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policy brief

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Agricultural Policy Monitoring and Evaluation 2021: Addressing the Challenges Facing Food Systems

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- Government policies generate substantial transfers to the agricultural sector across OECD countries and major emerging economies – amounting to USD 720 billion per year in 2018-20. USD 272 billion of this comes in the form of market price support paid by consumers, while the remaining USD 447 billion are budgetary support paid by taxpayers.
- Much of this support does little to help, or even harms, its stated aims of improving food security, incomes and livelihoods, and environmental sustainability.
- Almost half of support to the sector is market distorting, inequitable and harmful to both the environment and food security.
- Investments in innovation, biosecurity and infrastructure account for only 17% of budgetary support.
- A more central role for innovation systems is the key to delivering sustainable productivity growth and improved resilience.
- To accelerate progress in addressing the challenges facing food systems, governments should (i) phase out price interventions and market distorting producer support; (ii) target income support to farm households most in need, and where possible incorporate such support into economy-wide social policies and safety-nets; and (iii) re-orient public expenditures towards investments in public goods – in particular innovation systems.

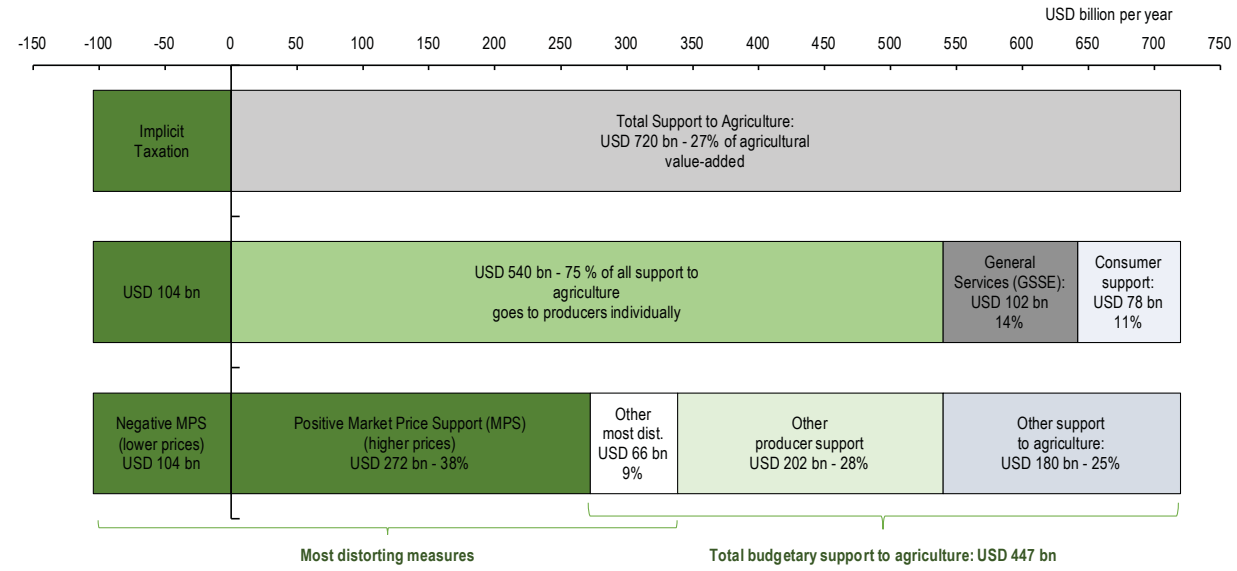
What's the issue?

In 2018-20, agricultural support policies across the 54 countries covered in the OECD's annual Agricultural Policy Monitoring and Evaluation report generated USD 720 billion per year in transfers to agriculture. Reforms in OECD countries have stalled in the past ten years, with little change in the level or composition of support. Indeed some countries have rolled back earlier reform efforts.

- Of the total support, more than one-third, USD 272 billion, was paid for by consumers in the form of market price support, while the remaining USD 447 billion was paid by taxpayers in the form of budgetary transfers.
- USD 102 billion of expenditure was paid in the form of general services for the sector (GSSE), which includes USD 76 billion of public investments in R&D, biosecurity and infrastructure.
- Subsidies for consumers (such as food assistance programmes) amounted to USD 78 billion per year, or 11% of all positive transfers to agriculture.
- A small number of countries suppressed prices of some or all commodities, resulting in a transfer of USD 104 billion per year away from producers.

Individual producers received USD 540 billion in support per year (about 75% of all positive transfers to agriculture) through various support measures, including higher prices paid by consumers. Producer support as a share of gross farm receipts for all 54 countries has been declining over the past two decades, from 18% in 2000-02 to 11% in 2018-20. In OECD countries, producer support fell from 28% in 2000-02 to 18% in 2018-20. Most of this decline was driven by reforms initiated prior to 2008; the pace of decline has been markedly slower since. In contrast, support to producers in emerging economies almost doubled from 3.8% in 2000-02 to 7.4% in 2018-20.

Figure 1. Breakdown of agricultural support policies, 2018-2020



Note: "Implicit Taxation" of producers refers to negative Market Price Support, "GSSE" is General Services Support Estimate, "Consumer support" is transfers to consumers from taxpayers, "Other most dist." refers to the most distorting producer support measures other than market price support (i.e. support based on output payments and on the unconstrained use of variable inputs).
Source: Based on OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

Countries differ widely in their tendency to support (or tax) their farmers. The countries with the highest levels of producer support when measured as a share of gross farm receipts are all in the OECD area. In Iceland, Norway, Switzerland, Korea and Japan, agricultural policy transfers arising from tariffs and other support measures generate between 40% and 60% of the revenues received by farmers. Producer support is above the OECD average of 18% in the Philippines, Indonesia, the United Kingdom, the European Union, and Israel. Seven countries have low levels of support, below 5%: Kazakhstan, South Africa, Chile, Australia, Ukraine, Brazil and New Zealand. Finally, three countries have negative levels of producer support, as a consequence of farmers facing implicit taxation through suppressed producer prices: Argentina, Viet Nam and India.

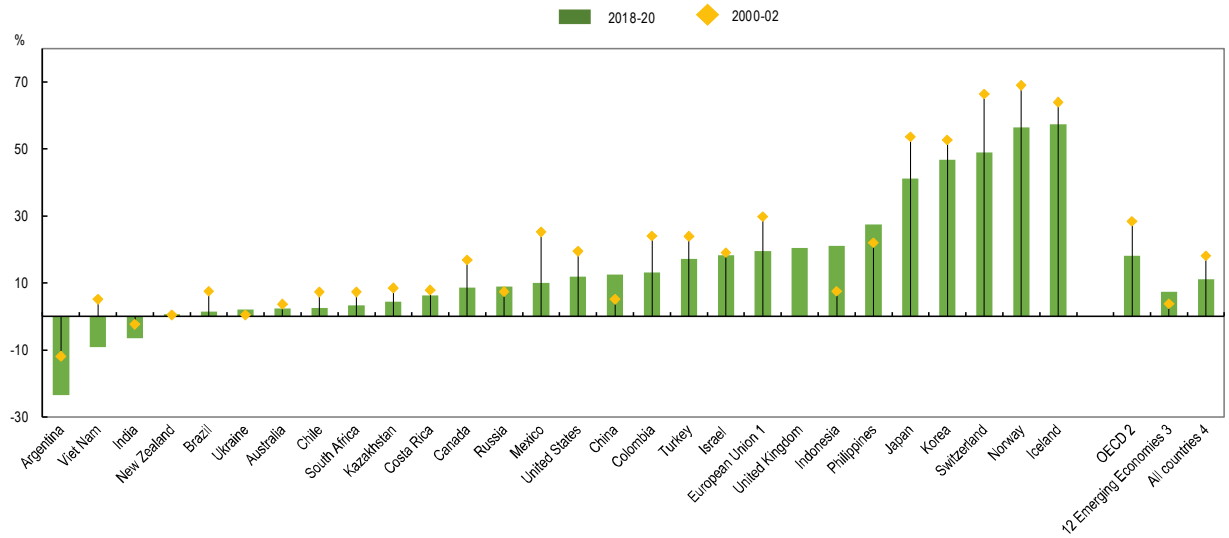
Most current support policies are not serving the wider needs of food systems. Food systems around the world face a formidable "triple challenge". First, they are expected to deliver **food security and nutrition** for a growing world population. Second, they have an essential role to play in providing **incomes and livelihoods** for hundreds of millions of people involved in farming and other segments of the food chain. And third, they must do so in a **sustainable** manner, without depleting land, water and biodiversity resources, while contributing to reductions in greenhouse gas (GHG) emissions.

Agricultural support policies have failed to address rapid structural change across food systems and the problems these changes have induced, be they a rising incidence of obesity, continued adjustment pressures on farmers, or mounting resource pressures and GHG emissions.

The most distorting forms of support amount to USD 338 billion per year (more than 60% of the USD 540 billion in support to producers and almost half of all support to the sector), and include market price support (USD 272 billion), and payments linked to output or the unconstrained use of inputs (USD 66 billion). These measures are both inequitable (as support linked to production is disproportionately allocated to larger farms) and inefficient in transferring income to farmers (as a large share of the benefits leak in the form of higher land values or input prices). Furthermore, they are among the most environmentally harmful support policies, as they provide incentives for the intensification of input use, the allocation of land to supported crops, and the entry of new land into the agricultural sector. Payments based on variable inputs without appropriate constraints can encourage the excessive use of fertilisers and pesticides, causing severe damage to freshwater ecosystems and biodiversity.

Market price interventions (USD 272 billion per year of positive market price support and USD 104 billion per year of implicit taxation) also have negative implications for food security at the global level, because they impede the efficient allocation of domestic resources and weaken the balancing role of trade in getting food from surplus to deficit regions. Market price support policies raising domestic prices above world prices, result in higher costs for consumers, lower real incomes and reduced access

Figure 2. Producer Support Estimate by country, 2000-02 and 2018-20 (% of gross farm receipts)



Note: Countries are ranked according to the 2018-20 levels. 1. EU15 for 2000-02, EU28 for 2018-19 and EU27 plus UK for 2020. 2. The OECD total does not include the non-OECD EU Member States. Latvia and Lithuania are included only for 2018-20. 3. The 12 Emerging Economies include Argentina, Brazil, China, Costa Rica, India, Indonesia, Kazakhstan, the Philippines, Russia, South Africa, Ukraine and Viet Nam. 4. The All countries total includes all OECD countries, non-OECD EU Member States, and the Emerging Economies.
Source: OECD (2021), "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), http://dx.doi.org/10.1787/agr-pcse-data-en.

to food. Such policies are tied to farmers production decisions and cannot be targeted, thus resulting in significant negative consequences for the environment and resource use. By constraining trade, market price interventions also contribute to increased price volatility on international food markets.

Producer support that is less coupled to production (USD 202 billion per year) creates fewer distortions at the margin and has less adverse impacts on global food security and environmental sustainability. Such support allows farmers to follow market signals in their production decisions, without biasing choices on what to produce, or whether to remain in the sector at all. They also have a reduced tendency to contribute to additional resource pressures and GHG emissions, or to leak to non-farm landowners or input suppliers.

Two important rationales for farm support are to redress problems of low incomes, and to support the provision of environmental public goods. However, little of the budgetary support that is extended to producers is based on an assessment of their overall income from all sources, while just **USD 1.5 billion of the annual budgetary payments to producers was linked clearly to the provision of environmental public goods**.

Instruments with more positive effects on food security, incomes and resource use mostly fall within the category of general services, and particularly include investments in R&D, biosecurity and infrastructure. **Despite evidence of high returns, spending on agricultural knowledge and innovation systems was just USD 26 billion per year** (6% of all budgetary support), **while spending on biosecurity and for the development and maintenance of infrastructure for the sector amounted to USD 50 billion per year** (11% of budgetary support).

What should policy makers do?

The foremost ways in which agricultural policies can contribute to improving the performance of food systems are through sustainable productivity growth and improved sectoral resilience.

Three specific actions could enable agricultural policies to better support sustainable productivity growth and increased resilience, and accelerate progress in addressing the "triple challenge" faced by food systems:

1. **Phase out price interventions and market distorting producer support.**

   Reducing trade-distorting support can strengthen global food availability by facilitating shifts in production to regions that are best able to meet the growing global demand for food and agricultural raw materials. Reorienting support towards decoupled payments could reduce environmental pressures and substantially strengthen the sustainability of production. Such reforms can also encourage farmers to diversify their production away from energy-dense staples and towards micronutrient-rich foods, thus facilitating a transition towards more diverse agricultural production systems.

The withdrawal of positive market price support and associated trade protection would imply a loss of income by some producers that may need to be accompanied by transitional assistance and social safety nets. Conversely, the removal of policies that suppress domestic prices would potentially result in a need for targeted income transfers to low-income households and consumers.

2. **Target income support to farm households in need; where possible shift its role away from agricultural budgets, and towards economy-wide social policies.**

   A move towards more targeted support through mechanisms such as conditional cash transfers, emergency food reserves, and food assistance programmes would bring gains in efficiency and equity, but requires deeper investments in data collection, in particular on the total incomes and assets of agricultural households.

   Ultimately, many of the policies required to improve farmers' incomes are non-agricultural. They include investments in education and healthcare, peace and political stability, sound macroeconomic management, effective institutions, property rights, and governance. However, agricultural policy would still have an important role in underwriting those aspects of agricultural risk management that cannot be covered by farmers themselves or by risk markets, and in fostering greater resilience to future shocks.

3. **Re-orient public expenditures towards investments in public goods with the potential to deliver sustainable productivity growth and improved sectoral resilience.**

   Investments in innovation systems should be made central to agricultural support policies. However, innovation – which encompasses not just new technologies, but improved practices and systems – and other essential public goods are currently marginal, with just 6% of all budgetary support going to research and innovation directly, 9% to public investments in infrastructure and 2% to biosecurity. These shares could be almost doubled by a redirection of market distorting payments, and raised further still by a reallocation of income support away from farmers whose incomes from farm and off-farm sources would be above average even without support. Public goods can also be generated by individual agricultural producers in the form of ecosystem services and other environmental amenities demanded by societies. Increased targeted and tailored payments to producers can foster the availability of such goods, and provide additional income opportunities for farm households.

The formidable challenges facing food systems call for a range of policies, many of which extend beyond primary agriculture. Effective agricultural policies can make an important contribution to addressing the triple challenge, but they will not be sufficient. A wider "food systems approach" means mobilising policies in a wide range of areas that go beyond primary agriculture, for example via targeted policies to encourage healthier dietary choices, broad policies to ensure balanced rural and economic development, and economy-wide plans to curb GHG emissions. It also requires that policymakers take a holistic view on the performance of policies related to multiple objectives, exploit synergies and manage trade-offs between the different dimensions of the triple challenge, and co-ordinate to avoid incoherent policies.

Agricultural policies and COVID-19

The onset of the COVID-19 pandemic in early 2020 led to containment measures that resulted in a profound economic shock. Many governments moved swiftly to keep agricultural supply chains functioning, including by designating agriculture and food as an essential sector. As a result, policies were generally successful in maintaining the overall functioning of food supply chains.

Substantial resources – USD 157 billion – were earmarked for COVID-19 sectoral support, including USD 75 billion in OECD countries and USD 82 billion in emerging economies. Actual disbursements have so far been much lower, partly reflecting the overall resilience of agriculture to the COVID-19 shock. Consumer support was more often rolled out quickly, to address the loss of incomes suffered in particular by poorer households.

Across the 54 countries, nearly 800 policy responses were introduced in response to the pandemic:

- Close to 20% of the total were urgent measures, adopted in order to contain the pandemic while keeping food and agriculture supply chains working.
- Just under 70% of measures took the form of temporary relief, seeking to contain the impact of the crisis on agriculture and food sector actors, and should be phased out as the crisis recedes.
- Most of the remaining measures (10%) were "no regrets" policies with the potential to improve the long-term resilience of the agro-food sector, and which have the potential to be scaled up further.
- 11% of measures had the potential to distort markets or be harmful to the environment. In particular, several countries imposed export restrictions in order to direct supplies to domestic markets.