

## Highlights and Policy Recommendations

Chile has made important progress in raising incomes and reducing poverty, and more recently in narrowing income inequality too. The key to this strong economic performance has been sound macroeconomic management, institutional and structural reforms, trade openness, and the prudent management of mineral resources (principally copper).

The agricultural sector, in conjunction with related downstream activities, has played a key role in Chile's economic success. Yet while the incomes of agricultural households have increased, small-scale farmers have seen little change in their farm incomes, with most of the gains coming from improved off-farm opportunities.

Agriculture as a whole has benefited from an open trading environment, characterised by a uniform MFN tariff of 6%, and an average effective tariff of about 2% resulting from a wide network of preferential trade agreements. Agriculture has received no more protection than other sectors, with the exception of commodities covered by the country's price band system (wheat, wheat flour and sugar). In recent years, protection has been low for these products too, as a result of high world prices and (ongoing) policy reforms.

Support provided to producers is low compared with other OECD countries, with an average %PSE (producer support as a share of gross farm receipts) of 5% in 2004-06 – a similar figure to the estimates for Australia and Brazil. Budgetary payments have dominated producer support in recent years, with relatively little use of market price support. Total support to the agricultural sector also imposes a milder burden on the economy than in most OECD countries, accounting for 0.4% of GDP between 2003 and 2005, compared with an OECD average of 1.2%.

Government expenditures on agriculture have nevertheless more than trebled in real terms over the past ten years. About half of that spending is on public goods, while the other half consists of measures which aim to make Chile's poorer farmers commercially competitive.

The spending on public goods includes essential investments that help raise agricultural competitiveness and protect the country's environment and natural resource base. But the fact that money is spent on public goods does not itself guarantee that policies are effective, and there is a need for a more systematic evaluation of policy performance.

Payments to improve small-scale farmers' commercial viability need to be based on a realistic assessment of who is potentially competitive within the sector, and to target that constituency. For future generations, that group is likely to be a minority of smallholders. For the majority, the main requirements are for non-agricultural policies that help them diversify their incomes and find better paid jobs outside the sector. In most cases the ultimate aim should be to transform the poorer family farm into a structure in which the farm operation may be retained, but family members (especially sons and daughters) develop the opportunities to obtain higher paid skilled employment. Recently introduced smallholder credit policies that focus on correcting underlying market failures represent a more productive use of resources than traditional credit subsidies.

*Two-thirds of agriculture-dependent households are headed by salaried farm workers, and these households have similar incomes to the poorest farm households. While salaried farm workers may benefit from the increased employment opportunities offered by agricultural growth, the long-term priority is similarly to help them get better paid (skilled) work, within the agribusiness sector or elsewhere.*

*Agricultural policies therefore need to be framed within an economy-wide context, and consistent with other policies, such as regional initiatives and social safety nets. As agricultural spending by the Ministry of Agriculture is increasingly complemented by the outlays of other ministries and agencies, the need for close co-operation across branches of government becomes ever more essential.*

## 1. Reforms and their impacts

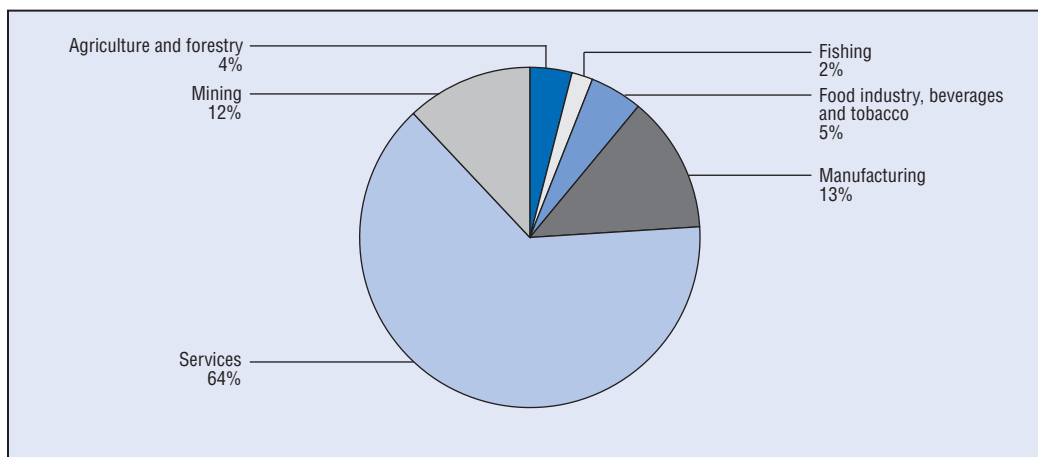
Over the past 20 years, the Chilean economy has grown more rapidly than any other country in Latin America. Real per capita incomes have more than doubled since the restoration of democracy in 1990, and the incidence of poverty has declined sharply. Using a poverty line that corresponds to twice the cost of a basic food basket, the incidence of recorded poverty fell by nearly two-thirds, from 38.6% of the population in 1990 to 13.7% in 2006. Over the same period extreme poverty, as measured by the cost of one basic food basket, has been almost eradicated, falling from 12.5% to 3.2%. Chile's income distribution is among the most unequal in the world, but here too there has been some recent improvement.<sup>1</sup> Despite this progress, per capita incomes in Chile are still less than half the OECD average, and at current growth rates it would take another 15 years for incomes in Chile to converge on that current OECD level.

The key to Chile's strong economic performance has been sound macroeconomic management, institutional and structural reforms, trade openness, and the prudent management of mineral resources (principally copper). These basic tenets of economic policy have been upheld by successive governments since the return to democracy in 1990. The economy has become progressively more open, with a ratio of exports plus imports to GDP of about 75% – higher than anywhere outside East Asia. For the past ten years, the ratio of FDI to GDP has averaged 6-8%, which is also higher than the OECD average and in any other Latin American country. In 2005, the stock of FDI reached 65% of GDP, compared with an OECD average of 27%. Inflation has converged on the OECD average, even in the face of global and regional volatility and large swings in the copper price and real exchange rate, although it is poised to exceed the target ceiling of 4% in 2007, mainly as a result of higher food prices.

The agricultural sector, in conjunction with related downstream activities, has played a key role in Chile's economic success, both benefiting from stability and reforms, and making an important contribution, via rapid export growth. The sector is strategically more important than its 4% share of GDP would suggest. Chile's agricultural and agro-industrial sector has been extremely successful in adding value to the production of primary commodities, and processed products such as wine and fruits account for a similar share of GDP to agriculture itself (Figure 1).

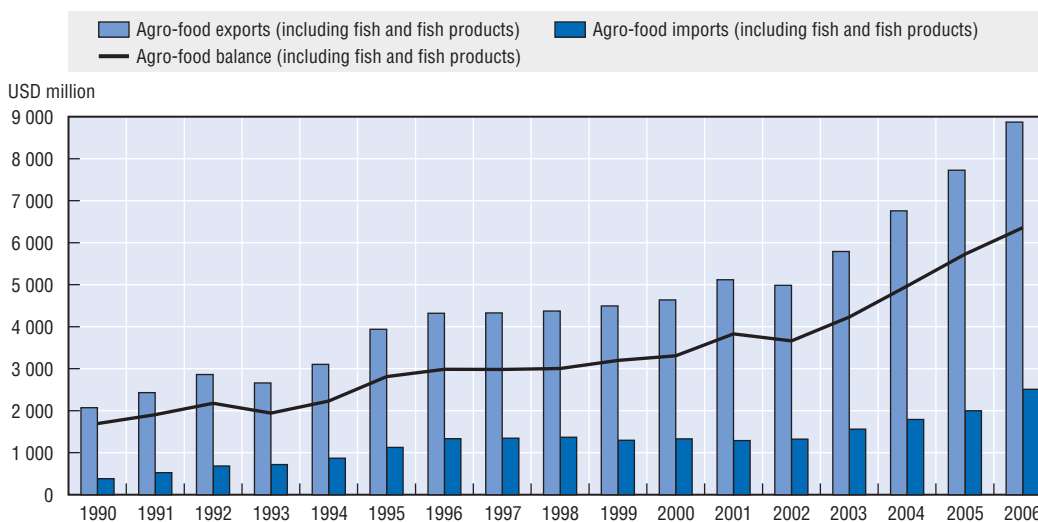
Much of the increase in value added has been in exportable commodities, with the consequence that agriculture and related products accounted for 29% of merchandise exports in 2002 and 2003, although this share has slipped back in recent years as a result of the boom in copper prices. Since the initiation of reforms, there has been a huge increase in the sector's export orientation. The share of primary agricultural trade (i.e. exports plus imports) in agricultural GDP averaged 30% during the period of military government, reached 60% between 1990 and 1998, and has averaged more than 80% since 1999. More widely, the growth of agricultural and agribusiness exports has accelerated in recent years, as new exports, such as pork, poultry and dairy products have added to earlier growth sectors such as wine and fresh fruit (Figure 2).

Figure 1. Shares of GDP by sector, 2002-05 average



Source: Central Bank of Chile, 2007.

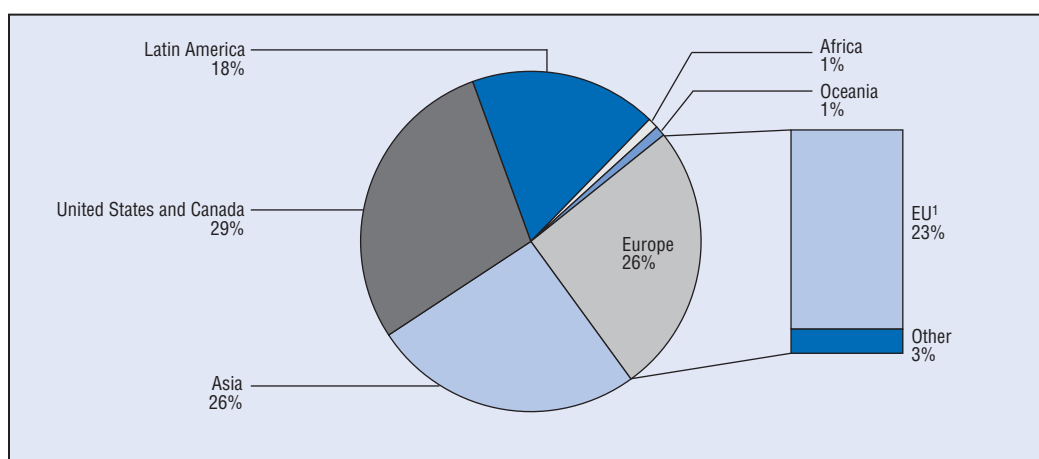
Figure 2. Evolution of Chile's agro-food trade, 1990-2006



Source: UN, UN Comtrade database, 2007.

Chile has succeeded in diversifying the destinations of its agro-food exports. In the four years to 2005, 30% of agro-food exports went to the United States and Canada, 25% to Europe and 26% to Asian countries (Figure 3). Latin American markets are relatively less important, with a combined share of 18%. The main reasons for Latin America's low share are twofold. First, Chile's exports are mostly high value products such as temperate fruits, or products with considerable value added, notably wine, for which the demand is stronger in high income countries. Second, Latin American countries are often competing exporters (e.g. Argentina for wine, Brazil for pork and poultry). There have been some new growth markets, such as Korea and Russia, while the United States market has become less important (but has nonetheless increased in absolute terms). In recent years, the growth in agro-food imports has been less dynamic. Chile imports a large share of its domestic consumption of cereals (principally wheat), oilseed products (both oil and meal), beef and sugar. More than three-quarters of these supplies come from other Latin American

Figure 3. Chile's agro-food exports by region of destination, 2003-06 average



1. EU15.

Source: UN, UN Comtrade database, 2007.

countries, with Argentina and Brazil collectively accounting for well over half. Argentina is the main supplier of wheat and beef, while Brazil supplies sugar and oilseed products.

While macroeconomic and structural reforms have helped underpin the growth in agricultural production and exports, agricultural policies have played an important facilitating role. The Agriculture and Livestock Service (SAG) has sought to guard the country's favourable sanitary and phyto-sanitary conditions; Fundación Chile has provided R&D and venture capital for niche exports such as blueberries; the Economic Development Agency (CORFO) has sponsored some successful producer associations (for example in wine); while PROCHILE has engaged in export promotion. Preferential trade agreements have also contained provisions that have improved access to new markets for agricultural products, such as pork in Japan and Korea.

Chile's agricultural growth is likely to continue, as the remaining impediments to growth are alleviated. Most of those impediments afflict the economy in general and are not unique to the agricultural sector. They include weak human capital (in particular, low educational attainment), which has implications for farm management and entrepreneurial skills; and a low R&D intensity and weak diffusion of knowledge, reflected in the low level and uneven provision of farm extension services.

Despite the growth in production and exports, agriculture's share of employment declined from 19% in 1990 to 12% in 2006, a share that remains about three times higher than the sector's share of GDP. The implied low productivity of labour employed in agriculture reflects the sector's duality, where a competitive export-oriented sector co-exists alongside an underdeveloped sector of semi-subsistence farmers.

It is important to recognise that, over the coming decades, agriculture's share of GDP will not rise to match the sector's share of employment – in all OECD countries the tendency has been precisely the opposite. The incomes of households working in agriculture are on average about a third lower than those in other sectors, and a shift of labour out of the sector will be needed to close that gap. More generally, in the long term, it is unlikely that the agricultural sector can itself provide the basis for the 2.5 fold increase in annual per capita incomes required to reach the current OECD average (in PPP terms) of

USD 28 000. As a small economy, Chile is relatively open, with a share of exports in GDP of 40%. If that ratio is to be maintained at higher income levels, as it probably needs to be, then per capita exports would have to rise to USD 11 000. These sorts of returns cannot be generated by the exploitation of natural resources and labour-intensive farming, and require much greater diversification of the economy.

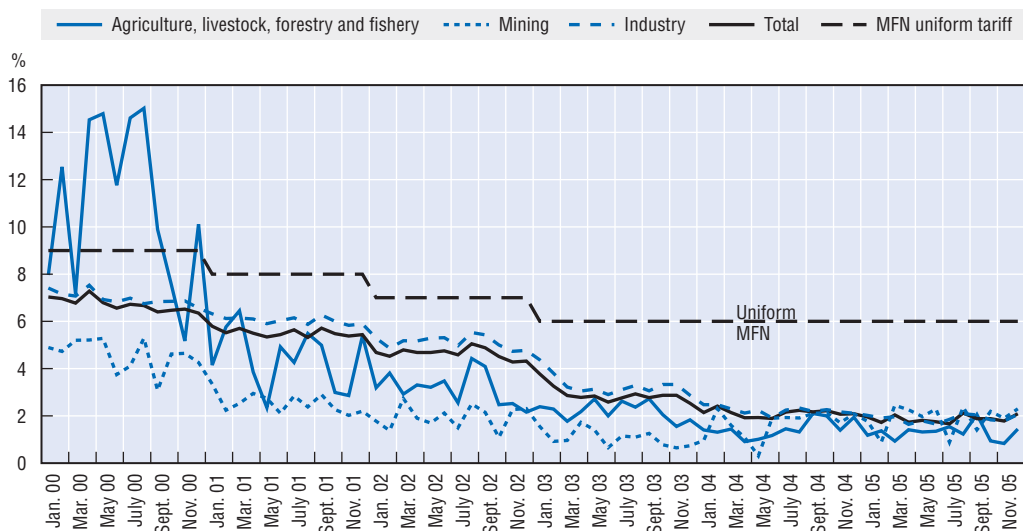
The easing of the remaining constraints to competitiveness should nevertheless enable a share of future growth to be enjoyed by some of the country's poorer agriculture-dependent households, either by drawing them into commercial structures directly or offering them employment opportunities on larger agribusiness operations. But agricultural growth has historically been concentrated among competitive sub-sectors, and over the past 15 years has done little to improve the farm-derived incomes of the majority of agricultural households. Rather, the gains in total incomes have come either from the farm household diversifying its sources of income or leaving the sector for more remunerative work.

## 2. Agricultural policy developments

Since 1990, Chile's agricultural policies have centred around three main objectives: first, the inherited goal of increasing competitiveness; second, achieving more balanced agricultural development by better integrating poorer less competitive farmers into commercial supply chains; and finally reconciling these objectives with goals related to conservation of the environment and the sustainable use of resources. While the specific articulation of objectives has changed from one government to the next, these broad areas have provided a common focus of policy concerns.

These objectives have been pursued in the context of a relatively open trade policy. Chile has a uniform MFN tariff of 6%, and the average effective tariff has been reduced to about 2% by the conclusion of a wide network of preferential trade agreements (Figure 4). With a few exceptions, notably wheat and sugar, for which a Price Band System (PBS) is

Figure 4. **Applied tariffs, adjusted for trade preferences, 2000-05**



Note: Calculations account for both *ad valorem* and specific duties.

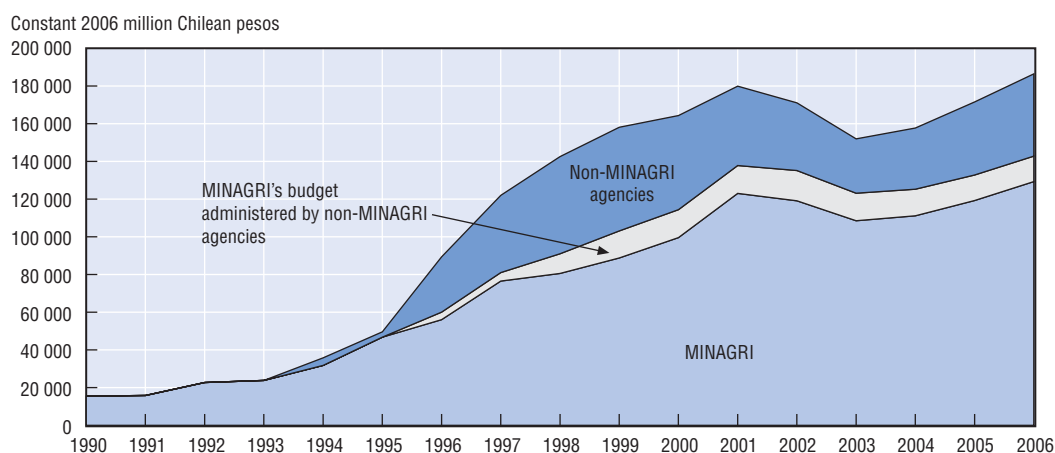
Source: Becerra, 2006.

operated, there has been little protection for agricultural products, although Chile's trade agreements have typically singled out agricultural sub-sectors for special treatment. Over the past four years, however, domestic prices of agricultural commodities have been on average no more than 2% above comparable prices in international trade.

The idea behind Chile's PBS was to provide producers of eligible crops – mostly smaller farmers in the south of the country – with some insurance against price risk. Under the PBS, floor and ceiling prices are established around an international reference price. When the reference price is below the lower threshold, a specific duty is applied in addition to the applied tariff. When the reference price is between the lower and the upper threshold, only the applied tariff is applied. Lastly, when the reference price is above the upper threshold, a deduction is made from the applied tariff. Between 1998 and 2000 world prices were sufficiently low that the duty levied on PBS products exceeded the bound tariff of 31.5%. Following a successful WTO appeal by Argentina, the PBS was modified for wheat, wheat flour and sugar, and discontinued for vegetable oils. Chile successfully renegotiated its bound tariff for sugar, which was raised to 98%. Strong world prices for wheat have meant that the actual duty paid has been less than the MFN rate of 6% in three of the past four years. The duty payable for sugar was over 40% from 1998 to 2004, but fell to 20% in 2005 and less than 1% in 2006. A second successful WTO challenge by Argentina means that the PBS for wheat and wheat flour will need to be further reformed.<sup>2</sup>

Although Chile has relatively low trade protection, its agricultural policies are by no means *laissez-faire*. Indeed, government expenditures on agriculture have more than trebled in real terms over the past ten years. Spending by the Ministry of Agriculture (MINAGRI) has increasingly been complemented by the outlays of other ministries and associated agencies (Figure 5).

Figure 5. **Real budgetary transfers on agricultural programmes, 1990-2006**



Source: DIPRES, 2007; MINAGRI, 2007.

The main categories of agricultural spending, according to official classifications, have been – in order of importance – irrigation; productivity improvement and skills development (including preferential credit); rural development; a soil recovery programme; R&D, training and extension; sanitary and phyto-sanitary standards; and marketing and promotion. About half of these expenditures are made at the sectoral level, while the other

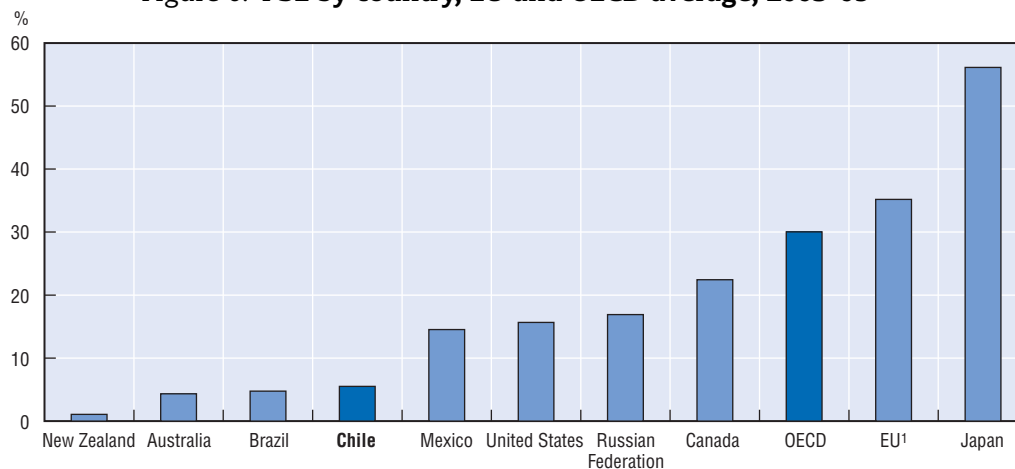
half comprises specific payments to farmers. A variety of agencies are responsible for these expenditures, with payments to small farmers, which account for about 30% of all outlays and half those of MINAGRI, made by a dedicated agency, the Institute of Agricultural Development (INDAP).

Programme areas cut across the three areas of policy objective: for example investments in infrastructure and irrigation, management skills and standards have a general impact on competitiveness. In each case, there is a specific element aimed at small farmers. Similarly, the Soil Recovery Programme seeks to improve resource utilisation but is also constructed to foster the competitiveness of small farmers in particular.

The division of responsibility across different government agencies makes for challenges in ensuring policy coherence. For example the Ministry of Public Works (MOP) and the Ministry of Agriculture (via the National Irrigation Commission, CNR, and INDAP) both spend money on irrigation. Within MINAGRI, the Soil Recovery Programme is jointly administered by SAG and INDAP, with the domain of intervention depending on whether the beneficiaries are large and medium scale farmers (in which case they fall under the responsibility of SAG), or smallholders (under INDAP). The issue of coherence has become more important as the scale of government spending has increased.

The use of public policies to address these three areas of policy objective is reflected in the OECD calculations of support to agriculture. In general, support provided to producers is low when compared with other OECD countries, with an average %PSE (producer support as a share of gross receipts) of 5% in 2003-05 that is comparable to the estimates for Australia and Brazil, and somewhat higher than for New Zealand (Figure 6).

Figure 6. PSE by country, EU and OECD average, 2003-05

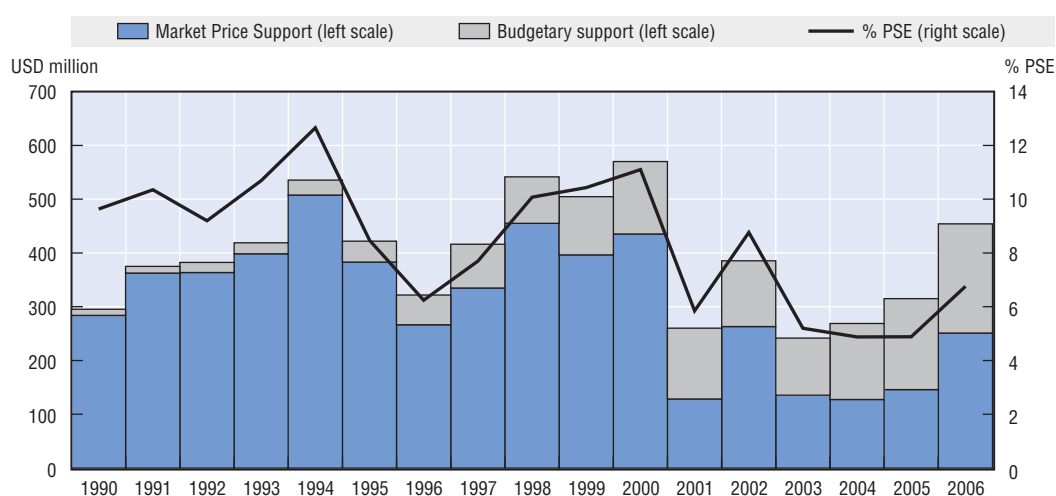


1. EU15 for 2003; EU25 for 2004-05.

Source: OECD, PSE/CSE database, 2007.

Market price support has fallen to very low levels, reflecting the limited use of tariffs and other trade restrictions.<sup>3</sup> This has been counteracted by rising budgetary payments made specifically to farmers since the mid-1990s, with these payments dominating producer support in recent years. On balance, the PSE has trended downwards slightly since the restoration of democracy in 1990 (Figure 7).

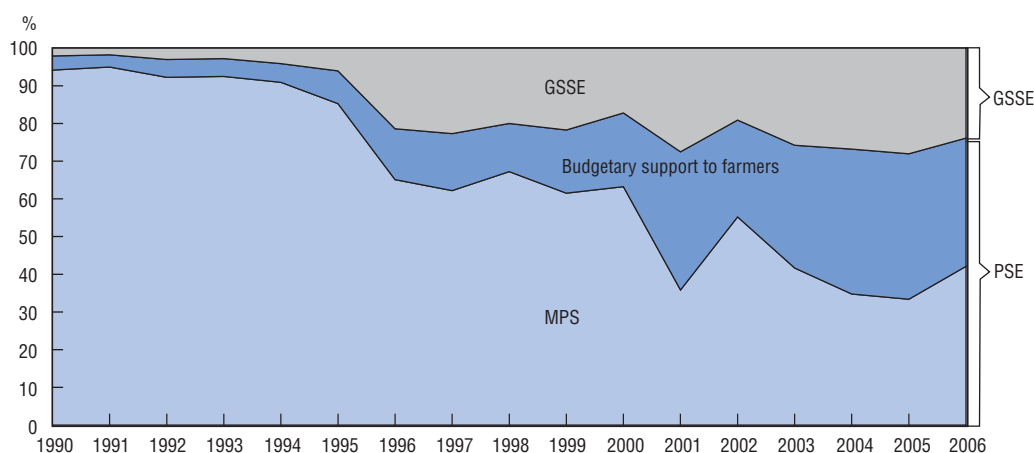
Figure 7. Level and decomposition of the PSE, 1990-2006



Source: OECD, PSE/CSE database, 2007.

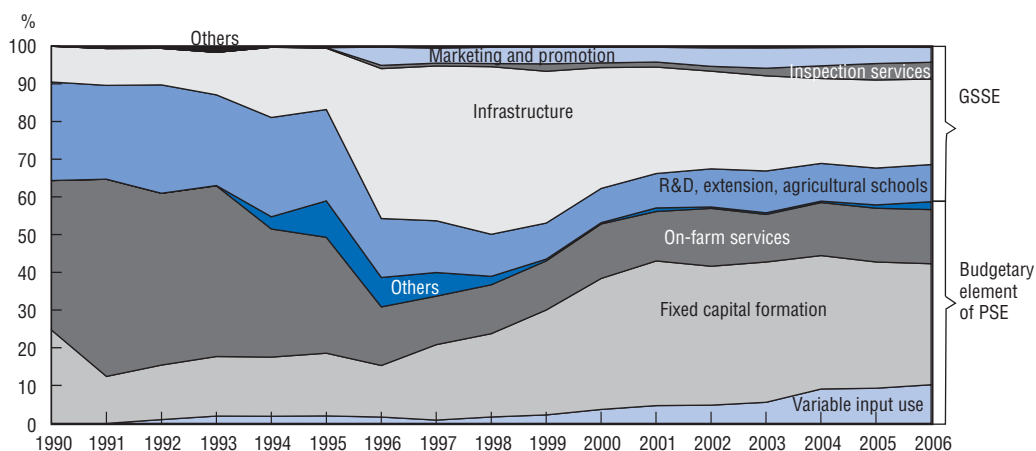
Agricultural policies that consist of payments to farmers are one component of total budgetary spending on the sector. Payments to the sector as a whole, but not specifically to farmers, included in the GSSE, have increased in parallel with those made to farmers (Figure 8). As a result, total support to agriculture, as measured by the TSE, now splits fairly evenly between the three components: market price support, payments to farmers, and the GSSE. The division between payments to farmers and to the sector as a whole has been roughly half and half for the past 15 years (Figure 9). Spending on infrastructure dominates the GSSE while fixed capital formation dominates the budgetary component of the PSE. In a number of cases in Chile, GSSE expenditures are the off farm equivalent of producer-oriented programmes (such as the provision of farm level infrastructure, irrigation and inspection services).

Figure 8. Decomposition of the TSE, 1990-2006



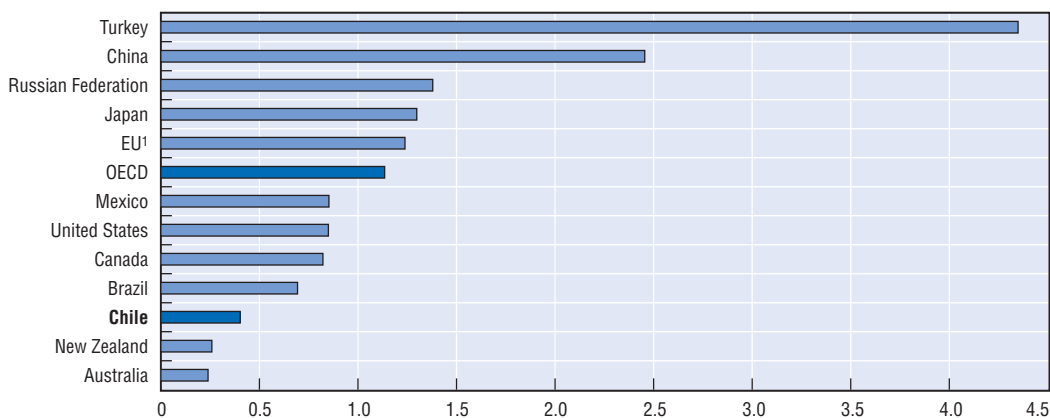
Source: OECD PSE/CSE database, 2007.

Although budgetary expenditures have risen rapidly, support to the agricultural sector imposes a much milder burden on the economy than in most OECD countries. The TSE

Figure 9. **Decomposition of budgetary allocations in PSE and GSSE, 1990-2006**

Source: OECD, PSE/CSE database, 2007.

accounted for 0.4% of GDP between 2003 and 2005, compared with an average share of 1.2% in OECD countries (Figure 10). The main reason for this difference is that market price support has declined to very low levels in Chile, whereas it still dominates producer support in most OECD countries. The share of the GSSE in total support was 26% over the same period, as compared with an average of 17% in OECD countries. Since the GSSE contains investments in areas that may be considered to be public goods, this suggests a more productive use of taxpayers' money than is the norm in OECD countries.

Figure 10. **Total Support Estimate in Chile and selected countries, 2003-05 average, as per cent of GDP**

1. EU15 for 2003; EU25 for 2004-05.

Source: OECD PSE/CSE database, 2007.

Spending on public goods has complemented the benefits of trade openness. These policies include spending on infrastructure by CNR and MOP; the specification and enforcement of standards by SAG; promotion by PROCHILE; and R&D by the National Institute for Agricultural Research (INIA), the Foundation for Agrarian Innovation (FIA) and through Fundación Chile. The reason for the success of these policies is that they have provided investments that the private sector alone could not have undertaken. In many

cases, public-private interactions (e.g. in the development of standards and inspection services, and the development of venture capital) have been a key ingredient of the success. In addition, the government has invested significantly in addressing a number of environmental concerns, including the loss of native forest and corresponding reduction in biodiversity, growing water demand for agriculture, and the erosion and desertification of national soils. SAG and INDAP jointly administer the Soil Recovery Programme, while another MINAGRI agency, the National Forestry Service (CONAF), implements reforestation and forest protection programmes.<sup>4</sup>

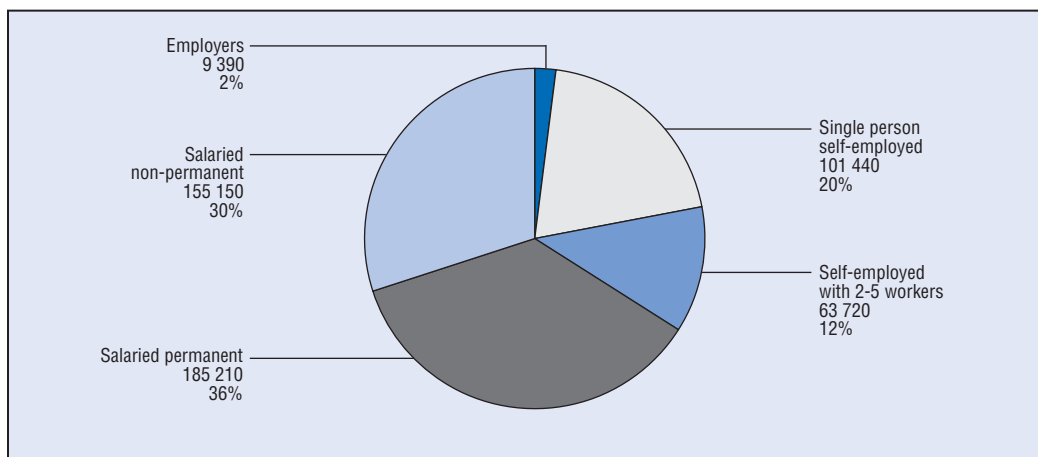
However, the fact that money is spent on public goods that the market would underprovide does not itself guarantee that policies are effective. Indeed, given the large number of programmes that Chile has in place, there is a need for a more thorough evaluation of performance. Some agricultural programmes are evaluated upon the request of the Treasury, but these evaluations focus more on gauging the implementation and reach of programmes than how effective they have been relative to their ultimate objectives. With agricultural policies increasingly being implemented by agencies other than MINAGRI, there is also a need for closer co-ordination.

The half of government spending on agriculture that is made directly to farmers is focused on smallholders. According to the 1997 Agricultural Census, there were 278 000 smallholders in Chile (corresponding to a definition that determines eligibility for support), of which 102 000 were subsistence farmers and 176 000 were market-orientated.<sup>5</sup> These smallholders accounted for 84% of the farms in Chile, but only about 30% of the value of production. The remaining medium and large scale farms do not receive any direct support from the government. The strategic objective is to integrate smallholders systematically into commercial structures. Although operationally some programmes target market-orientated producers, there is no explicit targeting on the basis of potential competitiveness. Such a refocusing appears necessary, given that the reach of INDAP – the government agency with responsibility for smallholder development – is limited to 40% of the eligible smallholder constituency, and that INDAP is legally constrained in the size of operations that it can lend to, with an upper limit that rules out supporting some potentially competitive medium-sized operations.

### 3. Strategic options for more inclusive agricultural development

As a matter of strategic emphasis, it is important to note that two-thirds of agriculture dependent households are not farm households but salaried agricultural workers (Figure 11). Moreover, salaried-worker families have a higher incidence of poverty than the self-employed and, when headed by non-permanent workers (mainly seasonal), poverty rates are even higher. For the other one-third, comprising mostly self-employed farm households, it is equally important to recognise that while their total incomes have improved, most of those gains have come from higher off-farm incomes, with farm incomes themselves showing little change.

The corollary is that many of the policies needed to boost the incomes of agriculture-dependent households are those that help raise earning potential generally, and lie outside the realm of agricultural policies. It is important that agricultural policies are framed within an overall context of policies that are appropriate for the sector and the households that depend on it. A correspondence between development pathways for agriculture-dependent household and relevant policy instruments is described in Table 1. The

Figure 11. **Numbers of agriculture-dependent households, by category, 2003**

Source: MIDEPLAN, CASEN 2003; OECD calculations, 2007.

development pathways are described in the columns, and the policy instruments in the rows. The first column (improving competitiveness within agriculture) applies to farm households, but the others are valid for both farm households and salaried worker households. Note that the development pathways (columns) are not mutually exclusive: for example, one household member can enhance the farm's competitiveness while another provides off-farm income. Also, the instruments (rows) do not exhaust all possible policies, but focus on those with persuasive arguments.

For salaried workers, the key policy areas are likely to be investments in human capital (notably education), regional policies to help build a diversified economy with both skilled and unskilled job opportunities, and labour market reforms to raise employment opportunities and wage incomes. For farm households, only a minority have operations that are likely to be commercially successful in the long term, and it makes sense that agricultural policies should focus on this constituency. For the majority, income diversification and finding employment outside the sector are likely to be more important, and the priorities are similar to those for salaried agricultural workers. Agricultural policies may have a role, but they are not the foremost determinant of development opportunities. Among subsistence farmers and seasonal workers, coverage by social safety nets is important, and has mostly been achieved.

Agricultural policies designed to help farmers become more competitive need to be not just targeted on the potentially viable, but weighed against the alternative of providing support in ways that do not distort markets and household decisions. Given that, from an inter-generational perspective, the majority of farmers will improve their incomes by diversifying their income source or exiting the sector, the presumption should be in favour of non-farm measures that do not deter such initiatives.

There is nevertheless evidence of unexploited development opportunities for smallholders in hitherto less developed regions. In the southern regions, where most of the land cultivated by small farmers is located, there is evidence of unexploited agricultural potential. The main impediments to exploitation of those resources appear not to have been land quality or even land size, but other elements such as weak infrastructure and poor management skills. Case study research for Region VII suggests that more farmers in

Table 1. **Strategic framework for more inclusive agricultural development**

Policy instrument	Development pathway				
	Help farmers become more competitive within agriculture	Diversify income sources		Leave the sector for off farm work	Safety nets for those unable to adjust
		Within agriculture	Outside agriculture		
<b>Investment in human capital</b>	Minor effects of formal education for this generation; technical training more appropriate for productivity.	Can help farm family members and rural workers move into skilled jobs	Important for farm family members and rural workers	Important for managing inter-generation change	
<b>Investment in infrastructure</b>	Helps with market integration	Helps improve local job opportunities		Can ease migration decisions for offspring	
<b>R&amp;D and extension</b>	INIA and private sector important; most gains have been from adoption and adaptive research.	Can expand agricultural employment (e.g. fruits and vegetables).			
<b>Credit</b>	Should focus on correcting market failures	Indirect impacts			
<b>Labour market reforms</b>		Important for raising employment opportunities and wage incomes			
<b>Cash transfers (possibly conditional)</b>				Conditional school attendance may complement investments in schools	The most important policy for those unable to adjust
<b>Regional policies</b>	Important for improving market integration	Expanded non-farm activity would raise farm wages	Important for building a diversified rural economy with wider job opportunities		
<b>Develop producer associations</b>	Mixed success so far, except for input co-operatives.	Indirect impacts			
<b>Land policies</b>	Need to encourage rental markets and facilitate land purchases by small farmers			Restrictions on land sales make it difficult for farmers (notably indigenous) to liquidate assets	

that region could be competitive if those constraints were eliminated by suitable investments, for example in infrastructure and research and extension.

Further provision of public goods could help ensure that a greater share of the benefits of agricultural growth extend to some smallholders. Such investments, because they impose few distortions to decisions at the margin, are unlikely to crowd out the development of other activities and potential income streams. In allocating such public goods, there is a need for some discrimination, for example at the regional level. On the other hand, the government cannot (and should not try to) judge at the individual level who will succeed and who will not. In practice, this should mean limited recourse to sector-specific household level expenditures, such as on on-farm infrastructure.

An important area where policies are implemented at the individual level is credit. In providing more targeted credit, the aim should be to correct market failures rather than allocate on the basis of farm size. This is not primarily a question of interest rate subsidies, but of providing marginal incentives for banks to engage with small borrowers, as is done through INDAP's Financial Coordination Subsidy (BAF) and Fund of Delegated Cash Management (FAD) programmes. Under these programmes, smallholders borrow at

commercial interest rates, but banks are compensated for the banks' transactions costs of dealing with smallholders. There is also evidence that other lenders (*e.g.* Banco Estado) may have a comparative advantage in making small loans, as they have the requisite infrastructure, with monitoring capabilities throughout the country. Loans at commercial interest rates, effected through commercial banks, have much higher repayment rates than those made by the state at subsidised rates.

For smaller farmers with the management skills and resource endowments needed to access global value chains, there may be organisational initiatives (both horizontally among farmers, and vertically along the value chain) that can help them make the transition to being competitive producers. Producer associations and co-operatives have a mixed record in Chile, partly due to the lack of an associative tradition, but there have been some successes when the pre-requisites have been in place such as the specification of a business model with strict accounting procedures, the provision of essential services to members and a clear policy environment.

There are few formal restrictions on the operations of land markets, but there is little renting of land, due to the high transactions costs that larger farmers incur when negotiating with smaller ones. This puts a brake on the consolidation of land into more productive units, thus impeding agricultural investment and making it more difficult for uncompetitive farmers to diversify out of the sector. In the case of indigenous farmers, there are strict restrictions on land sales and on rental and sharecropping arrangements. This policy is motivated by concerns that go beyond conventional economic criteria, but nevertheless limits the already low potential of indigenous farmers and the incentives for exploiting improved non-farm opportunities.

Finally, regional policies have an important role, as it is easier for agriculture to develop when other sectors are succeeding too, and the development of infrastructure is keeping pace. The design of regional policies may influence the targeting of agricultural policies, which calls for co-ordination across ministries and may imply some decentralisation of agricultural policy implementation.

In conclusion, Chile has made important progress in raising incomes and reducing poverty, and more recently in narrowing income inequality too. Those benefits have extended to agricultural and rural families, although improved farm incomes have not been the main driver. Chile has eschewed trade protection in its attempts to improve competitiveness and draw smallholders into commercial structures, and producer support is low in comparison with most OECD countries. Instead, the main emphasis has been on matching policy instruments to objectives and providing the investments (many of which are public goods) that farmers need.

As a further refinement, there is a case for a more explicit targeting of farm policies to potentially competitive farmers, with non-agricultural policies being used to help other farmers and agriculture-dependent households progressively diversify their incomes or exit the sector, and social welfare programmes providing safety nets for households that do not have the potential to adjust to structural changes in agricultural markets. In this way, agricultural policies could be more effectively integrated into Chile's broader strategy for balanced economic development.

**Notes**

1. The Gini coefficient fell from 0.58 in 2003 to 0.54 in 2006 (CASEN, 2003, 2006). A gini coefficient of 0 equates to perfect income equality (everyone has the same income), while a coefficient of 1 corresponds to complete inequality (one person has all the income).
2. Under proposals before Congress, the tariffs for wheat and wheat flour will be set at the MFN rate of 6% plus specific tariffs of USD 30 per tonne in the case of wheat and USD 47 per tonne in the case of wheat flour. Since this will raise protection beyond the level deemed to be necessary, Chile proposes to grant tariff-free access to wheat exporting countries with which it already has preferential trade agreements, subject to prices exceeding a threshold level. In addition tariffs levied on imports from those countries, as under existing provisions, are due to be phased out by 2015.
3. The 2006 market price support estimates for wheat and sugar are higher than can be explained by the applied tariffs, and appear to be due to delayed arbitrage between domestic and international markets.
4. Forestry policy in Chile is under the responsibility of MINAGRI. However, forestry policy is not covered by the OECD's classification and measurement of agricultural support.
5. Full results of the 2007 Agricultural Census are pending.