

Discussion:
Small holder adjustment in Chile and
the role of INDAP

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OECD Global Forum on Agriculture
November 20-21, 2008

Main points

- Remarks on the evolution of INDAP: continuity of basic approach, with innovations.
- Two important INDAP principles for technical assistance: public support and private delivery, targeted to small farmers (commercial farms excluded).
- Evaluation: coverage, impact and cost effectiveness. Does assistance graduate farmers to commercial competitiveness?
- Adjustment for those who cannot graduate: labour markets, safety nets and pensions.
- Lessons and best practices for technical assistance.

INDAP evolution

- Began in 1962, oriented exclusively to enhancing the productivity of small, family farms through lending and technical assistance
- Definition of small farm families has remained unchanged over the decades.
- Building an agricultural extension system requires time, and trail and error.
- The relatively brief history of INDAP illustrates the need for continual monitoring, and appraisal and the capacity to adjust.
- Chile was one of the first countries to introduce public funding and private delivery of agricultural technical assistance, a major institutional development.
- And commercial operations are left to contract TA with private agents, and unsubsidized

Some dates and changes

- 1978: radical change; staff drastically cut (5000 to 1500); extension privatized with voucher system.
- 1983: vouchers ended, replaced by program INDAP contracts with private extension services based on “modules,” or collections of small farmers. Extension providers paid directly by INDAP.
- 1990: program changed, expanded to recognize farmer diversity, poorer regions emphasized, allowing local participation.
- 1997: “demand driven” emphasis, local groups more control over projects and eligible service providers; established co-payments by farmers.
- 2001-2007: advisory services consolidated a single Farm Advisory Service (SAT), expanded role to include production, post-production and agro-processing, management, livestock, quality control, rural tourism, and environmental management. Private provision remained the basis.
- 2008: adjustments to size and type of assisted farm groups (40 to 70 producers) and to subsidy level. Longer-term project commitments renewed (to 3 years).

Questions about impact

- Basic principle of underwriting private extension services for only small farms has been maintained for three decades, although the structures of INDAP's operation have evolved to adjust to mistakes and to adapt to new realities.
- The overall approach has proven itself *operationally* as a manner of delivering extension, although its success in graduating farmers is less clear.
- Maintained political support and funding, which has increased in real terms.
- Questions remain with respect to the coverage of the program and to reaching the ultimate goal of aiding viable farmers to reach commercial competitiveness.

Evaluating INDAPs impact: targeting, coverage and cost effectiveness

- Can we assess the program's coverage and how well it targets intended beneficiaries?
 - More or less, yes.
- Can we assess the impact of its activities on moving its clients into a sustainable, market-oriented trajectory?
 - Not rigorously.
- Can we examine the final cost effectiveness of INDAP?
 - No.
- But then INDAP is not set up to monitor in the way an economist would want.

Program coverage and targeting

- Explicit targets based on farm size and capital; implicit aim at those with long-term viability potential – to initiate sustainable path to higher incomes. But large range of incomes within limits.
- Sotomayor(1990s): 50% of too small for sustainable ag. income – need off-farm income, or safety nets. 25% already viable; 25% potentially viable. Last group a natural target for TA? And the rest?
- Farmers beyond limits but too small for banks or unlinked to exporters and processors: growth potential, but in intermediate zone without ability to generate savings for progress.
- Potential error of inclusion: farmers with *non-farm* assets (e.g., human capital) could afford to pay fully the cost of TA.
- Current limits focus on poor, but imperfectly. Add condition on all income sources?
- A third of INDAP transfers in credit subsidies, the rest for on-farm investment, technical assistance and managerial training
- OECD 2006: programs reached (perhaps minimally) 42% of small farms (number receiving significant TA near half).

Is INDAP meant to focus on a specific sub-group of poorer farmers who could, with assistance, reach viable scales?

- If basic logic of INDAP mission is to graduate viable farmers into commercial ag. this objective has not been used explicitly in evaluating the program.
- Uncertain whether INDAP is treating new cohorts over time, or merely aiding the same group of beneficiaries over and over again.
- Some speculate: static beneficiary group: yearly outlays up to US\$3000 per client (ie., US\$50,000 in last 15 years!).
- If true, these would be large sums relative to the incomes of the Chilean rural poor.
- Panel data analysis desirable to follow clients: what proportion reach commercial viability, what factors contribute to success?
- We simply do not have good measures of how many former clients leave the program and succeed on their own.

Cost-effectiveness over time has not been addressed

- 2 evaluations in mid-1990s of impact on production income and household income.
- Both show that INDAP contributes to an intensification of input use in agricultural production, including of family labor, which results in an increase in gross and net farm income.
- One study (Lopez), however, finds that participating in INDAP programs does *not* contribute to higher family incomes - due to an offsetting reduction in off-farm income; and moreover, intensification of input use does not promote higher total factor productivity.
- Another study (Berdegue, et al.) does find that INDAP programs increase household income, although this effect could have been due to selection bias. This study also notes that there are some geographic areas where participation in INDAP has less of an effect.
- And an examination of what happens to these families over time, is an analysis neglected so far.

Delaying adjustment?

- To the extent that INDAP is providing subsidies to too-small farm units, is the agency delaying the adjustment of families in small-scale agriculture, either to larger scales or to other occupations?
- An alternative for farmers who cannot reach viable scales is to give unconditional transfers as a safety net during the transition to other employment, or to give a non-contributory pension (as in Brazil's *Previdencia Rural*).
- Chile has a Solidarity Pension Systems that gives social security benefits to non-contributors and makes “topping up” payments for workers without a sufficient pension.
- This is in addition to *Chile Solidario*, a broad-based national safety net.
- Technical assistance programs of the INDAP type should be designed in the light of social security programs.

INDAP and Chile's ag product mix

- Institutions like INDAP are drawn to traditional crop model, commodities, domestic markets, with some exceptions.
- But in Chile, most dynamic sectors are export-oriented, quality and marketing chain integration important: traditional yield-increasing extension less relevant.
- Traditional commodities could do well with an INDAP-type program. But success in non-commodities (berries, avocados and table grapes) requires participating in a marketing chain: quality and heterogeneity, timely delivery key, packaging and traceability ever more important.
- Success requires sophistication (schooling and business acumen) beyond the level available to most clients of today's INDAP.
- INDAP model based on contracting private extension services should also recognize that exporters and processors often take on delivery extension services, using explicit and implicit contracts to recover costs.

A summary of Best Practices for technical assistance from INDAP's experience

- Define small farm audience, & don't pretend to cover all at once.
- Monitoring system for graduating clients to sustainability needed – INDAP does not monitor well graduation rates.
- For those that cannot reach viable scale, focus on transition to other activities, and on social safety nets and non-contributory pensions.
- To reduce the costs and inefficiencies associated with gov't programs, do not subsidize services for commercial farms. (R&D perhaps.)
- Support for – and supervision of – private delivery of extension services can provide TA efficiently compared to gov't bureaucracy.

A summary of Best Practices for technical assistance from INDAP's experience, cont.

- Voucher system, based on individual small farmers making contracts with extension providers, might be good sometimes, but in Chile did not generate the demand scale to sustain a private market for extension services. Commercial farmers generate sufficient scale with lower transactions costs.
- Coordination of services more suited to commodities, and less to products requiring closer vertical coordination.
- Recognize that delivery system cannot “get it right” from the beginning, but must adjust to mistakes and changing conditions. Information and monitoring, and flexibility, are key to adjustment.