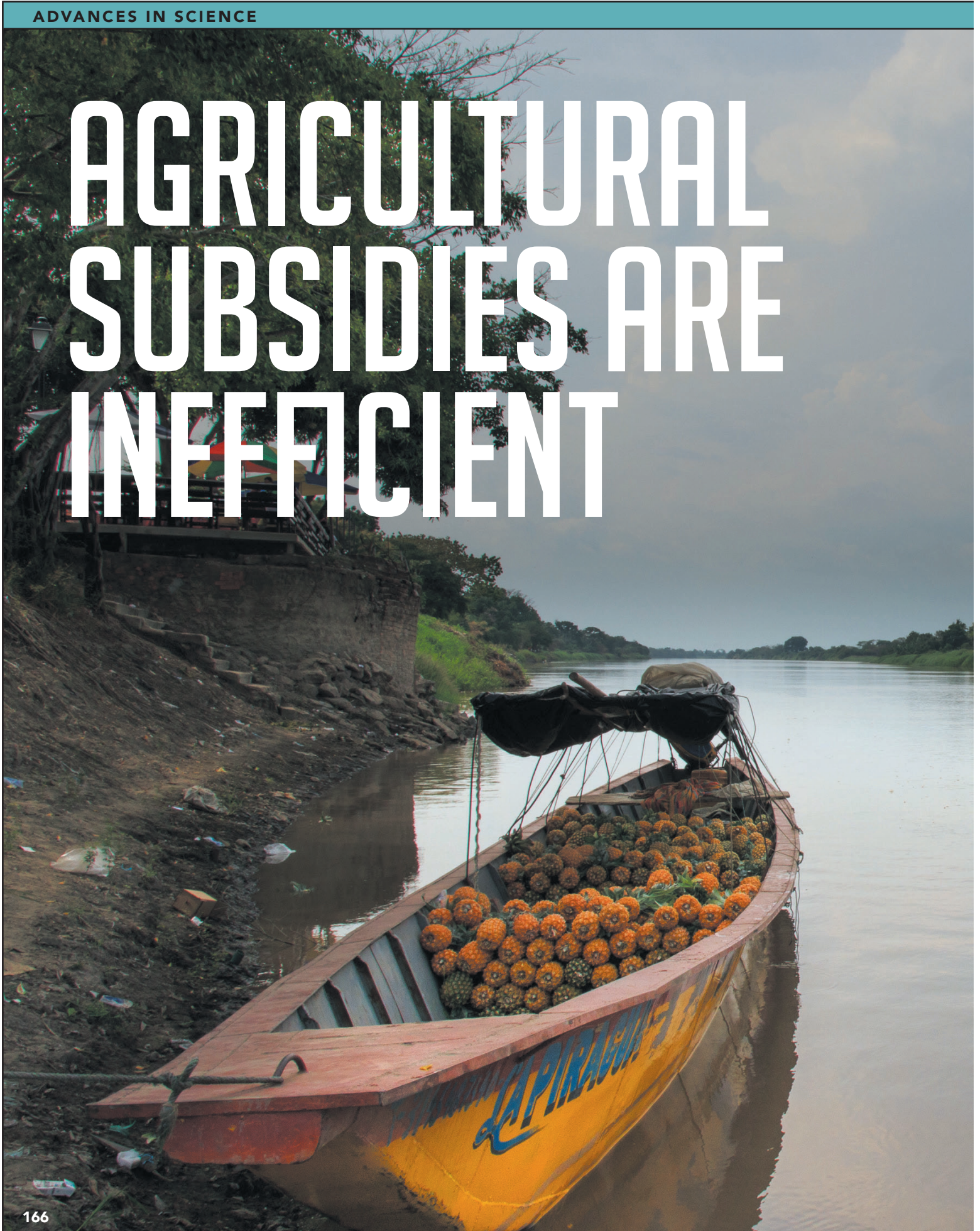


AGRICULTURAL SUBSIDIES ARE INEFFICIENT



The *Agro Ingreso Seguro* (Agricultural Income Security - AIS) program, and very probably its successor, Equitable Rural Development, seem to lack – at least in the short term – the capacity to achieve their two stated goals of promoting productivity and protecting the income of agricultural producers.

Thoughtful and independent studies have both underlined that recent agricultural policy has not generated the anticipated results. Among them is a study by Ricardo Argüello, Professor at the Faculty of Economics of the Universidad del Rosario, which is outlined in the document *Estimated Effectiveness of Some of the Principal Instruments of Agricultural Policy in Colombia*.

Professor Argüello's idea was to measure the expected effects of three of the principal sub-program of *Agro Ingreso Seguro - AIS*, a program launched by the Colombian government to subsidize the country's agricultural production. The sub-programs studied were: a special line of credit; incentives for rural capitalization, and a call for drainage and irrigation projects. All of them depended on four types of incentives:

subsidies to working capital, subsidies to productive capital, subsidies for land use, and increasing land productivity.

WHEN INTEREST RATES ARE SUBSIDIZED, THE RESOURCES ALLOCATED TO LARGE AND MEDIUM PRODUCERS ARE RAPIDLY EXHAUSTED, WHILE THIS IS NOT ALWAYS THE CASE WITH RESOURCES ALLOCATED TO SMALL PRODUCERS

LIMITED ACCESS TO CREDIT

The resources channeled to AIS seem to have primarily benefited a small group of large landowners, which according to Professor Argüello is what usually happens when state policy instruments are used to influence the agricultural sector. "Lower income producers with less capacity to formulate projects and weaker ties to markets tend to have less access to credit."

In other words, when interest rates are subsidized, the resources allocated to large and medium producers are rapidly exhausted, while this is not always the case with resources allocated to small producers.

One of the differences between ordinary government credit programs and exceptional ones like AIS is that access to the latter kind of program often requires knowledge and capacities that are beyond the reach of small

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farmers. “This means that they depend on intermediary agents that prepare the project proposals they will submit for a credit evaluation, which affects their access to credit in a number of ways,” says Professor Argüello.

As things stand, the allocation of budget resources to agricultural policy instruments is based on the total volume of resources available, the historical demands of producers, and the priorities of policymakers at a given time.

Subsidies to working capital and to productive capital are both part of the same policy toolbox and do not represent a specific proportion of the budget. In this case the subsidies are granted within the framework of certain lines of credit (particularly the special line of credit that growers request for each purpose (working capital, productive

capital, or other purposes), limited only by the continued availability of resources in the line of credit.

In the case of irrigation, on the other hand, there is an independent determination of the funds that will be available, which depends on the total availability of resources, historical demand, and the goals of agricultural policy. When the Equitable Rural Development program replaced AIS, it allocated resources for irrigation exclusively to small and medium producers, reacting to large producers’ previous abuse of those resources.

DECREASING BUDGET ALLOCATIONS

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\$280,000,000 in 2012), Professor Argüello does not consider it so, “because budget expenditures on the agricultural sector have been decreasing over time, and only with an injection of new resources is it showing some recovery. In reality, one of the problems of the rural sector in Colombia is a lack of state investment, so the volume of funds allocated to this program is not questionable, but its specific orientation is.”

In order for programs to help agriculture to meet their goals, agricultural policy must be reoriented from instruments such as that mentioned above, which has several problems according to Argüello, among them that it is not possible to find sufficient resources to grant subsidized credit to all agricultural producers and such programs give an advantage to those who do gain access to credit, contributing to increased inequality among producers.

Subsidies, on the other hand, can make some activities attractive or profitable, although they would not otherwise be so, and growers would be expending resources on the pro-

duction of crops that are not economically sustainable.

In conclusion, the problem of economic viability is a question for many aspects of Colombian agriculture that does not seem to have a solution based on the provision of subsidies. Even subsidized credits for the purpose of capital investment in the agricultural sector (particularly those under the Rural Capitalization Incentive program) have proved to be inefficient vehicles for increasing and strengthening investment in agricultural production.

A FAVORABLE INVESTMENT ENVIRONMENT

Several analysts have pointed to the advantages of using more resources to provide what are called public goods—and in general for agricultural production—in ways that are available to producers without restriction to particular products. Some examples of this are investment in tertiary roads to connect producing areas to markets, the provision of well-designed plans for irrigation and drainage, support for agricultural and livestock research, the strengthening of technical assistance for the adaptation and application of available technologies, and the provision of marketing infrastructure.

In other words, it would seem to be more effective for the State to concentrate its efforts

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on the promotion of basic conditions that would allow for a more favorable investment environment and the development of agricultural activities, rather than applying policy instruments, including subsidies, that tend to be inefficient and to generate perverse effects.

According to Professor Argüello, a fundamental element for the generation of this favorable investment environment would be the regulation and strengthening of the land market, including land restitution, the formalization of property, the generation of incentives for the productive use of land, and the strengthening of institutional means to guarantee access to land as a productive asset. ■