAFTA.[2]

It is important for the countries that are part of CAFTA-DR to learn the lessons of Mexico, summarized by Todd, et *al* (2004):

- A great emphasis on transition policies and programs is required, including technical assistance in diversification for smaller producers and marketing assistance for international markets.
- Mexico would have obtained larger benefits from NAFTA if its policies had been accompanied by investments in education and infrastructure.
- Income transfers are not sufficient to make producers change activities.

Background on the Agricultural Sectors

In the last decade, Central American agricultural policy has been influenced by a diverse set of exogenous concepts and ideas relating to, among other things, industrialization and import substitution, agrarian reform, integrated rural development, non-traditional export promotion, trade liberalization, market deregulation, and rural territorial development. Farmers have had to respond to numerous changes in policy approaches, programs, and government priorities.

The sector's performance has also been affected by its vulnerability to climatic events, especially hurricanes and droughts; changes in farm structure and the sector's economic importance; cyclical factors; changing international prices; and lately the effects of freer trade on a regional scope.

Agriculture in the region had a weak performance in the 1999-2003 period, due to the fall of international prices for sugar, coffee and basic grains, and the impact of adverse weather conditions. During this time, the average growth rate for the region's agrifood sector in the area was under 2 percent. Hurricane Mitch in November 1998 caused

[2] For an extended discussion on the impact of policies on grain production in Mexico, see Taylor, *et al,* 2004.

US$2.95 billion in losses in the agricultural sector of the five countries, while the drought in 2001 resulted in US$99.1 million of crops destroyed, mainly in basic grains. The crisis in coffee prices from 1999 to 2001 produced sales reductions of US$1.13 billion, deeply affecting the agri-food sector in El Salvador and Guatemala. Since 2004, the sector's performance has improved markedly, mainly due to more favorable weather and increased international prices for main products.

The Dominican agricultural sector has also suffered from the effects of weather and world Price reductions. The freefall of coffee and tobacco prices in 2001 caused tremendous difficulties for these subsectors, and widespread floods at the end of 2003 contributed to negative growth in the sector in that year as well as the following (CEPAL, 2005).

The concerns about the effects of CAFTA-DR in the region's agricultural sector are well founded. Agriculture continues to contribute to Central American economies in an important way, from 9 percent of the Gross Domestic Product in Costa Rica and El Salvador, to 23 percent in Guatemala (Table 1). The Guatemalan agrifood sector is the largest in the region, followed by Dominican Republic.

Table 1. Agricultural Indicators in Central America and Dominican Republic

Concept	CR	ES	GU	HO	NI	RD
Agriculture GDP for 2003 (millions of US$ form 1995)	1,383	1,264	5,646	824	691	1,859
Agriculture GDP/total GDP, 2003	9.0%	9.0%	23.0%	14.0%	19.0%	11.0%
Active population in agriculture (thousands) 2005	326	781	2,174	795	388	540
Agriculture workforce/total workforce, 2005	17.2%	25.2%	42.3%	26.6%	15.9%	13.1%
Rural population in poverty, 2002*	24.3%	62.4%	68.0%	86.1%	77.0%	50.7%
Rural population in extreme poverty, 2002*	12.0%	33.3%	37.6%	69.5%	55.0%	26.3%

*Data from 2001 for El Salvador and Nicaragua

Source: Author´s calculations based on data from CEPAL and Arias (2007).

In order to determine the magnitude of the potential effects of the CAFTA-DR on specific subsectors, one factor is their relative importance regionally and by country. The structure of agrifood production in the region varies by country, but some subsectors are important across several countries, for example, coffee, sugar cane and cattle (Table 2). Costa Rica has the greatest diversification into non-traditional products, including flowers, vegetables, and fruits, representing 43.9 percent of production in

2005. El Salvador and Nicaragua show a lower degree of diversification, with the production of basic grains contributing 20.3 percent and 18.2 percent, respectively, although the weight of non-traditional products in El Salvador is growing. The Dominican Republic also possesses a high degree of diversification toward non-traditional crops, but livestock is also an important component. Among grains in that country, rice is the main staple.

Table 2. Structure of agricultural production in Central America, 2005

<table>
<tr><th>Sector</th><th>CR</th><th>ES</th><th>GU</th><th>HO</th><th>NI</th><th>RD*</th></tr>
<tr><td>basic grains</td><td>2.2%</td><td>20.3%</td><td>5.9%</td><td>8.1%</td><td>18.2%</td><td>12.4%</td></tr>
<tr><td>coffee</td><td>8.5%</td><td>12.6%</td><td>6.3%</td><td>28.1%</td><td>8.9%</td><td>2.8%</td></tr>
<tr><td>sugar cane</td><td>4.5%</td><td>5.7%</td><td>8.7%</td><td>4.2%</td><td>5.3%</td><td>8.4%</td></tr>
<tr><td>banana</td><td>14.9%</td><td>0.0%</td><td>12.9%</td><td>5.1%</td><td>0.0%</td><td rowspan="2">35.6%</td></tr>
<tr><td>non traditional</td><td>43.9%</td><td>20.1%</td><td>24.7%</td><td>16.2%</td><td>17.1%</td></tr>
<tr><td>cattle</td><td>16.5%</td><td>17.7%</td><td>22.1%</td><td>10.5%</td><td rowspan="2">36.2%</td><td>24.7%</td></tr>
<tr><td>poultry</td><td>4.1%</td><td>14.8%</td><td>11.3%</td><td>9.8%</td><td>16.2%</td></tr>
<tr><td>forestry</td><td>2.5%</td><td>5.7%</td><td>6.6%</td><td>8.0%</td><td>6.3%</td><td>n/d</td></tr>
<tr><td>fishing</td><td>2.9%</td><td>3.0%</td><td>1.4%</td><td>9.9%</td><td>8.0%</td><td>n/d</td></tr>
</table>

Note: * 2004 data.

Source: Author´s calculations based on data from CEPAL

When comparing agricultural production structure for each country in 1990 and 2005, important changes are apparent, especially in Costa Rica and Guatemala. There was a substantial reduction in the importance of basic grains in Honduras, Costa Rica and Guatemala, but not in El Salvador and Nicaragua. The increased importance of poultry farming in the region is notable. In the last decade, El Salvador and Honduras have experienced the slowest changes in agri-food structure. In the Dominican Republic, rice, dairy and pork production have increased their importance within the sector.

In the last two decades, agricultural trade policy in Central America has undergone tremendous liberalization, with significant tariff reductions and the elimination of various non-tariff barriers and fees. In spite of the removal of tariffs for almost all agri-food products, the use of non-tariff measures, such as sanitary and phytosanitary (SPS), as barriers to trade can still be detected within the region. These SPS measures are applied especially to intra-regional trade in dairy products, eggs, poultry and grains, and in many cases are not officially denounced by the affected countries´ governments.

As part of the efforts toward economic integration, the region's ministers of agriculture have shown an interest in the formulation of a Central American agricultural policy. A first attempt in 1992 did not move beyond the delineation of a few fundamental principles. However, in 2005, a new process for developing a Central American Agricultural Policy (PACA) began, focusing on the areas of trade, technology and diversification, SPS, and food security. It is still uncertain if the PACA will merely be a policy guide or if it will include harmonized, specific measures for the region. However, it appears that Central American countries show great interest in continuing their programs as individual countries. This is happening despite the fact that many international cooperation agencies now prefer to work under regional projects, and the experience of over 30 years of European Union common agricultural indicates the potential benefits of regional measures.

Transition Periods for Sensitive Products in CAFTA-DR

Under CAFTA-DR, the most sensitive agricultural sectors enjoy long tariff reduction periods. These include, for example: yellow corn - 15 years, rice - 18 years (20 years in Costa Rica), pork - 15 years, poultry - 18 years (16 years in Costa Rica), and dairy products - 20 years. Also, the most sensitive product from each country is exempt from tariff reduction (onion and potato in Costa Rica, white corn in the other four Central American countries and Dominican Republic).

The agreement also includes a special agricultural safeguard for most sensitive products. With this mechanism, the Central American countries can increase the tariff temporarily when imports from the United States surpass a designated level.

The import quotas granted by Central American countries in CAFTA-DR will have a differentiated effect depending on the product and the country. In general, it can be anticipated that a quota will have a higher effect on the domestic market when: 1) the quota volume is similar to or greater than current imports; 2) the quota represents a significant proportion of national production; or 3) the tariff for out-of-quota imports is high (or there are non-tariff barriers that will be eliminated) (Angel, 2005). Considering these criteria, the sectors that will experience higher impacts are pork in the short term, rice and sorghum (as a substitute for yellow corn) in the medium term, and poultry and dairy products in the long term, if these do not achieve an adequate adjustment in competitiveness (Appendix A).

On the export side, additional U.S. sugar quotas will benefit Central American, but their impact is variable depending on the country, with Nicaragua receiving the largest benefit in relative terms. Beef quotas for Costa Rica and Nicaragua, and peanuts for Nicaragua also open important opportunities for these sectors. In other areas, the region’s challenge will be to achieve enough competitive production to fill the quota, especially in dairy products.

The Structure of Agricultural Policy

Production of sensitive goods in Central American and the Dominican Republic is mainly by small farms that characteristically have an excess of manpower, with low educational levels. These characteristics imply difficulty in incorporating non-competitive displaced farmers into the labor market. It also represents a significant portion of extreme poverty, which still has a large presence in rural areas.

At the same time, the U.S. agricultural sector is a formidable competitor. It is important to consider the policies that support agricultural production in the United States, which allow grain and cotton exports far below costs (IATP, 2005). Although it is possible that these U.S. subsidies can become less price and production distorting in the future due to commitments of the Doha Round of the World Trade Organization (WTO) or by WTO litigation, it is probable that the supports will continue for quite some time, which consolidates U.S. competitiveness in these crops. Also, the U.S. sector enjoys scale economies not present in small countries, like many subsectors in Central America and the Dominican Republic.

Despite the perception of being sectors without much support, a recent IDB study has found that various agricultural subsectors in the region enjoy interesting subsidy levels (Table 3). Using the producer subsidy equivalent (PSE), it was found that the basic grains, dairy products, and beef received similar or higher levels of subsidies in Central America and the Dominican Republic than in the United States.[3] However, it is important to consider the type of measures used to give support. In all Central American countries, although to a smaller degree in Honduras, most of the PSE comes from market price measures, including import tariffs (Table 4). Therefore, the role of direct fiscal measures in support of the agricultural sector is much reduced. Also, the tariff measures that provide support will decline in coming years due to commitments in agreements such as CAFTA-DR (Arias, 2007).

This lack of funds to finance transition policies is also evident in the estimation of the general support level, which includes programs, services and investment in infrastructure to benefit the entire agricultural sector. Unless there is a dramatic change in public finances, the Central American countries will not be able to invest in new far-reaching efforts required for adjustment, agricultural diversification, or income transfers. In the Central American case, the countries have experienced a strong reduction in financial resources in the last 15 years, which imply reductions in personnel and/or services to the sector.

[3] Arias (2007) contains an extensive explanation of the PSE measure.

Table 3. Producer Subsidy Equivalent as a Percentage of Gross Income, 2003 (%)

Sector	CR	ES	GU	HO	NI	RD	EEUU	UE
corn	30	33	31	10	7	52	15	41
rice	45	35	65	68	17	22	34	36
Sugar	n/a	67	71	21	62	3	61	63
dairy products	46	48	44	54	25	16	45	47
eggs	63	-1	29	2	-12	2	3	2
beef	12	1	10	3	25	2	3	77
pork meat	49	25	32	32	8	1	4	24
poultry	4	-1	48	1	n/a	1	4	37
average	36	26	41	24	19	12	21	41

Source: Arias (2007).

Table 4. Support to the region's agricultural sectors (US$ million)

Concept	CR	ES	GU	HO	NI	RD	EEUU	UE
Producer Subsidy Equivalent (PSE)	198	438	781	96	73	235	38,878	108,251
by market prices	195	428	740	64	71	99	14,695	61,552
by fiscal measures	2	11	41	32	2	136	24,183	46,699
General Support Estimate (GSE)	28	2	80	11	16	11	29,618	9,675
Agricultural expenditure/total fiscal expenditure (2005)*	1.5%	1.2%	3.3%	3.5%	2.6%	1.9%	n/a	n/a
Market price supports /PSE	98.5%	97.7%	94.8%	66.7%	97.3%	42.1%	37.8%	56.9%
GSE/PSE	14.1%	0.5%	10.2%	11.5%	21.9%	4.7%	76.2%	8.9%

* Data from 2003 for Costa Rica and 2004 for Dominican Republic

Source: Arias (2007) and CEPAL/SIAGRO.

This difficulty can be better understood because the agricultural sectors in Central America and the Dominican Republic are much more important compared to more developed countries like the United States. Therefore, there are fewer non-agricultural economic income sources in relative terms, to finance support programs in the agri-food sector (Arias, 2007).

Another factor that puts into doubt the continuity of resources for special programs is the dependency on international cooperation. For example, in Nicaragua, during the last 15 years, 78 percent of government resources used in agriculture is donations and international loans (Araúz, 2005).

Transition policies in CAFTA-DR countries

It is clear that CAFTA-DR is a means to an end; it provides new or better market opportunities, but it does not guarantee that a country will be competitive. To really enjoy the agreement's benefits, a report from the World Bank (2005) points out that the "most urgent measures are to create selective investments in education, rural infrastructure and technical assistance to ensure that the poor population inhabiting rural areas have the means to make the most out of the new opportunities coming from CAFTA".

The Inter American Development Bank (Todd, *et al,* 2004) has recommended policies to avoid losses and to maximize gains for small farmers and rural households, emphasizing the following areas:

- Provide a combination of income support during the liberalization period, along with technical assistance for the production of high value-added export crops and other activities.
- Create a stable and competitive macroeconomic environment.
- Facilitate rural economic growth through investments in rural infrastructure.
- Provide assistance to access export markets, especially in sanitary and phytosanitary requirements.
- Give priority to the management of valuable natural resources to ensure the sustainability of production and exports, especially in terms of fisheries resources.

Taylor, *et al* (2005) prepared simulations to project the effect of a delinked payments program for producers of basic grains, compensating farmers for 50 percent of the projected price reduction for the basic crop (corn) due to tariff reductions. They found that under these circumstances producers are inclined to change crops to those for which they have a comparative advantage, precisely the long term objective of this policy. The point is that farmers are economically rational if given appropriate incentives to diversify.

The World Bank (2006) has concluded that the best option to help producers of sensitive goods is by giving general support services to the entire sector, like education, infrastructure, market information, and plant and animal health services. Other options include technical assistance programs directed to specific subsectors to improve their competitiveness, although they can be less effective than general investments. In order to facilitate productive change, there are income transfer programs, like PROCAMPO in México, but the Mexican experience suggests that these programs only induce changes in small commercial producers, and not among primarily subsistence producers. Finally, there is the option of conditional cash transfers, like PROGRESA in Mexico, the *Red Solidaria* (Solidarity Network) in El Salvador, or *Red Social de Protección* (Social

Protection Network) in Nicaragua. These provide help to poor rural families, not necessarily farmers, in exchange for children attending school or participation in maternal-early childhood health programs or other specific actions. These are programs that help to alleviate poverty and do not affect production directly.[4]

The rest of this section describes principal current policies and transition programs for each country, including activities that mitigate the adjustment process. Most of these policies are not officially named as "transition policies", but they attempt to achieve the same result. They illustrate two alternative policy approaches: (1) to make a sensitive product more competitive, or (2) to facilitate change to other crops or activities.

<u>Costa Rica</u>

The Costa Rican agricultural sector is well-developed compared to its neighbors, and is very export oriented, particularly in non-traditional products such as fruits, flowers and plants.

The special measures taken for the CAFTA-DR transition represent an investment of US$355 million in a five year period, out of which, US$219 million come from loans from the World Bank, the IDB and the Central American Bank for Economic Integration (CABEI, or BCIE in Spanish). The three areas of development projects are: 1) small and medium enterprise competitiveness, 2) development of sustainable agricultural production, and 3) increased education in rural areas.

The Program for Promotion of Sustainable Agricultural Production has US$17.6 million, of which the IDB lent US$14.4 million. Areas of attention and planned actions include:

- Investments and technical assistance in sustainable agricultural production:
    - Co-financing of technical assistance and investments (50 percent in general; 10 percent contribution for indigenous producers).
    - Introduction to new technologies and soil and water conservation, with incentives to agribusiness of at least 20 percent of the investments´ costs (except for labor); to a maximum of 30 percent.
- Training and information:
    - Training for organizations, extension agents and other professionals.
    - Demonstration plots in integrated farms.
    - Emphasis on organic agriculture, conservation, and cooperatives.
    - Improve and adapt the Agricultural Information System (INFOAGRO)
- Studies to support agricultural sector competitiveness:
    - Development of information and baseline data.
    - Competitiveness studies.

[4] For a broader discussion about these options, see chapter 5, sections 5 to 7, from the World Bank (2006).

- Monitoring system and evaluations of environmental and social impacts.
- Market studies of payments for environmental services.
- Specific projects on agricultural, marketing and agroindustrial production.

The National Development Plan 2006-2010 contemplates several measures for the modernization of the productive sector, including the agricultural and agrifood sectors. The areas of attention include:

- Technical assistance.
- Irrigation infrastructure.
- Technological development for agrifood chains.
- Finance for productive projects.
- Market information, including specialized centers and reports.
- Quality control systems.
- Improvement in the plant and animal health systems.
- Targeted governmental purchases from small and medium producers in the Strategic Supply Program (*Programa de Abastecimiento Estratégico)*.

El Salvador

El Salvador has specific agenda to accompany the CAFTA-DR agreement, but the government has declared that "Our agenda is our government plan". This is understandable given that the government plan 2004-2009 was developed at the same time the negotiations for CAFTA-DR finalized.

El Salvador has many subsectors with export potential, especially for the nostalgic market (tamales, beans, frozen or canned tropical fruits, dried peppers, pickled vegetables, baked goods, dried fish, among others) and other niche markets (indigo, balsam, organic products). Agribusinessmen had paid a lot of attention to these possibilities, even before the signing of the CAFTA-DR, with the export of ethnic products almost doubling in 2004, although recent performance has been more variable.

The Ministry of Agriculture and Livestock (MAG) has a close relation with the main agricultural association, the Agricultural and Agroindustry Chamber (CAMAGRO). The association has actively participated in the development of policies and the design of actions executed by government to benefit the sector. However, its representation of small producers is limited.

To face these challenges, MAG has taken a series of measures in sensitive subsectors:

- Swine – eradication of diseases, technical cooperation agreements, a campaign to increase domestic consumption, construction of a modern slaughter house, and the implementation of a genetic improvement program.

- Dairy products – strict application of sanitary laws; genetic improvement program; promotion of alliances between universities, government and cattle ranchers; construction of fluid milk collection centers; modernization of disease intervention laboratories in MAG, other disease intervention programs and the accreditation to access international markets (US$4.5 million).

MAG has also underwritten support programs for sectors with greater opportunities because of CAFTA-DR:

- Cotton - specialized technical assistance, crop insurance, marketing agreements, futures contracts to reduce price risk.
- Sugar – organization of the internal market, support to replace sugar cane varieties.
- Fruits - integrated technical assistance (training, provision of materials and advice in production, processing and marketing) through the FRUTAL-ES program, with national funds (US$5.6 millions).

Other important programs include the Agro Entrepreneur Reconversion Program (PRA), financed by a loan of US$31.25 million from IDB, including services to enhance agricultural production; improve the national information system; rehabilitate irrigation systems and investment in more efficient systems; and develop a system of alliances for agricultural and forestry technology. The PRA includes a fund of US$4.5 million to co-finance up to 80 percent of investments for up to US$100,000 in technology and technical assistance (MAG, 2004).

The agricultural sector has the only compensation fund in the country related, at least indirectly, to CAFTA-DR. In 2004, the creation of the Fund for Competitiveness and Reconversion of the Agriculture and Agroindustrial Sector (FOCAGRO) was announced. This fund works as a “checkoff”; a percentage fee is to importers of quotas of yellow corn, white corn, rice, pork and cheddar cheese. Since its beginning in 2005, it has collected US$2.25 million. Its objective is to finance productive infrastructure, technological innovation, technical assistance, promotion of local consumption, and promote producer cooperatives and food safety and quality.

The use of the funds is determined by supervisory commissions for each agreement. It is important to demonstrate the efficient use of funds, as well as an appropriate focus on the way they are granted, in order to not send mixed signals about the activities in which the long-term competitiveness is in doubt in contrast to activities to promote diversification in the sector. However, until now, the financed programs have had a tendency to support producers of basic grains in ways that only reinforce traditional production and not diversification (seed exchange, fertilizer purchases).

The most important rural development program on the horizon in El Salvador is the Millennium Challenge Fund (also known as FOMILENIO). It is financed by the United States and consists of a total donation of US$462 million during the next five years (2007-2011). The program will benefit 94 municipalities in the North, and its main investment is a longitudinal road that will give physical access to the communities and farmers. The principal parts of the program include:

1. Human development
    a. Rural electrification
    b. Potable water and sanitation
    c. Community infrastructure
    d. Formal and non formal education
2. Productive development
    a. Production and marketing services
    b. Support to investments
    c. Financial services
3. Connectivity
    a. Longitudinal highway in the North
    b. Network of connecting roads

The productive component will have US$87.5 million to invest in programs for priority subsectors: vegetables (28%), forestry (27%), fruits (27%), dual purpose and dairy cattle (14%), tourism (2%) and beekeeping and crafts (2%).

Guatemala

The Guatemalan agricultural sector has a bimodal nature. On the one hand, there are strong traditional export chains, like coffee and sugar, and non-traditional companies exporting especially vegetables. On the other, in the basic grains sector, subsistence production represents a strong social and economic component in the country.

The Guatemalan national cooperation plan in CAFTA-DR makes little specific mention of the agricultural sector, except in terms of improving the information system, application of sanitary and phytosanitary measures, and assistance and training in SPS. However, the plan does emphasize aspects that will contribute to all sectors, including agriculture, to become more competitive, such as infrastructure, enforcement of laws and regulations, information systems and human resource development.

The "Accompaniment Agenda" from the Ministry of Agriculture, Livestock and Food (MAGA) emphasizes "support for the promotion of exports, the creation of strategic information systems for agribusiness, diversification of the productive base, strengthening of the national normative and regulation systems, and strengthening of the technical competence of laboratories" (Carrera, 2005). Other areas emphasized include improvement in technology transfers, the national agricultural education system, the financial system, and a pre-investment system for agriculture. The resources come from the ordinary budget of MAGA, but also from international cooperation, including a loan from IDB for the Agriculture Reactivation Program (PARPA).

In 2005, MAGA released another important program, GUATE INVIERTE, to stimulate investments in agro-productive chains with higher comparative advantages. It consists of a trust fund of US$19 million with a guarantee fund, technical assistance and facilitation of agricultural insurance.

Honduras

Honduras has been able to insert itself in the international market for non-traditional products, especially cantaloupe, pineapple, and shrimp. In recent years, its export programs for vegetables destined for the Asian ethnic market in the United States have grown, with the almost exclusive participation of small producers and the application of strict quality controls.

Honduras' CAFTA-DR cooperation action plan includes a Rural Development Plan, with components designed to increase productivity and links to the market, assistance to rural micro-enterprises, and improvement in rural health, education, safety and infrastructure. The initiative is complemented by the National Competitiveness Program, an agenda of measures that support the rural economy in general (infrastructure, etc.).

With the objective of forming human resources in 120 farmer organizations, the Secretariat of Agriculture and Livestock (SAG), the Coordination Council of Agriculture (COCOCH) and the National Associations of Farmers from Honduras (ANACH), have signed two agreements for training, with funding from cooperation of the U.S. Department of Agriculture (USDA). The objectives are change in the business structure of productive units and the establishment of business centers for agricultural transformation. SAG is also promoting the Small Agriculture Program (PEAGRO) with the purpose of supporting groups of producers in framework of the agreement.

Honduras carried out the National Program for Agro Food Development (PRONAGRO), to promote increased competitiveness and modernization of the sector through three programs: the National Center for Agribusiness, Development of Agro Food Chains and Modernization of Peasant Agriculture; the Agricultural Information System (INFOAGRO) to obtain market information, rural economic statistics and production information; and the National Service of Agricultural Technology Transfer (Meza, 2005). It has also placed emphasis on improvements in the National Service for Agricultural Health (SENASA).

Finally, the State Policy for the Agro Food Sector and Rural Areas 2004-2021 was issued. The long-term orientation of this effort has the following areas of sectoral policies:

- Development of markets and trade negotiations.
- Animal and plant health and food safety.
- Promotion of technology innovation, diversification and value-added.
- Agricultural education, training and agro entrepreneur development.
- Agricultural and rural finance, attracting investment, and irrigation management.
- Development of rural infrastructure and irrigation.
- Natural resource sustainability.
- Access to land: secure land tenure and social equity.

Nicaragua

Frequently in Nicaragua the government´s difficulties are also reflected in the execution of projects for supporting the agricultural sector. It is the least advanced and least diversified country in the region, despite of its tremendous potential in land and water. Like most of the region, it has a great presence of smallholders; over 126 thousand producers cultivate less than 20 mz, 62 percent of all farmers (Araúz, 2005).

In the context of CAFTA-DR, the Ministry of Agriculture, Livestock and Forestry Development (MAGFOR), along with the rest of institutions related to the agricultural sector, has developed the PRORURAL program, which includes the following components:

- Technological innovation
- Animal and vegetable health and food safety
- Information and communication for agriculture development
- Development of chains and conglomerates
- Universalization of gender considerations
- Farmer associations and trade union organization
- Access to land and property
- Promotion of agricultural and forestry trade
- Promotion of forestry development and environmental management
- Food safety
- Investment in rural infrastructure
- Credit and other financial services

PRORURAL was designed with a Sector-Wide Approach (SWAP), where the government, through the finance, foreign affairs, agriculture and industry and commerce ministries, works in coordination with a group of 17 international cooperation agencies. The program is projected to invest US$411 million between 2005 and 2009. Some representatives from less developed sectors have demonstrated their concern that PRORURAL activities could be biased to favor groups or larger agribusinesses and agricultural service providers to the detriment of small producers (Araúz, 2005).

Dominican Republic

The Secretariat of State for Agriculture (SEA) is administering the Agrifood Competitive Transition Support Project (PATCA), financed by a loan from IBD. The project will last for six years, with a total budget of US$61.11 million. The objective of the project is increase the efficiency of Dominican Agriculture to improve its competitiveness and reduce poverty in rural areas. The project has three components:

- Support for technology adoption, with partial reimbursement to farmers for investments in goods and private services, including:
  - Soil conservation and crop field improvement
  - Irrigation technology
  - No- or low-till farming
  - Use of plants produced by tissue culture
  - Pasture improvement and conservation
  - Tree plantations (fruits, forestry and agroforestry systems)
- Agricultural health and food safety, including training and creation or modification of the following institutions:
  - Department of Food Safety
  - Sanitary Legal Division
  - Division for Quality Development
  - National Plan for Food Hygiene Control
  - Phytosanitary Monitoring and Notification System
  - System and Manual for Quarantine Procedures
- Technical assistance for trade and institutional reform
  - Regulatory policy framework for trade and the agricultural sector
  - Design of a plan to increase efficiency of public expenditure in the agricultural sector
  - Studies of competitiveness indexes for the agrifood sector
  - Georeferenced database of farms and farmers

Conclusions

When analyzing the probable effects of CAFTA-DR on the agricultural sectors of Central America and the Dominican Republic, one can conclude the following:

- CAFTA-DR allows the partial exemption of the most sensible product in each country, but it does not change the lack of competitiveness in these subsectors, which is a challenge that sooner or later, the countries will have to face.
- The agreement considers long terms for tariff reductions for sensitive products, but it does not guarantee that there will be enough willpower or resources for the farm sector to reorganize and diversify, nor that transition support programs will be carried out in an effective manner.
- The fiscal realities of Central American countries and the Dominican Republic limit their capacity to implement larger programs to facilitate the transition of sensitive agricultural sectors, especially direct income support programs for affected farmers. Along the same lines, most of existing support is tariff protection, which will tend to disappear.
- While CAFTA-DR increases opportunities for export, it does not guarantee that the countries will have an exportable product to supply or that they can fulfill admission requirements (sanitary, technical and food safety).
- The Central American countries have instituted a series of programs and projects to increase the competitiveness of the agricultural sector, focused on technological innovation, market information, product quality, animal and plant health, investments in irrigation, funds for productive investments and promotion and facilitation of farmer associations. Time will tell if these efforts are translated into concrete changes for small producers and others affected in the agricultural sector.

CAFTA-DR provides a long period for tariff reduction for the most sensitive subsectors, but the Central American countries and the Dominican Republic should not feel comfortable. Structural change in small-scale agriculture is not an easy or fast process, not to mention fiscal restrictions that can exist to finance transition policies. In these efforts, the key is consistency of message; the existence of complementary supports, like information, infrastructure, education and technology; and the discussion of reasonable expectations. It is also important that the countries begin a frank communication process with potentially affected sectors, so all can be conscious of the changes to come.

Another key aspect for greater efficiency in support programs in regional harmonization and private sector participation in the policy decision-making process. Both actions can contribute to make transition programs more sustainable, since to a large extent they are financed by international cooperation and later governments will have to assume their funding in order to continue these efforts for longer periods.

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Appendix A. Initial quotas and imports for agricultural products in CAFTA-DR

Country/Product	Base Tariff *ad valorem*	% of import of product with US origin	Initial quota in CAFTA-DR			
			Volume mt	% of total import	% of import from USA	% of natl prodn
Costa Rica						
Pork	45%	17.4%	1,100	97.6%	561.2%	2.9%
Chicken leg quarters**	150%	100.0%	450	203.9%	203.9%	0.5%
Powder or concentrated milk	65%	0.9%	200	58.5%	6666.7%	1.9%
Butter, dairy fats	65%	13.7%	150	616.4%	4500.0%	
Cheeses	50-65%	15.5%	410	35.9%	231.6%	
Ice cream	65%	12.3%	150	23.6%	191.5%	
Other dairy products	15-65%	7.9%	140	7.3%	92.5%	
Fresh potatoes	45%	22.6%	300	103.3%	456.9%	0.3%
Processed/frozen potatoes	40%	22.8%	2,631	36.3%	159.2%	n/d
Onions	45%	10.6%	300	9.9%	94.2%	1.0%
Paddy rice	36%	99.9%	51,000	45.8%	45.9%	24.2%
Processed rice	36%	43.5%	5,250	282.0%	648.1%	n/d
El Salvador						
Beef***	30%	1.9%	105	1.4%	75.3%	0.4%
Pork	40%	82.2%	1,650	176.2%	214.3%	19.1%
Chicken leg quarter**	164%	28.5%	1,391	1079.4%	3793.9%	1.8%
White corn	20%	92.4%	35,700	75.9%	82.2%	5.8%
Yellow corn	15%	98.5%	367,500	100.1%	101.6%	n/a
Paddy rice*	40%	99.1%	62,220	83.2%	84.0%	208.9%
Processed rice*	40%	35.4%	5,625	80.3%	227.0%	n/d
Sorghum	15%	12.7%	263	121.1%	955.5%	0.2%
Fluid milk and cream	40%	0.1%	10	0.2%	166.6%	3.1%
Powdered, concentrated milk	15-20%	7.9%	300	1.9%	24.3%	
Yogurt, spreadable creams	40%	2.0%	10	2.1%	107.7%	
Butter, dairy fats	30%	1.1%	100	5.7%	510.9%	
Cheeses	40%	6.1%	410	3.2%	52.6%	
Ice cream	15%	2.2%	120	11.0%	495.2%	
Other dairy products	15%	20.0%	120	6.2%	31.1%	
Guatemala						
Beef***	15%	11.9%	1,060	20.9%	175.8%	1.7%
Pork	15%	86.3%	4,148	134.0%	155.3%	16.0%
Chicken leg quarters**	15%	92.3%	17,683	119.8%	129.8%	11.4%
White corn	20%	94.3%	20,400	58.0%	61.5%	2.2%
Yellow corn	35%	95.0%	525,000	104.5%	109.9%	415.6%
Paddy rice	29.2%	94.1%	54,600	93.1%	99.0%	139.2%
Processed rice	29.2%	54.6%	10,500	205.5%	376.4%	n/d
Powdered, concentrated milk	15%	8.0%	400	1.0%	12.6%	5.3%

Butter, dairy fats	15%	0.8%	100	17.6%	-	
Cheeses	15%	11.6%	450	12.5%	107.6%	
Ice cream	15%	6.9%	160	9.1%	131.8%	
Other dairy products	15%	2.4%	182	2.9%	118.1%	
Honduras						
Pork meat	15%	84.6%	2,150	54.5%	64.4%	21.5%
Tight/Chicken leg **	15-50%	38.8%	1,603	312.7%	805.1%	2.2%
White corn	45%	84.9%	23,460	62.4%	73.5%	5.0%
Yellow corn	45%	99.9%	190,509	100.8%	100.9%	n/a
Granza rice	45%	99.2%	91,800	75.8%	76.4%	759.2%
Processed rice	45%	69.2%	8,925	235.8%	340.8%	n/d
Powder or processed milk	5-15%	21.1%	300	3.1%	14.6%	
Butter, dairy fats	15%	18.1%	100	71.5%	395.3%	
Cheeses	15%	31.3%	410	14.1%	45.0%	2.1%
Ice creams	15%	2.8%	100	3.6%	129.1%	
Other dairy preparations	15%	1.3%	140	1.4%	106.3%	
Nicaragua						
Pork	15%	73.4%	1,100	246.3%	335.5%	16.9%
Chicken leg quarters**	15-170%	85.7%	952	194.6%	227.0%	1.5%
White corn	10%	79.1%	5,100	182.1%	230.1%	1.0%
Yellow corn	15%	91.9%	68,250	691.3%	752.4%	n/a
Paddy rice	45%	95.9%	92,700	391.2%	407.8%	34.4%
Processed rice	62%	39.0%	13,650	107.0%	274.1%	n/d
Powdered, concentrated milk	60%	27.6%	650	25.7%	93.1%	
Butter, dairy fats	40%	1.8%	150	22.8%	1253.7%	
Cheeses	5-40%	24.9%	575	91.7%	369.1%	2.7%
Ice cream (liters)	40%	24.2%	72,815	152.9%	632.6%	
Other dairy products	15%	86.9%	50	1.1%	1.3%	

* Does not include quota for parboiled rice of 3,000 mt, which can be paddy or processed.

** Quotas for chicken leg quarters correspond to the 5th year of the agreement as they are more representative of the final distribution

*** Imports and production of beef include all the grades; however, the quota is only for prime and choice.

Source: Author´s calculations based on data from Angel, 2005.