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INTERNATIONAL  
DEVELOPMENT**



**DEVELOPMENT ASSISTANCE PROGRAM**

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DEVELOPMENT ASSISTANCE PROGRAM

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(To be distributed separately)

## I. Mission Assistance Strategy

Chile does not fit conveniently into A. I. D.'s standard framework for economic assistance analysis. After several decades of steady but unspectacular economic growth, it had already in 1970 achieved a per capita GDP of \$700. Illiteracy had been reduced to 10 percent, and its universities were considered to be among the best in Latin America. Health and family planning services were available at no or minimum cost to most of the population, and high quality private medical care could be found by those who could afford to pay for it. Telephone systems worked, and a network of adequate roads and railroads tied the long and varied coast into a viable economic unit.

An educated populace and generous natural resources did not, however, permit the country to escape the turbulence which accompanies economic development. As in most of Latin America, its growing population tended to cluster in cities. Housing never seemed adequate to accommodate them and the sprawling suburbs they occupied required heavy investment in streets and utilities. They became vocal politically and with their votes began to make heavy inroads into the privileges of the establishment. A land reform law was enacted in 1954 and revised in 1962. It was strengthened in 1967, and a major program of land redistribution was begun. Various social security measures designed to provide services or benefits for the underprivileged were enacted. Housing for the lower and middle classes was heavily subsidized. Food prices were held below world levels through subsidies or controls. Public income lagged behind public expenditure, and inflation of 20 to 30 percent per year came to be the expected norm.

### A. The Recent Past

Meantime, political polarization accelerated, and in the 1964 election Chile took a turn to the left. In 1970 the turn was completed with the installation of a government determined to make Chile the first Socialist country in South America. It proceeded to step up the pace of land reform, expand social services, and place under defacto state control most of the key private sector institutions -- banks, industry, commerce and the large U.S.-owned mines. Whatever its other virtues may have been, in the economic area it

brought the country in three years close to disaster. Gross national product declined in 1972 and 1973, with particularly heavy drops in agriculture and mining. The agriculture sector was left in disarray by abrupt changes in the pattern of management. Private business and commercial life was in turmoil. Thousands of managers and technicians left the country. Investment slowed, and private foreign investment almost stopped. Private construction was virtually suspended. Foreign exchange reserves were dissipated. Capital flight accelerated. Real wages declined. Public expenditures increased while revenue dropped. The escudo was allowed to become greatly overvalued in the foreign exchange market. As inflation proceeded apace, goods became scarce at official prices, and black markets appeared. By the end of 1973, inflation had zoomed from the "normal" annual rate of around 25 percent to over 500 percent and was climbing.

In September, 1973, a military junta came to power by force, determined to end the Socialist experiment. It abandoned most price controls, welcomed foreign investment, turned hundreds of state-managed enterprises over to private operators, reduced the size of the bureaucracy, raised taxes, reduced expenditures and announced its determination to reduce inflation to manageable levels.

#### 1. Inflation

In 1974, at 376 percent Chile still had the highest inflation rate in the world, but it was slowing. Most of the obvious steps which could be taken to reduce the rate had been taken, however, and further reductions in the rate would require cutting closer to the bone.

The steps which have already been taken to cut back inflation have not been without cost. Unemployment in the Santiago area has risen to an estimated 15 percent in February, 1975. A sample survey which was made in connection with the proposed A. I. D. nutrition sector loan revealed that malnutrition among children of poor urban workers is on the increase. Figures on changes in income distribution are not available, or if they are available are not being published, but even a cursory comparison of current

wage levels with the cost of staple foods shows that unskilled workers have an increasingly serious problem in obtaining the minimum daily requirements of essential nutrients. The steps already taken to reduce the rate of inflation have affected all sectors of the population, but middle and upper income groups have been able to absorb them without suffering undue hardships. Further steps to tighten the economic screw are likely to affect most severely the marginal sectors of the population.

With a productive agricultural sector, a moderately well developed transportation system and a rapidly modernizing industrial structure, Chile probably could survive a normal dose of deflationary medicine. Most informed Chileans accept the necessity for strong measures to counteract the inflationary binge of the past four years. They have themselves braced for a cooling off period, a cut-back in public services, higher taxes and some unemployment. They welcome the prospect that, after a period of belt-tightening, the country can resume its steady, if modest, upward growth.

Unfortunately, however, these anti-inflationary measures must be taken at a time when the country is being buffeted by outside economic forces over which it has no control, and which have strongly accentuated the pressures on the country's economy. While they are all in the external sector, they have serious repercussions on internal economic development.

## 2. Energy

The first of these is the now-familiar problem of energy availabilities. Chile must import 75-80 percent of its oil, and there is no prospect of an early increase in its domestic production. Its import bill for oil has increased from \$29 million in 1970 to a projected figure of \$360 million for 1975. Most of these imports are used in the industrial system, for the production of electricity, or for public transportation. The margin for fuel conservation, even with tight rationing to private automobile owners, is small. Any cutback in oil imports would affect the level of economic activity and employment, and those most severely affected would tend to be the marginal unskilled workers who are already squeezed by the steps taken to control inflation.

### 3. The Price of Copper

A second external factor which has confused and complicated Chile's internal economic planning is the sharp and sudden drop in the price of copper. Chile is almost unique in having to deal with this problem. Few countries as heavily dependent on one product for their export earnings have seen the price of their product drop so fast and so far. Within the space of a few months, as the recession in the industrialized countries spread, the bottom dropped out of the market. As this is written, copper is being quoted at 57 cents per pound. In its 1974 economic survey, the low estimate used by the World Bank was 80 cents. Each cent of difference means a \$20 million loss in foreign exchange.

### 4. Foreign Debt

The third external factor which will affect Chile's economic fortunes in the years immediately ahead is the service on its foreign debt. This will peak during 1976, if not rescheduled. In terms of export earnings expected to be available, Chile now has one of the highest debt service ratios in the world. Unless relief is provided, debt service payments would absorb over one-third of anticipated 1975 export earnings. Half of this would go to the U.S.

### 5. The Payments Gap

A reasonable response to Chile's external economic pinch would be to reschedule debt service payments, and the Chilean government is assuming that this will be done. If this is successfully negotiated, the pinch will be reduced but not removed. A balance of payments gap of over \$500 million dollars is projected even with generous debt rescheduling.

In such circumstances, governments can normally take one of several courses of action. The first step is to dip into cash reserves. This is not an option for the Chilean government since such reserves do not exist. As 1975 began, net foreign exchange reserves were a minus \$504 million.

The second step is usually to borrow money abroad to bridge the gap until better times arrive. In this, too, Chile's maneuverability is limited. It is already heavily in debt, and the creditors of the world are not beating a path to its door with new loans. Some relief can be expected through the IMF. Both the World Bank and the Inter-American Bank have backlogs of potential loan projects, but these are slow to negotiate and slow to disburse. U.S. development lending has been limited by the Congress, and lending for food aid will be limited both by the action of Congress to put a ceiling of non-humanitarian food loans and the capacity of Chile to absorb U.S. food aid above normal commercial import levels. Loans from the New York or European money markets would be expensive, if available at all, but the changes that export credits can be obtained in the U.S. and Europe are fairly good. There have also been some feelers put out to see whether money could be obtained from the oil producing countries, but these have produced no positive results to date.

#### 6. Exports & Imports

After spending reserves and borrowing abroad, governments faced with a serious balance of payments problem usually take steps to expand exports where they can. Exchange rate adjustments can help in this effort. One of the first steps which the military junta took on assuming power was to devalue the escudo drastically, and devaluations have been occurring at short intervals ever since. This is partly responsible for the 47 percent increase in exports which occurred in 1974, and further increases can be expected in 1975.

While rising exports can be expected, the existence of a residual gap which can only be covered by holding down imports seems inevitable. Imports as well as exports are affected by exchange rate adjustments, and the continued regular devaluation of the escudo will probably be the government's first choice as a tool for keeping imports within foreign exchange availabilities. The junta has already reduced import tariffs significantly, and surely would be reluctant to reimpose them as a device to restrain foreign buying. Likewise, the imposition of quotas or other direct import restrictions would be contrary to announced economic policy of the junta and would be done only reluctantly. While such direct controls would tend to be taken

only as a last resort, they cannot be excluded if the situation deteriorates.

## B. Economic Prospects

With restrictions internally, and external availabilities far below expectations, the chances for significant economic growth are poor. The number of new jobs becoming available in the years immediately ahead will probably not be sufficient to absorb new entrants into the labor force, not to mention the re-absorption of those now out of work. Thus unemployment will tend to go even higher. The burden of this unemployment will fall on those least able to bear it -- on those already poor, unskilled, landless, poorly clothed and housed, and badly nourished.

### 1. Resource Requirements

Given Chile's unfavorable economic prospect in the near term, what role can A. I. D. play in Chile and how should it relate to other aid-giving entities both inside and outside the U. S. Government?

Chile's current economic situation is almost the classic case for program lending. First, the country's basic infrastructure is in place and its human resources are adequate, but the private sectors - agricultural and industrial - have been disoriented by the abrupt switches in policy during the last few years. They need time and resources to reestablish production and marketing patterns and refurbish their facilities. Outside assistance, both technical and financial, can help in this rehabilitation process. Second, without major outside financing, the rate of inflation which the junta inherited can be controlled only if tough measures are taken to reduce excess demand. Strong deflationary action will be necessary. Outside assistance can help mitigate the affects of this action until stability is re-established. Third, the shortfall in foreign exchange brought about by the fall in the price of copper will likely require some restriction in imports. Foreign exchange

which becomes available through assistance programs will help relieve this temporary shortage and permit imports of materials and equipment which otherwise would have to be deferred, thus prolonging the period before the country resumes its upward economic growth.

## 2. Possible Sources

Chile needs an injection of quick disbursing funds to help bridge these multiple, but probably temporary, crises. A.I.D.'s revised mandate precludes program lending, and in any event the amounts potentially available would not solve the problem. Other sources are available, however, which, taken together, would probably meet most of the need. Within the U.S. Government, concessional PL 480 sales serve the purpose and should be pressed vigorously. A generous level of Export-Import Bank credits could help maintain the flow of investment goods. OPIC guarantees should be encouraged, although private investments are unlikely to materialize quickly enough or in large enough volume to help much in the near term. In the international community, IMF already has an active client in Chile, and its credits are very appropriate to the occasion. IDB has a considerable backlog of potential projects; it should be encouraged to give priority to those which are likely to move quickly. The World Bank has been disappointingly slow in reacting to Chile's financial problems; perhaps some special consultations would speed up the process. While the multilateral steps being taken to mobilize oil money for re-lending are encouraging, it would not be prudent for Chile to rely on these efforts to open up a new source of funds; the bilateral route seems more promising for the immediate future.

## C. The A.I.D. Role

Given its present mandate and the likelihood that Congress will authorize only limited development loan funds for Chile, A.I.D. is restricted in the response which it can make directly to Chile's financial problems. Probably more important than any single thing which A.I.D. might finance is the fact that a

U.S. development assistance program is operating in Chile, and that this fact plus any persuasive forces that the U.S. can marshal, helps to encourage multilateral and other bilateral lenders to respond to Chile's near-term need.

Within the funds available and potentially available, and keeping in mind the mandate of the U.S. Congress to focus attention particularly on the poorest sectors of the country being aided, it is clear that A.I.D. can play a significant role in helping to rehabilitate the economy and alleviate some of the human distress which the current crisis has inevitably brought in its wake. In the financial stringency which accompanies any economic crisis, it is the poor man who suffers most. He is the first to become unemployed and the last to receive credit. His children may drop out of school and the quality of their diet decline as money becomes harder to come by. If public services are ended or suspended, he cannot replace them from his own pocket. A development assistance program can, in a modest way, help to alleviate some of this distress by focusing on developmental and humanitarian programs for the lower range of the population.

Opportunities for programs and projects of this nature are discussed in more detail in the pages that follow. They are oriented largely around the rural sector, but include some plans for housing and nutrition activities in urban areas.

## 1. The Rural Sector

Support to the rural sector has been given high priority by the Chilean government. The process of nationalizing large land-holdings is complete, and small plots of land are now being deeded to thousands of families. For centuries Chile's land was divided between a few hundred "latifundias" and thousands of "minifundias". The minifundias remain, but thousands of new small farmers are being created. In this process, long established employment, production, marketing, credit and investment patterns were profoundly disturbed. Many families are for the first time being required to make the critical decisions as to when and what to plant, where and when to sell and for how much, and what to pay for seed and fertilizer. The task of creating new institutions to serve the needs of these families or of adapting old institutions

to serve them, is now getting underway. Unless a new structure can be successfully established, the production potential which the land reform program was intended to generate will be lost. Production increased sharply in 1974, and seems to be continuing to increase, despite the uncertainties which have characterized the agricultural sector during the last few years. But unless inputs and credit to buy them can be made available regularly, and unless outlets for the increased production can be organized and made profitable, the promise of the land distribution program will have failed.

## 2. Cooperatives

The cooperative system in Chile seems to have considerable potential as a means of reaching the small farmers and handling his output. A number of potential A. I. D. projects have been organized around this system. Others are being organized around government agencies which are designed to serve specific types of farmers or specific areas, although caution has been exercised in this regard since the shape of the reorganized governmental structure to serve agriculture is not yet entirely clear. In all cases, an effort is being made to design projects and programs which will help small and poor farmers produce and market their crops.

## 3. Nutrition

Closely related to the food and agriculture sector are the problems of human nutrition. Malnutrition and poverty are almost synonymous, and any attack on malnutrition will almost by definition be directed at the very poor. Work is now going forward on a sector loan designed to improve the institutional capacity of the Chilean government to plan programs designed to alleviate or eliminate malnutrition. Meantime, private voluntary organizations are being encouraged to come forward with projects designed to target Title II funds specifically on the most vulnerable groups, and within the near future a major re-direction of these efforts can be anticipated. While there are no present plans for future lending in the nutrition sector, it is likely that the rejuvenated nutrition planning agency which will be supported by the loan now under discussion will be a fertile source for future program proposals.

#### 4. Housing

One of the economic needs most acutely felt by the poorer sections of the population in Chile is for better housing. Much of Chile is cold and rainy, and the head of the family cannot satisfy his requirements with a windowless, paperboard shack. He must have something that can be heated in some fashion.

During the social experimentation in Chile over the past twenty years, almost every type of housing program has been tried. Projects have ranged from "sites and services" to fairly comfortable middle class units in high-rise apartments. The savings and loan system has been remarkably successful, and has managed to survive in the midst of inflation by indexing its accounts. Cooperative housing has also flourished. Thousands of houses have been built and managed on cooperative principles, and a whole set of special institutions has grown up to serve their members. Public housing has received liberal financing but since the mortgages taken by the public agencies in payment for the houses delivered were not adequately indexed, buyers have received them virtually for free. The government is now taking a hard look at its housing policy, and at how much financial subsidy would be necessary for low income buyers. It is encouraging the formation of additional cooperatives, and while it is insisting that mortgages be indexed, it is prepared to provide some subsidy of interest. Discussions are underway as to how the U.S. housing guarantee program could be harnessed into this effort. If a successful arrangement can be worked out, the market would probably be ready to accept several housing guarantees over the next few years.

The problem of how to provide housing to people who have little or no money left after they buy their food is as acute in Chile as elsewhere. The "sites and services" solution has had some limited success in Chile, but the junta has decided that, at least in the urban areas, separate housing is too costly in terms of land and services and that henceforth it will be discouraged. It is difficult if not impossible to build multiple dwellings through self-help. In the rural areas, however, this technique can be utilized, and discussions are underway to try

to develop a series of pilot programs which hopefully can be widely replicated.

5. Health and Family Planning

Since public health and family planning services are already at a fairly advanced stage in Chile, no major activities in either area are foreseen. Opportunities may develop, however, to assist in water and sanitation programs, particularly in the rural areas and small town. It is remarkable that sewage is not treated even in the densely populated area of greater Santiago. Discussions are already underway with other lenders on plans for Santiago, but the threat to health which untreated sewage poses in the smaller cities remains. Likewise, a large proportion of the rural dwellings lack a covered water supply and toilet facilities. A pilot project in this area which might later be made nation-wide would potentially serve the needs of thousands of poor rural families.

6. Education

The need for outside assistance in the field of education has been carefully examined, and no activities are likely to be proposed. By developing world standards, Chile's educational system is already far along. Literacy is almost universal, as is the availability of primary education. Only at the post-graduate doctoral level are facilities lacking, and it is probably prudent for Chile to rely on outside training to fill this gap rather than attempting to do the training at home.

D. Summary

None of the activities now envisaged for A. I. D. in the near-term future will do much to solve Chile's massive short-term balance of payments problem. Other means will have to be employed, and the U. S. can, through its leadership, help to get them employed. However, A. I. D. activities can help to alleviate some of the dislocations which are bound to occur as a result of that problem. Unfortunately, these dislocations will have to

be added to those which have already occurred as a result of the heritage of the Allende years and the belt-tightening since September, 1973. The worst probably still lies ahead. In the battle against inflation, it will become more and more difficult to identify expenditures which can be cut. And in the external field it will become increasingly difficult to identify imports which can be dispensed with or exports which can find a market. In both efforts, the presence of an A. I. D. effort will provide some reassurance to those Chilean authorities who are determined to move the economy forward without resort to the extreme measures taken by their predecessors. A. I. D. assistance can provide selective inputs of financial and technical assistance which will help alleviate immediate distress, overcome some of the most acute problems left in the economic shambles of the Allende regime, and get the economy rolling again.

## II. The Economic Perspective

### A. OVERVIEW

Chile possesses adequate natural and human resources to provide a satisfactory standard of living to its population. There is tremendous mineral wealth which remains to be exploited; the full potential of the arable land has yet to be achieved; and the reservoir of nutritious food along the long sea-coast has not yet been fully tapped. There appear to be good prospects for natural gas and petroleum exploitation but the exact nature, location, and value of the deposits have not been determined.

The country's infrastructure -- highways, ports, railroads, telecommunications and irrigation systems -- is adequate and with some additional investment could support a higher level of economic activity.

The existence of adequate natural resources, satisfactory infrastructure and a trained labor force have all contributed to the present standards of living of the Chilean population. In CY 1970, per capita income was estimated to have reached U.S. \$700. However, political developments of the same year, and experimentation with radical economic policies in the three years thereafter, seriously affected the growth and stability of the economy. The dislocation caused by the adoption of "new" policies resulted in a decline in output, supply shortages, the disappearance of private capital inflows and, ultimately a serious erosion of the economic base. Real national output stagnated during 1972 and experienced a sharp drop in 1973.

The September 1973 military coup brought to an end the radical economic policies of the previous government, and various efforts to ameliorate some of the problems that were the direct result of those policies are underway. The first step taken was to free most markets from government controls and to let prices seek their own levels. Subsequently, efforts to raise national investment through the adoption of a proper mix of fiscal and monetary policies were undertaken. In addition, the international exchange rate for the over-valued escudo was adjusted, and further adjustments have since been made to keep the escudo's value in line with domestic price rises. On

January 30, 1974, the Minister of Economic Affairs made the following statement concerning the GOC's policy on exchange adjustments in his remarks to the Sub-Committee of the Inter-American Committee on the Alliance for Progress (CIAP):

"The foreign exchange position was drastically overhauled by establishing approximately the same values as those prevailing at the end of 1969, simplifying its structure through the adoption of only two exchange rates, and reinitiating a policy of frequent minor devaluations, thus reverting to a policy guaranteeing its real value".

The thrust of the Junta's economic policies is to encourage rapid, sustained economic growth by creating an atmosphere for increased private investment, with emphasis on stimulating production in the mineral and agricultural sectors.

In addition, specific programs are being prepared to invite foreign investment back to Chile, redirect private investment and undertake institutional reforms to foster the growth of a more vigorous private sector.

#### B. CURRENT ECONOMIC SITUATION

The policy measures introduced since September, 1973, and the absence of political dissension have helped Chile increase its copper and agricultural production as well as the output of most other sectors. The latest estimates for 1974 indicate that real GDP increased by 5-6 percent during the calendar year. However, external economic developments, i. e., high prices for imports and low prices for Chilean exports, have made it difficult for the nation to regain the standard of living that prevailed in earlier years.

The price of oil and petroleum products has quadrupled, and prices of agricultural imports have gone up significantly, but the price of Chile's major export -- copper -- has declined by more than 50 percent from the mid-1974 level. Consequently, the nation's ability to pay for essential imports has been seriously reduced. At the same time, many of the medium and long-term

loans contracted during the 1960s now require servicing. Although some of these loans were rolled over or refinanced in 1972, 1973 and again in 1974, the country is still unable to import with its own resources the consumer and capital goods that it needs to resume upward economic growth.

#### 1. Inflation

Fluctuations in the international price of copper, the main export of Chile, also affect internal price levels in several ways. Government revenues decline with the price of copper, and the public deficit increases. These deficits, when financed through Central Bank sources, lead to further inflationary pressures. Similarly, large receipts of revenue from copper sales tend to push public expenditures upward, with similar upward pressure on prices.

Partly because of the above, but mostly because of the radical economic policies of the Allende government, the Consumer Price Index shot up by 163.4 percent in 1972 and 508 percent in 1973. The Junta's new economic policies, coupled with higher income from copper exports, succeeded in restraining upward movements in price rises somewhat during 1974, when the CPI increase was reported to be 376 percent. GOC officials say privately that they expect the CPI to rise by only 100 percent in 1975, but outside economists regard these projections as extremely optimistic, and probably unachievable.

The GOC is aware of the consequences of such abnormal inflation but has hesitated to take the harsh measures necessary to contain it within a short period. For instance, the recently enunciated income policy of the GOC requires that wages and salaries of all workers be adjusted upward each quarter, in exact proportion to the changes in the CPI during the preceding quarter. If commercial and industrial organizations pass these cost increases on to their customers, as they will have to do if they want to remain solvent, prices and wages will continue to chase each other upward. At the same time, increasing wages will create additional demand for consumer goods (which will likely remain in short supply for the next several years), and push prices to still higher levels.

## 2. Balance of Payments

### a Allende Period

Following several years of steady improvement in the overall balance of payments, the expansionary policies of 1971-1972, coupled with adverse external factors (i. e., decline in the price of Chilean exports and increase in the prices of Chilean imports), and the virtual disappearance of foreign private investment, led to a dramatic downturn in Chile's performance. In 1971, the net international reserves of the banking system declined to minus U.S. \$305 million whereas during the preceding three years they had increased by an average of \$150 million per year. The situation worsened further in 1972, when reserves dropped to minus \$328 million despite Chile's receipt of \$18 million in SDRs and \$213 million in debt relief. Debt relief of \$356 million<sup>1/</sup> was accorded Chile again in 1973, but a loss of \$231 million<sup>1/</sup> occurred in its reserve position, and its net foreign exchange reserves dropped to minus \$504 million.<sup>2/</sup>

Several factors contributed to the worsening of the balance of payments situation during the Allende government. Copper exports declined in volume in 1972<sup>3/</sup>, and the continuous decline in the international price further reduced Chile's foreign exchange earnings. Mineral exports other than copper, which had remained practically unchanged throughout the late 1960s, also declined significantly in 1972. This situation was worsened by the termination of a major iron ore export contract with Japan, and by a fire in an iodine processing plant. These events led to sharp drops in shipments of iron ore and iodine.

At the same time the average price of Chilean imports rose by 7.5 percent in 1971 and an additional 9 percent the following year. High agricultural imports were also necessary as a result of the failure of the agricultural sector to meet domestic food requirements. Food imports were \$165 million in 1970, and \$260 million, \$405 million and \$595 million respectively for the

<sup>1/</sup> IBRD, "Special Report on the Chilean Economic Outlook", October, 1974.

<sup>2/</sup> Embassy Airgram: Santiago A-233, December 11, 1974.

<sup>3/</sup> IBRD, ibid, Table 3.9

three succeeding years. In 1973, "food" (agricultural commodities, meat, etc.) accounted for 37 percent of total imports.

The capital account deteriorated sharply in 1971 and 1972, as long-term private investment disappeared, short-term foreign bank credit dried up, and the servicing requirements of the external public debt rose sharply when grace periods on large medium-term loans expired. Unable to meet payments on these loans, the Chilean Government requested rescheduling of the debt service. On April 19, 1972, the Paris Club<sup>1/</sup> agreed to debt relief on 70 percent of the debt falling due November 19, 1971 through December 1972. In 1972 Chile also rescheduled its repayments to U.S. private banks.

In addition to long-term borrowings, the Allende government sought increased suppliers' credits and short-term loans from non-traditional foreign sources. Short-term liabilities expanded enormously during 1972 and 1973 as follows:

Short-term Foreign Liabilities  
(\$ million)

	End of				
	1969	1970	1971	1972	1973
Central Bank	96	42	106	230	469
Commercial Banks	45	50	93	233	351
Total	141	92	199	463	820

<sup>1/</sup> Members of the so-called "Paris Club" are Belgium, Canada, Denmark, France, West Germany, Italy, Japan, Netherlands, Spain, Switzerland, United Kingdom and United States.

Balance of Payments Summary 1965-1973

(\$ millions)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
1. Exports f. o. b.	1,173	1,112	985	858	1,323
2. Imports	927	1,001	1,085	1,285	1,608
3. Trade balance	245	111	-100	-427	-285
4. Non-factor services	-27	-26	1	21	-36
5. Resource gap (- = inflow)	218	85	-99	-406	-321
6. Net factor payments	-229	-189	-121	-95	-125
7. Current account balance	<u>-11</u>	<u>-104</u>	<u>-210</u>	<u>-501</u>	<u>-446</u>
8. Donations	23	16	21	12	8
9. Private Capital, net	47	--	--	--	33
10. Public medium and long term loans	266	368	31	9	-117
11. Errors & omissions	-153	-191	-200	-70	-65
12. Allocation of SDRs	-	21	17	18	--
13. Total	172	110	-341	-532	-587
14. Debt Relief	-	-	40	213	356
15. Reserve movements <sup>1/</sup> (- = increase)	-172	-110	301	319	231

<sup>1/</sup> IBRD definition. These figures are slightly lower than the comparable figures of the Central Bank of Chile.

Source: Central Bank of Chile

b. Present Position

The new government's price liberalization policies -- to encourage competition and production -- as well as its efforts in mining and its open attitude toward foreign investment, point to an export-oriented strategy, in contrast to the import substitution policies followed in the past. Immediately after September, 1973, the Junta reorganized the management of the copper mines, required miners to work 44 hours a week and made foreign exchange available for replacement parts and equipment. As a result, the volume of copper produced increased substantially.

The government is trying to hold down imports of consumer goods and agricultural commodities, by encouraging domestic production. Intermediate and capital goods imports, however, are permitted to rise in accordance with the growth requirements of the economy and Chile's ability to borrow from external sources.

Chile should be able at least partially to correct its adverse balance of trade by increasing exports and stabilizing imports. However, as a result of increasing prices for imports, especially oil, and heavy interest payments on external debt, the current account position is likely to remain negative for the immediate future. The IBRD<sup>1/</sup> estimates that Chile's current account will be critical throughout the remainder of this decade. The overall balance of payments deficit, based on current projections, is expected to reach \$586 million during 1975.<sup>2/</sup>

c. International Trade

1 ) Exports

Copper and mining products play a dominant role in Chile's international trade and constitute 70-80 percent of its total exports. In 1972 total mining exports amounted to \$734 million; in 1973 they rose to \$1,188 million and in 1974 to \$1,641 million. For 1975, current projections are that these exports will total \$1,606 - \$1,621<sup>2/</sup> million. It may be added, however, that any

<sup>1/</sup> IBRD, *ibid*, p. 79

<sup>2/</sup> Embassy telegram: Santiago 0098 of January 7, 1975.

projections of export earnings from copper have to be viewed with caution. International prices for this commodity are erratic and dependent on many variables. Fully aware of these fluctuations and the difficulty of relying on the income from this one product for long-term investment planning, the GOC has begun to promote non-traditional exports. However, a significant reduction in Chile's dependence on copper cannot be expected in the near future.

## 2 ) Future Prospects

The IBRD projects that the biggest increase in exports, in terms of volume, will take place in the category of manufactured goods. These are expected to increase 270 percent by 1980 from the 1972 level. Next will come increases in exports of molybdenum, copper and iron ore in descending order. The pragmatic policies of the present government and future adjustments in exchange rates are expected to bring about the projected growth in these export-oriented sectors and industries.

If these export projections are converted into dollar values<sup>1/</sup> however, copper remains by far the principal foreign exchange earner. Industrial, agricultural and fishery products will generate larger foreign exchange earnings than previously, but these will not be financially very significant. Most of the increased production of industrial and agricultural products will be used for domestic consumption. Fisheries do have a potential and fish exports could grow at a much faster rate than projected, but it is unlikely that adequate resources could be diverted to this sector in the near-term.

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<sup>1/</sup> At 1972 constant prices.

Actual and Projected Exports1972 - 1980

Volume Indices 1972 = 100

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
	Actual				Projected				
Copper									
Primary	100	108	128	141	148	156	162	169	181
Iron Ore	100	-	120	190	140	140	160	160	160
Nitrate and									
Iodine	100	95	120	125	125	125	135	135	135
Molybdenum	100	90	90	100	150	200	280	280	280
Primary Ag.									
Products	100	88	95	105	110	115	120	125	130
Manufactured									
Goods	100	87	132	182	246	285	312	338	370
Total Goods	100	104	125	142	154	165	174	182	195
Non Factor									
Services	100	69	99	99	99	99	99	99	99

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 Source: IBRD, *ibid*, Table 3.8

ACTUAL AND PROJECTED  
EXPORTS<sup>1/</sup>

1972 - 1980  
(\$ million)

	1972	1973	1974	1975	1976	1977	1978	1979	1980
	1972 Prices								
Mining Products:	734	785	931	1,208	1,077	1,133	1,188	1,234	1,313
Copper	<u>658</u>	<u>711</u>	<u>842</u>	<u>928</u>	<u>974</u>	<u>1,027</u>	<u>1,066</u>	<u>1,112</u>	<u>1,191</u>
All other	76	74	89	100	103	106	122	122	122
Agricultural and - Fishery Products:	18	16	17	19	20	21	22	23	23
Industrial Products:	82	71	108	149	202	234	256	277	303
All other Goods:	23	17	20	22	23	24	25	28	30
Total Goods:	<u>858</u>	<u>889</u>	<u>1,076</u>	<u>1,218</u>	<u>1,322</u>	<u>1,412</u>	<u>1,491</u>	<u>1,562</u>	<u>1,669</u>
Non-factor Services:	<u>144</u>	<u>100</u>	<u>143</u>						
Total Goods & NFS:	<u>1,002</u>	<u>989</u>	<u>1,219</u>	<u>1,361</u>	<u>1,465</u>	<u>1,555</u>	<u>1,634</u>	<u>1,705</u>	<u>1,812</u>

<sup>1/</sup> Adapted from IBRD, *ibid*, Table 3.8

### 3) Imports

Until 1973, Chile's major imports were raw material and intermediate goods for the industrial sector, followed by capital goods. In 1970, for instance, "intermediate goods" constituted 41 percent and "capital goods" 29 percent of all imports. The situation changed dramatically during the Allende regime when the value of "food" imports overtook "intermediate" goods: in 1973 food imports were valued at \$595 million and intermediate goods at \$594 million. Price rises have influenced the value of petroleum imports, which until 1970 were only \$29 million but in 1974 rose to \$410 million.<sup>1/</sup>

<sup>1/</sup> IBRD, *ibid*, Table 3.2

ACTUAL AND PROJECTED IMPORTS

1972 - 1980

( Million US \$ )

Imports CIF	1972	1973	1974	1975	1976	1977	1978	1979	1980
	Current Prices			1974 Prices					
1. Food <sup>1/</sup>	405	595	564 <sup>e</sup>	595	568	557	552	564	574
2. Other Consumer Goods <sup>2/</sup>	76	64	70 <sup>e</sup>	73	77	81	85	89	93
3. Petroleum	65	120	410 <sup>e</sup>	459	513	554	530	530	506
4. Other Inter-mediate goods <sup>3/</sup>	515	594	649 <sup>e</sup>	688	729	773	819	868	920
5. Capital Goods <sup>4/</sup>	224	285	550	577	606	637	688	743	802
6. Total Goods	1285	1,608	2,243 <sup>e</sup>	2,393	2,497	2,601	2,674	2,797	2,897

e: USAID Estimate

<sup>1/</sup> Assuming serious efforts by the Government to continue increasing domestic food production.

<sup>2/</sup> Real growth projected at 5 percent per year.

<sup>3/</sup> Projected to grow by 6 percent per year.

<sup>4/</sup> Projected to grow by 5 percent per year through 1977; at 8 percent per year thereafter.

Source: Adapted from IBRD, *ibid*, Table 3.7

#### 4) Future Prospects

Assuming no major changes in the political climate and continuation of the free market policies of the present government, imports of finished consumer goods should rise only slightly. Realistic exchange rates should make the prices of domestically produced goods competitive with imports, thereby reducing the need for such imports. Similarly, imports of petroleum should stabilize at current levels, or increase very little. It may be added that the IMF has identified Chile as one of the LDCs most affected by higher oil costs.

Imports of agricultural commodities should decline as a result of increased domestic production. The government also hopes to reduce imports by encouraging increased consumption of certain domestically produced commodities, e. g., potatoes and fish, which are available in large quantities. In 1974 "food" imports, at least in quantitative terms, were already lower than in the preceding year.

Based on the foregoing assumptions, import projections are shown in the following table. To eliminate the problem of price fluctuations, import prices are held constant at the 1974 level.

#### 3. External Debt Situation

Chile's public and private external debt with government guarantee is estimated to have been around \$3.0 billion<sup>1/</sup> on December 31, 1973. Around \$2.8 billion of this total is repayable in foreign currency. The most important creditor countries are the United States, the Federal Republic of Germany, the United Kingdom and France. Among the international financial institutions, the IBRD leads others with outstanding loans of \$129 million.

<sup>1/</sup> Disbursed amounts only. If undisbursed loans are included, the total debt outstanding would amount to \$3.7 billion.

1/

External Public Debt Outstanding December 31, 1973

Disbursed Amounts Only  
Million Dollars

<u>Total External Public Debt</u>	<u>\$3,082</u>
<u>Creditor Country</u>	
U. S. A.	\$1,135
Germany	154
United Kingdom	53
France	50
Canada	36
Italy	32
Netherlands	20
All Others	148
 <u>International Organizations</u>	
IBRD	129
IDB	43
IDA	22
<u>All Others</u>	<u>\$1,260</u>

A significant portion of the public and publicly guaranteed debt was contracted in the second half of the 1960s. Between the beginning of 1968 and the end of 1971, the outstanding amount of disbursed debt, repayable in foreign currency, increased from \$1.2 billion to \$2.1 billion. This large increase was accompanied by some deterioration in maturity structure. Thus, at the end of 1971 an estimated 53 percent of the external debt (including undisbursed portion) had an original maturity of more than 15 years, as against 60 percent at the end of 1965.

Annual service on external debt rose from \$238 million in 1969 to \$561 million in 1973, or almost 40 percent of total exports of goods and services.

Unable to meet these large obligations, the GOC concluded rescheduling agreements with its major creditors. Thus in 1973, \$356 million of amortization and interest payments were deferred 2/

1/ IBRD, *ibid*, Table 4.1

2/ IBRD, *ibid*, Table 3.10

until later years, and on March 25, 1974, the representatives of some nine creditor countries agreed to reschedule amortization and interest payments due in 1973 and 1974 for the same category of loans covered in the 1972 agreement.

<u>External Debt Indicators</u>		(\$ million)				
		<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
1.	Gross Borrowing (disbursements)	454	530	226	257	321
2.	Amortization Paid	188	162	161	94	163
3.	Amortization Deferred	-	-	34	154	275
4.	Interest Paid	50	71	75	34	42
5.	Interest Deferred	-	-	6	59	81
6.	Foreign Exchange Gain or Loss and Other Adjustments	-1	(-)39	(-)28	-82	-90
7.	Total Debt Outstand- ing Excluding Un- disbursed (end of year)	<u>1,660</u>	<u>2,067</u>	<u>2,200</u>	<u>2,658</u>	<u>3,082</u>
8.	Exports of goods and non-factor Services	1,307	1,268	1,132	1,002	1,443
9.	Debt-service Ratio in % (2 3 4 5): (8)	18.3	18.4	24.4	34.0	38.9
10.	Paid Service in % of (8)	18.3	21.4	20.9	11.6	14.2

Source: Central Bank of Chile and USAID estimates.

Chile faces very heavy external debt obligations during the next few years, particularly during 1976. The debt service on existing foreign debt would peak, assuming normal copper export earnings, at about 25 percent of export receipts over the next five years and decline gradually thereafter to below 20 percent by 1985. The magnitude of these ratios may, however, change due to new borrowings and the rescheduling of some of the existing loans, or price of copper.

#### 4. Fiscal Policies

With the exception of 1969, government budgets in Chile have for several decades registered overall deficits. Before 1970, these deficits were rather minor and could be attributed to fluctuations in the international price of copper, ambitious capital investment programs, or expanding social service payments.

Central Government Operations 1965-1975  
(Millions of Current Escudos)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Current Revenues	3,209	4,898	6,312	8,758	13,069	19,309	23,924	38,375	200,200	1,400,067
Current Expenditures	2,609	3,678	4,696	6,531	9,142	15,360	26,396	50,800	220,100	1,031,791
<u>Current A/C Surplus</u>	<u>600</u>	<u>1,220</u>	<u>1,616</u>	<u>2,227</u>	<u>3,926</u>	<u>3,949</u>	<u>-2,471</u>	<u>-12,425</u>	<u>-19,900</u>	<u>368,276</u>
Capital Revenues	-0-	-0-	-0-	-0-	112	226	511	1,018	12,800	12,233
Capital Expenditures	1,160	1,715	1,836	2,600	3,683	5,391	8,165	12,925	74,600	583,803
<u>Capital A/C Surplus</u> or <u>Deficit</u>	<u>-1,160</u>	<u>-1,715</u>	<u>-1,836</u>	<u>-2,600</u>	<u>-3,571</u>	<u>-5,165</u>	<u>-7,654</u>	<u>-11,907</u>	<u>-61,800</u>	<u>-571,570</u>
<u>Net Surplus</u>	<u>-561</u>	<u>-495</u>	<u>-220</u>	<u>-373</u>	<u>356</u>	<u>-1,217</u>	<u>-10,125</u>	<u>-24,332</u>	<u>-81,700</u>	<u>-203,294</u>
<u>Deficit</u>	<u>561</u>									
<u>Borrowing</u>										
Domestic (Net)	209	141	295	491	-37**	2,269**	11,571	24,934	87,000	88,968**
Foreign (Net)	352	354	-75	-117	-370**	-1,070**	-1,446	-603	-5,300	120,308

\* Less than one million

\*\* Contains discrepancies

a. Developments during 1970-1973

During the Allende administration both current and capital account operations started registering very large deficits. The government expropriated some 300 manufacturing firms, fully<sup>1/</sup> nationalized the five major copper mines, expropriated all private banks, and conducted one of the world's most drastic land reforms. In addition, newly nationalized or expropriated firms were forced to hire additional workers without regard to their needs for extra hands. Since their financial operations were subsidized, the nationalized corporations went along with government dictates. However, real revenue from corporate income taxes dropped with declines in corporate profits.<sup>2/</sup> Similarly, real receipts from transaction taxes, copper taxes and taxes from other commercial sources all fell significantly. The result was a substantial increase in the public sector deficit.

In the international capital market, Chile's normal sources of foreign credit dried up. The government was forced to borrow heavily from domestic sources, mainly the Central Bank, to finance its public sector deficits. A rapidly expanding money supply, lack of confidence in the government, supply shortages and general unrest all contributed to the strengthening of inflationary pressures.

b. Present Policies

Since September, 1973, the new government has instituted measures designed to eliminate the current account deficit; in FY 74 it tried to generate a current account surplus exceeding E°350 billion. In 1975 it plans to generate an even larger surplus by reducing or eliminating large-scale subsidies to several of the decentralized corporations. Some unprofitable entities which are unlikely to operate without excessive subsidies will be sold or otherwise disposed of. Others will be reorganized and their operations combined to reduce unnecessary expenditures. However, the overall<sup>3/</sup> 1975 budget will generate a substantial deficit

<sup>1/</sup> The previous government had acquired part ownership rights in these mining companies.

<sup>2/</sup> IBRD, *ibid*, p. 15.

<sup>3/</sup> Current and capital accounts combined.

of 11 percent in the escudo account and 59 percent in the foreign exchange account.<sup>1/</sup>

The most important feature of the fiscal policy is an attempt to balance the central government budget. The GOC has mounted a two pronged attack on budget deficits: taxes will be increased and expenditures are being cut back. The new taxes, combined with more stringent enforcement, are designed to increase the GOC's revenues substantially. Prospective revenue increases alone could not come close to covering the large deficit, and the GOC has also been making efforts to cut expenditures.

To do this, the GOC has decreed a 15 percent cutback in real outlays for most agencies below 1974 approved budget levels. This will be realized principally through a retrenchment in public employment of approximately 47,000 people by December 31, 1975.

#### 5. Income Distribution and Poverty

Although current figures are not obtainable, it is believed that income distribution in Chile is highly skewed. In 1970, the highest quintile of Chilean households received around 58 percent of the national income. According to the 1970 census, 21 percent of the population, or 1.9 million persons, were then living in "extreme poverty," meaning that they were unable to provide themselves with adequate food, nutrition, shelter and other necessities of life<sup>2/</sup>. Of this total, 1.3 million were in urban areas and 616 thousand in rural areas. These numbers may have expanded due to the decline in GDP, inflation, and other disturbances that the economy suffered as a result of the policy experimentations of the Allende government. A geographic profile of poverty among the rural population in 1970 is given in the following table.

<sup>1/</sup> See Airgram, Santiago A-5 of January 10, 1975, on Central Government Budget for 1975

<sup>2/</sup> The "poor" for purposes of this analysis were defined as those who did not possess certain minimum necessities of life. Several experts question the validity of this "asset" approach and would have liked to see the "incomes" approach utilized for this analysis. Consequently the conclusions lack universal acceptability.

TABLE ON POVERTY <sup>1/</sup>

Province	Rural Population (thousands)		
	Total	Classified as Poor	Poor as % of Total
Tarapacá	15.4	6.3	40.9
Antofagasta	8.6	2.5	29.1
Atacama	24.0	9.4	39.2
Coquimbo	134.2	56.4	42.0
Aconcagua	63.9	20.2	31.6
Valparaíso	62.7	14.7	23.4
Santiago	211.8	53.1	25.1
O'Higgins	136.0	32.8	24.1
Colchagua	107.0	26.4	24.7
Curicó	61.7	17.3	28.0
Talca	111.7	31.2	27.9
Maule	45.8	13.3	29.0
Linares	110.4	34.2	30.9
Ñuble	167.3	48.9	29.2
Concepción	93.7	28.9	30.8
Arauco	48.9	14.1	28.8
Bio-Bio	96.9	24.4	25.2
Malleco	84.0	27.9	33.2
Cautín	218.0	70.7	32.3
Valdivia	129.6	27.6	21.3
Osorno	73.7	15.0	20.4
Llanquihue	99.7	19.4	19.5
Chiloé	75.7	13.4	17.7
Aysen	17.7	5.8	32.8
Magallanes	12.7	1.9	14.9
TOTALS	2,211.1	615.8	27.9

<sup>1/</sup> ODEPLAN (Government Planning Office) October, 1974.  
Based on 1970 Census of Population.

## 6. Employment and Unemployment

### a. Labor Force

Complete or reliable details about the Chilean labor force, and the levels of employment, unemployment and under-employment are not available from any source. Estimates made by different scholars and research organizations and based on small sample surveys or on extrapolations of the census of population conducted in 1970 are available, but the differences among them are quite large. The following discussion is based on what is believed to be the best data available.

Some 39.1 percent of the Chilean population is less than 15 years of age and 6.0 percent is above 65 years<sup>1/</sup>. Thus, 45.1 percent of the total population is not employable. Another 25-30 percent, because of personal preference, physical condition, qualification, location, etc. is not actively seeking employment and is not counted in the labor force. The labor force in Chile may thus be estimated to be around 30-34 percent of the total population, or roughly 3.3 million.

Smallness in size is, however, offset by high quality. With a 90 percent literacy rate, good food and a healthy climate, the average productivity of Chilean workers is high by Latin American standards. A majority of the labor force is employed in the "Services" sector<sup>2/</sup>; industry provides employment to 25 percent of the total labor force, and agriculture 21 percent.

Labor Force: 3.3 million

<u>Employment by Sector</u>	<u>Percentage</u>
Services	54
Industry	25
Agriculture	<u>21</u>
Total	100

<sup>1/</sup> Based on Sample Survey of OAS: "América en Cifras-1974".

<sup>2/</sup> Including government, commerce and professions -- doctors, teachers, etc.

b. Unemployment

For Santiago and the metropolitan area of Concepcion, Talcahuano, Lota and Coronel, the University of Chile <sup>1/</sup> collects data on employment and estimates levels of unemployment based on small, well-designed, sample surveys. These estimates indicate that unemployment in greater Santiago was around 3.6 percent of the labor force in 1972, mainly as a result of expanded employment in the public sector. After the present government came to power and adopted austerity policies to control inflation, however, the number of unemployed began to swell in both urban and rural areas. Unemployment in greater Santiago increased from 3.6 percent in 1972 to 7.0 percent in 1973 and 8.3 percent in September of 1974. It continued to rise further during the later part of 1974 and in February, 1975, appeared to have reached 15 percent.<sup>2/</sup> Similar figures from other metropolitan areas are not available, although it may be assumed that a similar trend has developed in those areas. The government is cognizant that unemployment is running at high levels and is seeking ways and means of generating additional employment consistent with its goal of economic and price stability. It may now be prepared to trade off some measure of inflation to make sure that the unemployment situation does not worsen.

Reliable estimates of under and unemployment in rural areas are not available, although many economists assume them to be around 25-35 percent of the labor force.

c. Incomes Policy

In order to protect the real income of employed workers, the GOC has decreed that future wage and salary adjustments will be made at intervals of three months and will be in direct proportion to changes in the consumer price index during the preceding three months. Based on this formula it has been announced that salaries and wages of all workers will go up by 33.1 percent effective March 1, 1975<sup>3/</sup>.

<sup>1/</sup> The National Institute of Statistics (INE), a GOC agency, also collects employment/unemployment data, but its conclusions are questioned by experts. See Airgram Santiago A-30 dated Feb. 5, 1975.

<sup>2/</sup> See Airgram Santiago A-30 dated February 5, 1975.

<sup>3/</sup> "El Mercurio" and other local newspapers in Santiago, Feb. 5, 1975.

### C. GOVERNMENT DEVELOPMENT PROGRAMS

In view of its stringent financial position, Chile could profit from the preparation of a public investment program which took into account the availability of domestic and external financing, the institutional capabilities of the public sector agencies and, in terms of investment levels and focus, responded to sectoral development needs. No such program has yet been prepared. What has emerged recently is a series of broad sectoral investment priorities which have yet to be integrated into a cohesive economic development plan.

The investment program can be divided roughly into two phases: rehabilitation to overcome deficiencies which had developed during the Allende period, and medium- and longer-term investment programs to stimulate new and more rapid economic growth.

Highest priority in terms of investment needs is assigned to the agriculture, mining, energy and housing sectors. Complete agreement on these priorities does not, however, appear to exist in all government agencies. ODEPLAN assigns to transportation a priority equal to housing. In agriculture the objective is to raise the rate of increase in domestic production and make the nation self-sufficient at least in some food items. The government seems prepared to make large investments to achieve this goal. The energy sector is also accorded a high priority; large-scale investments in the development of petroleum, coal and natural gas resources are planned. Among other sectors, mining has been identified as in need of substantial investment, especially beginning with 1976 when higher copper prices may justify expanded production.

At this stage, the junta appears to have no clear idea as to how the resources required for new investment will be obtained, or what means and mechanisms will be used to boost private sector investment to projected levels. On balance it can be concluded that, while the government has generally made its priorities known, it has not yet taken the hard decision about how much financing is to go where, and how soon.

Excerpts from the Six Year Indicative Plan may be seen at Annex III.

#### D. EXTERNAL ASSISTANCE

The continuing depression in the international markets for copper, Chile's major export, abnormal increases in the prices of Chile's major imports -- petroleum, food and intermediate goods --, and the servicing of huge external debts that the country had accumulated in the past, make it difficult for Chile to import all the essential consumer and capital goods that it needs to sustain the present, depressed, momentum of the economy, much less undertake serious reconstruction and the economic development programs mentioned above. As 1975 opens, Chile faces a balance of payments gap of sizeable proportions. Assistance anticipated from the international community, i. e., loans from the international financial institutions and friendly governments, will not bridge the gap. Opposition to providing financial assistance to Chile has appeared in several Western European countries which have been traditional sources of credit, and spokesmen for these countries have also made their views known to the international financial institutions.

So far, Chile's principal source of outside financing has been the International Monetary Fund which has extended "standby" and "oil facility" credits aggregating some \$200 million. Debt rescheduling should provide another \$250-300 million relief. The World Bank (IBRD) and the Inter-American Development Bank have several projects under consideration but a substantial gap will still have to be financed through additional loans from friendly nations and commercial sources. If the gap is not filled, Chile may have to restrict its imports which, as stated above, would lead in turn to a further decline in employment and income levels of the Chilean population -- hurting mostly the poor and the middle class. The latest available information about the likely magnitude of official financial and technical assistance is summarized below.

The World Bank recently approved a \$20 million agricultural credit loan to the Central Bank for relending to farmers through the banking system. It is now considering a second agricultural

loan of \$60 million to CORFO for programs in three areas -- continuation and expansion of a livestock improvement program begun in 1961 (and previously assisted with World Bank funds), and quality improvements and expansion in the fruit production and viticulture areas. Other possible IBRD credits are \$30 million for copper mining and refining and another \$30 million for generation of electricity.

The IDB has made a \$22 million agricultural credit loan to the Banco del Estado and is presently considering loans for two irrigation projects which would total \$45-50 million. The IDB is also considering a loan that will provide \$55 million for a natural gas liquification facility and pipeline. Other possibilities on the IDB shelf are Forestry \$15 million, Santiago Water Supply \$15 million, Industrial Development \$10 million with a possible \$30 million follow-up, Secondary Roads \$15 million, and a reportedly low priority Telecommunications project with a \$23 million price tag.

The U. S. Export-Import Bank provided \$21 million of direct loans and an additional \$360 million of guarantees in 1974 and presumably will provide about the same level in 1975 although no final decision is likely to be made until after the Paris Club meeting in March, 1975.

Germany has recently reconfirmed a DM 21 million (\$8.6 million) export credit and the Andean Development Corporation has provided \$7 million for export development. Other countries, such as Spain, may also provide limited financing of this type. The only remaining potential source of financing, aside from the OPEC countries, is private foreign banks.

In the technical assistance area, in 1974 the UNDP and various U.N. Agencies were assisting some 35 diverse social and economic development projects employing a total of 120 technical experts with financial inputs estimated at \$3.9 million. Total U.N. technical assistance over the next five years is projected at about ten million dollars, mostly in the form of technical expertise and much in the agriculture and nutrition areas. As mentioned previously, there is no significant bilateral or multi-lateral assistance from other sources.

### III. A.I. D. ASSISTANCE PROGRAM

An assessment of the Chilean economy to determine those areas upon which AID should focus its assistance program in order to make it responsive to the most pressing problems confronting the "poorest majority" of the population reveals that:

(1) First priority should go to the Food and Nutrition area, with particular emphasis on agricultural problems affecting small farmers and on the nutritional deficiencies of Chile's lowest income groups;

(2) in the Selected Development Problems category, a critical housing shortage, particularly among the poorer segment of the population, is an appropriate area for a U.S. assistance response; and

(3) there is little need or real opportunity for effective assistance in AID's other two principal areas of specific concern -- Education and Health.

Food & Nutrition. In the case of agriculture, even historically, Chile's agricultural production has not kept pace with the nation's growing food requirements. During the decade of the 60s, for instance, while agricultural production increased 23 percent, the number of people to be fed increased by 27 percent. The decline in agricultural production which occurred during the Allende period, with its low point being a drastic 16 percent decrease in 1973, made the already unsatisfactory situation even more acute and precipitated an unprecedented dependence on imports. Even Chile's modest exports of agricultural products declined at that time with the result that the deficit in Chile's agricultural balance of trade climbed from about \$100 million in 1970 (a "normal" deficit if defined in terms of the decade of the 60s) to about \$550 million in 1973.

This situation suggests that programs which concentrate on achieving short-run increases in agricultural production and productivity can be expected not only to improve the incomes and living conditions of the farmers but also to contribute toward an improvement in Chile's critical balance of payments situation.

As discussed previously, GOC policies -- particularly the elimination of price controls, land title distributions, and more realistic exchange rates -- are directed toward these ends. It must be recognized however, that Chile's agricultural sector, at best never particularly dynamic, has been seriously weakened by the major upheavals of the past few years. Despite the priority to be accorded its development, it will require a period of gestation, maturation and adjustment before it attains anywhere near its full potential. USAID assistance can play an important role in facilitating the early stages of this effort but the longer range task, which must be carried forward by the Chileans themselves, will require unswerving GOC commitment and support.

Housing. Chile's housing deficit, which has been growing increasingly acute, now stands at about 600,000 units. This means that about one-third of the population is inadequately housed. Particularly affected by this shortage are the lower income groups. Despite a GOC commitment to a significant public sector housing program, there is little prospect that this alone can bridge the gap. While the necessary institutional structure and technology already exist, the financial capacity to mount a greater effort is lacking, and construction material shortages would probably appear if housing construction were expanded rapidly. Since reasonable shelter is an essential element in the quality of life for the poor majority, the USAID proposes to support host country initiatives both via the Housing Investment Guaranty authority to help resolve the urban housing shortage for lower class working families, and via a development loan to demonstrate how low-cost, self-help housing can contribute toward filling the shelter requirements of the rural poor.

Education. In education, Chile's school system ranks among Latin America's best. Its literacy rate exceeds 90 percent and more than 97 percent -- i. e., virtually all -- of Chile's primary school age children (6 to 14 years old) are in school. At the secondary level, GOC plans call for an increase in enrollment from the present 41.5 percent (535,000 students) of the 15 to 19 year olds to 60 percent (700,000) by 1980 while at the same time shifting to a significantly greater emphasis on technical and vocational education -- from about 40 percent (217,000) of present enrollment to 50 percent (390,000) of the greatly expanded 1980 enrollment. This shift toward the technical-vocational sphere is in recognition of what has been a noticeable void in Chile's generally adequate educational

system. It also acknowledges and responds to the need to better attune the educational system to the requirements of a large and presently inadequately served segment of the population (i. e., those who will go from secondary school directly into the labor force) and to the nation's longer-range requirements for social and economic development.

Chile's universities have long held high rank in Latin America and some of their departments compare favorably with those in universities elsewhere. Present university enrollment of 207,000 is projected to almost double to 392,000 by 1980. During this same period, GOC plans call for rationalization of the higher education system through a steady increase in tuition charges, while government subsidies decrease significantly.

Adult education, with an enrollment of 114,300 in 1975, will grow by 73 percent to 250,000 by 1980. At the same time, emphasis will shift from basic education to secondary education and skills training.

Overall GOC plans for education represent what appears to be an appropriate redirection and expansion of efforts within the sector which the GOC should be able to pursue without significant external assistance. The importance which the GOC and the Chilean people attach to education is reflected by the fact that the Education Ministry's programs will account for 15.9 percent of the 1975 escudo budget -- an amount exceeded only by Finance and Defense. This compares with less than 6 percent in 1974 and appears to reflect education's greater ability to withstand the budget cutting which has taken much heavier tolls in other ministries. Further testimony to the priority accorded education is found in the indicative six-year plan which, despite projections of reduced support for the services sector generally, projects an average 9.1 percent per year growth in public investment in education.

Health & Population Planning. Chile's health sector is likewise in many respects a model for most of its Latin neighbors. Life expectancy at birth, estimated at 65 years, is among Latin America's highest, and only Venezuela is acknowledged to have a lower rate of deaths per 10,000 population. While Chile has a better-than-average level of nutrition for Latin America, maldistribution results in a considerable portion of the population still being

nutritionally deprived. This problem undoubtedly has been exacerbated by the deteriorated economic situation of many lower income families.

The GOC appraises total health resources available to be sufficient in the aggregate and the relationship of population to hospital beds and to doctors is deemed adequate although distributional factors still account for deficiencies in coverage of the demand for health services in the rural areas. As in the case of education, Chilean health care is heavily subsidized by the Government. Some 45 percent of all health costs are covered by the GOC while only 22 percent is covered by health insurance and 33 percent paid directly by the patients. More than 90 percent of all hospital beds and 70 percent of medical personnel are in the public sector.

The principal health problem acknowledged as still remaining to be solved is the high infant mortality rate of 65 per 1,000 live births. This figure represents a significant decrease in recent years (e.g., estimated to have been 79 per 1,000 just three years ago) but it is still far above the 20 per 1,000 of developed countries, the 40 per 1,000 of Uruguay and Venezuela, or even the 33 per 1,000 of Chile's own Greater Santiago area, where one third of the nation's population lives. This means that in the remainder of the country -- the areas outside Santiago, largely rural -- the infant mortality rate is on the unacceptably high order of 81 per 1,000. Much of this infant mortality is attributable, directly or contributorily, to nutritional deficiencies. One of USAID's principal initiatives in the Food and Nutrition sphere, while not a health program per se, will include an attack on this particular problem among its major objectives.

The possibility of future assistance in either the health or the family planning sphere should not be ruled out. For the present, it appears that the Chileans themselves are doing a generally adequate job in these areas. Further study of the complex problems involved, however, may reveal limited or specialized areas where AID could make an essential contribution. Should this be the case, limited amounts of AID funding would be recommended.

#### IV. A. I. D. ASSISTANCE PROJECTIONS

In view of the depressed world market for copper, Chile's principal export, and the high costs of imported food, fuel and fertilizer, it is apparent that Chile will require large and sustained flows of external resources for the next several years. Most of the financing needed to alleviate Chile's balance of payments problem will have to come from sources outside the U.S. developmental assistance program, e.g., the IMF, the IDB, the World Bank, PL-480 and export credits. U.S. foreign assistance can, however, make some contribution toward resolution of this problem and, perhaps more importantly, toward reducing the impact on the country's orderly economic growth of the actions which Chile will have to take to contain both expansive inflation and the balance of payments deficit.

The most important and appropriate type of foreign assistance available to the U.S., in terms of its ability to contribute directly toward the provision of balance of payments relief, is the PL 480 Title I program. Chile should be given priority treatment for assistance from this source. Fifty to 75 million dollars per annum for each of the next two years (FY 1975 thru FY 1976) represents a range that is feasible (both in terms of Chile's UMR levels and as a reasonable proportion of probable Title I available for non-humanitarian allocation) and likely to be necessary (in terms of Chile's limited ability to finance its foreign exchange deficit from other sources). Beginning in FY 1977, Chile's own production should have increased enough to permit a reduction in PL 480 sales. In addition to providing direct balance of payments relief, Title I commodities will help to meet Chile's food deficit while the GOC and the USAID development program concentrate on increasing Chile's domestic production. The Mission does not believe that Title I sales of this magnitude will have any effect, either positive or negative, on producer incentives. The difference between Chile's needs and its domestic production must in any case be met by imports, and its present large food deficits are not likely to be overcome during the next several years.

A second foreign assistance tool which can contribute toward filling Chile's balance of payments gap while at the same time addressing a severe socio-economic problem is the Housing Investment Guarantee (HIG). A \$50 million HIG is recommended for FY 1975 and a second \$50 million is proposed for FY 1977. Past AID experience with HIGs in Chile has been positive. Chile's savings and loan system was created with AID technical assistance and loan financing in the mid 1960s, and has since established itself as the principal source of lending for non-subsidized private housing. The system has, in the past, handled several HIGs for middle class housing projects without significant administrative difficulties.

The present Chilean deficit in housing is on the order of 575,000 units. The deficit has been increasing at the rate of about 50,000 units annually in recent years and will continue to mount despite substantial public sector efforts unless significant external financing is forthcoming. A recently completed shelter sector analysis reveals that the presently existing demand for housing for the lower income groups exceeds by a wide margin the \$50 million HIG proposed for FY 1975; additional lending in future years is therefore contemplated.

A third category of assistance recommended is AID concessional lending. The fallout from Chile's balance of payments problem, and the steps which still must be taken to bring inflation under control, have and will continue to redound to the particular detriment of the lower income groups -- not because of any specific intent but rather because such economic problems tend to impact most seriously upon those who are already poor and deprived. Twenty five to \$35 million per year of AID loan funds are recommended for Chile, to be used to improve the economic prospects of this group and to alleviate some of the harsher repercussions of the austerity measure which will be necessary to put the Chilean economy back on the road to recovery. Because of the great importance of agriculture in this recovery effort, AID loan assistance in support of the GOC's agriculture development programs and policies directed toward improving the lot of the small farmer is strongly indicated. A strong and expanding agriculture sector, which fully engages and adequately recompenses the small farmer, will pay double dividends: it will help the poorer segment of the population and it will help the country produce more food domestically and import less from external sources.

A principal focus of AID loan assistance to agriculture will be the shortfall in agricultural credit availabilities which, if left unfilled, could negate other encouraging developments such as the GOC's adoption of favorable pricing and land tenure policies and more realistic exchange rates. In addition to production credit, AID's agricultural loan assistance should focus on marketing and agro-industry both through cooperatives and private businesses serving individual farmers. Other areas of Chilean agriculture which appears appropriate for AID support include on-farm irrigation, small farmer training, and perhaps one or two regional or area pilot projects focussed on livestock, fisheries, land management, or other limited scope problems.

In areas other than agriculture, IRRs for a Nutrition Sector Loan and a Low Income Housing Loan have already been prepared and submitted to AID/W. It is possible that the Mission may identify and put forward other non-agricultural proposals in the future, perhaps focussed on a

specific significant problem in the health area, for instance, but by far the principal loan assistance focus will remain in the agriculture sector and upon the problems and needs of the small farmer.

The Nutrition Sector Loan mentioned above dovetails with one of the few grant projects proposed -- a three year technical assistance effort beginning in FY 1975 -- and with the PL 480 Title II program administered by CARE, CRS and SAWS which will be phased down over the next several years as the GOC improves the use of its own nutrition resources.

Other AID grant assistance is proposed for projects to begin in FY 1976 in support of the larger Food and Nutrition loan initiatives cited earlier. These would include projects to assist in the transfer of technical know-how to cooperatives, to provide advanced training in subjects related to rural development, and a pilot effort in basic rural sanitation. The only other grant funding requirements anticipated are for the Special Development Activities Project, a participant training project terminating in FY 1976, and minimal technical support costs in the Food and Nutrition and Selected Development Problems areas -- mostly related to proposed or prospective loan activities -- and Operating Expense Budget costs.

The table which follows summarizes anticipated U.S. foreign assistance funding requirements over the four-year period FY 1975 thru FY 1978 assuming no major unforeseen change in Chile's economic situation.

Summary of U.S. Foreign Assistance Requirements

FY 1975 Thru FY 1978

(Millions of U.S. dollars)

<u>TYPE OF ASSISTANCE</u>	<u>FY 1975</u>	<u>FY 1976</u>	<u>FY 1977</u>	<u>FY 1978</u>	<u>Four-Year Total</u>
PL 480 Title I	50-75	50-75	25-50	25-50	150-250
Housing Investmt. Guar.	50	--	50	--	100
AID loan	23	25-35	25-35	20-30	93-123
AID Grants	2	2-3	2-3	2-3	8-11
PL 480 Title II	5	4-5	3-4	2-3	12-15
<b>TOTALS</b>	<b>130-155</b>	<b>81-118</b>	<b>105-142</b>	<b>69-86</b>	<b>363-499</b>

On the manpower side, the administration of a program of this magnitude will require 15 to 18 direct hire U.S. personnel plus 2 to 5 full-time U.S. contract personnel and a variety of short-term consultants. (This is, of course, exclusive of any full-time personnel who might be contracted by the host country under the various loans). No PASA personnel requirements are anticipated at present. Local Chilean personnel requirements will fall in the 33 to 42 range. Total projected full-time manpower requirements are set forth in the following table.

Projected USAID/Chile Personnel Requirements During  
the Period FY 1975 - FY 1978

<u>OFFICE</u>	<u>D.H.</u>	<u>CONT.</u>	<u>Chilean Natls.</u>	<u>Total Pers.</u>
Director	2-3	-	1-2	3-5
Program	2	-	4-5	5-7
Loan	2	-	3-4	5-7
Controller	1-3	-	4-5	5-7
Exec.	1	-	10-12	11-13
Agriculture	2-3	1-2	3-4	6-9
Nutrition	2	1-2	4-5	7-9
Housing, SDA etc.	2	0-1	3-4	5-7
TOTALS	15-18	2-5	33-42	50-65

Agriculture

## A. OVERVIEW

Agriculture has been the neglected child of the Chilean economic family for several decades past. After holding almost undisputed sway since colonial days, the landowners began to lose their political clout around the turn of the century. Priority access to investment funds went to industry and infrastructure. Prices were kept low as a gesture to urban workers. Growth in production and productivity was slow. Of the country's approximately 10 million inhabitants, almost 75 percent concentrated in a few urban areas, and one third of the total settled in the city and environs of Santiago.

Outward migration from the rural areas has occurred with regularity over the past several decades. The rate of this migration has often equaled or exceeded the overall rate of population growth. The corresponding effect on the agricultural labor force has been pronounced. The agricultural labor force decreased from 35 percent of the total labor force in 1940 to about 25 percent in 1966. At present only about 21 percent of the total labor force (650,000 workers) is actively engaged in agriculture. This percentage is significantly below the 40-60% averages of most other Latin American countries and compares directly only with Argentina, Uruguay, and Venezuela.

Although Chile's natural agricultural resources are significant agriculture's contribution to the total economy has not been particularly impressive. There has been a marked, long term decline in agriculture's share of GDP. From 18 percent in 1940, agriculture's contribution fell to an average of 10 percent during the 1960s. Current estimates place agriculture 8.1 percent of GDP.

## INDICES OF:

	(1) <u>Agricultural Production</u> 1964-65 = 100	(2) <u>Food Production</u> 1964-65 = 100
	<u>Chile</u>	<u>Chile</u>
1965	102	101
1966	114	114
1967	113	112
1968	118	119
1969	111	111
1970	118	118
1971	114	116
1972	108	108
1973	84	
1974	92	

Source: Organization of American States: "América en Cifras - 1974"

As a result of its slow growth, agricultural production has not always kept pace with growing domestic demands for food. The long term growth in production has barely matched the rate of population growth. Increased demands for food have been met through increased dependence on imports.

Average Yearly Export/Imports of Wheat<sup>1/</sup>  
(thousands of m. tons)

<u>Period</u>	<u>Exports</u>	<u>Imports</u>
1910-1919	27	-
1920-1929	50	-
1930-1939	4	-
1940-1949	-	2
1950-1959	-	136
1960-1964	--	209
1965-1969	-	356
1970-1974	-	720

1/ Adapted from "El Mercurio article February 4, 1975.

#### B. Recent Agriculture Performance

Disincentives already existed in the agricultural system when the Allende government was elected in November 1970. However, immediately after coming to power the new regime began to implement a whole series of new social and economic policies. In the

agriculture sector these included (1) controlled food prices at unrealistically low levels; (2) state ownership and operation of food processing and marketing facilities; and (3) acceleration of land reform to a point beyond the limits and assurances provided by law. Land reform was moving toward state operation of "reform" farms rather than private control and redistribution of lands to independent holders. The result was chaotic. Livestock products disappeared from the market place during the latter part of this period when farmers who feared confiscation killed and sold animals without regard to demand. Low prices and uncertainty of land rights caused crop production to drop sharply in 1972 and 1973. Central control of food distribution caused inefficiencies and further distortions. Although food imports increased, shortage appeared, a black market developed and according to some accounts the entire market process was on the verge of breakdown.

Production Indexes of Selected Crops  
and Livestock Products

1/  
(1964/65 = 100)

	<u>1964/65</u>	<u>1971/72</u>	<u>1972/73</u>	<u>1973/74</u>
Wheat	100	107	67	82
Corn	100	109	113	131
Rice	100	107	68	57
Potatoes	100	104	89	114
Beef	100	102	85	94
Poultry	100	240	148	275
Milk	100	115	115	110

1/ Crop year May 1 - April 30. Source: ODEPA

The military government that came to power in September 1973 has taken a pragmatic approach to the problems of Chile's agriculture. Since October 15, 1973, prices of almost all agricultural products have been allowed to rise or fall in accordance with the market forces of supply and demand. Subsequently, multiple exchange rates which discouraged domestic production in favor

of imports were discontinued. In an effort to increase efficiency and reduce the public sector payroll, many agro-industries are being returned to private ownership. Private and cooperative organizations are being encouraged to increase their investments in the agro-industry sector.

The agrarian land reform initiated in the early '60s is now virtually complete. Traditional land holders have been assured that they can retain a minimum of 40 "basic" (irrigated) hectares, and the government intends to move rapidly to provide individual titles to some 58,000 families who will occupy plots carved from the expropriated land. Both actions are calculated to generate confidence and increase individual incentives in the rural sector, which in turn should increase production.

These new agricultural policies, although only in effect for a little over a year, have already had a positive impact. Production for the 1974/75 crop year in the 14 principal crops is expected to increase by 10 percent; production of beef and lamb was up in 1974 by approximately 20 percent. And although the value of agricultural commodity imports in 1974 was about the same as 1973 (\$600 million), the volume was lower.

### C. Resource Base

Chile occupies a narrow strip of land along the western slopes of the Andes, 4,264 kilometers long and 402 kilometers wide at its broadest point. It covers an area of 74 million hectares excluding the Antarctic. Of this total, about 19 percent (14 million hectares) is classed as agricultural land, which includes natural and improved pastures as well as crop land. Approximately 5.5 million hectares is not limited by topography, climate or soil and is capable of crop production. However, only about 1.3 to 1.5 million hectares are actually used each year for field crops, vegetable, fruits and vineyards. The remainder is left as fallow or pastures.

Most of Chile's agriculture is concentrated in the country's central provinces which lie between the Andes and the coastal range, from the Aconcagua river valley a little north of Santiago, to the city of Puerto Montt in the south. The soils and the temperate climate of the central valley are capable of intensive

crop production and high yield under irrigation. A great variety of fruits and vegetables can be produced, under the Mediterranean type climate of warm dry summers and mild winters. The central cordilleras and a large area in the south are suited for forestry development, and there is considerable potential for livestock production. The long sea coast of Chile is a vast reservoir of fishery resources for both human consumption and high protein animal feed.

The ratio of population to agricultural land in Chile, one of the highest in Latin America, would appear to be very favorable.

#### D. Exports and Imports

Despite its significant agricultural resource base, Chile is presently highly dependent on food imports to meet domestic demand. This has not always been the case. Up until the 1940s Chile was a net exporter of food and feed products. Since World War II and up to the 1970s, however, the value of agricultural imports exceeded that of exports by a ratio of 3 and 5 to 1 and accounted for approximately one fifth to one quarter of the country's total imports.

In the 1970 to 1974 period, Chile spent over \$2.2 billion on food imports with an export offset of about \$100 million for the entire period. The major import item is wheat, which accounted for almost a third of the total food imports the last few years.

#### Food Exports/Imports (million of dollars)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Imports	235	340	450	607	603
Exports	29	27	13	16	33

Source: U. S. Agricultural Attaché Reports.

Tropical fruits and products which are not produced locally are imported. However, the great majority of imports (such as corn, feedgrain, rice, edible oil, sugar, beef, milk and even such items as poultry and potatoes) can be and are produced in Chile.

While costs of imports have increased greatly both because of expanded volume and higher international prices, Chile's exports have not shown similar trends. Prices for food exports, including malting barley, pulses (lentils and beans), onions and garlic, fruits (apples and grapes) and wine, appear to have been rather static over the past 20 years.

#### E. Farming Technology

One of the most important indicators of the level of farming technology in a country is the use of chemical fertilizer. Total fertilizer consumption in Chile has generally averaged 150,000 nutrient tons per year. Assuming this is applied mainly to field crops, orchards and vineyards (pastures excluded) the average use is approximately 100 kilos of fertilizer per hectare. While this rate is relatively high, there has been little expansion of use in recent years. This may be due in part to the difficult internal economic and political policies of the previous administration, and more recently the high cost and general scarcity of fertilizer.

The factor most seriously affecting total agricultural production in Chile is the availability of irrigation water. Existing irrigation systems regularly service an area of 1.29 million hectares, and an additional 865 thousand hectares receive sporadic irrigation. There is an additional 540 thousand hectares which could be brought under irrigation in the future. In the southern latitudes there are 1.5 million hectares which can produce certain food and forage crops without irrigation. Other areas, which receive scant rainfall and occasionally produce crops under dry land farming conditions, generally are limited to natural pastures and grazing as the only practical farming alternative.

Given the favorable climate, irrigation and relatively high rates of fertilizer use, yields of some crops have in the past been higher than those of other Latin American countries. For example, while wheat yields are about average compared to other countries in the region, yield of corn is the highest in all Latin America.

<u>Yield and Comparisons</u>		
	<u>Calif. Yields per</u>	<u>Chile Yields per</u>
	<u>Acre (Aver. 1961-65)</u>	<u>Acre (Aver. 1964-68)</u>
Sugar Beets	20.40	15.43
Wheat	.87	.66
Rice	2.40	1.20
Beans	.72	.47
Potatoes	15.00	3.81
Corn	2.22	1.88

Despite above average performance in the past, a comparison in yields between Chile and California indicates the considerable potential which still exists for increased production.

#### F. Fishery Technology

Although the fishery subsector is usually included in the aggregate analysis of the agricultural sector, because of its special importance in Chile it warrants further amplification.

The sea coast of Chile offers an opportunity for greater utilization of its many different varieties of fish. The full potential of this resource has so far not been realized because of market imperfections and the lack of processing facilities. While export fish species show signs of over-exploitation, none of the species caught by the artisan sector for local consumption appear to be in danger of overfishing. Jurel and jack mackerel, which are barely being harvested now, could form the resource base for a rapid development of the sector. It is estimated that jurel has a maximum sustainable yield of 250,000 tons per year in the central zone alone, as against current captures on the order of 12,000 tons per year.

High priced inputs, principally Diesel fuel and nylon netting, have had serious adverse effects on fishery production and fishermen's incomes. Still, under the proper demand conditions the artisan sector, which catches most fresh fish marketed in Chile, could rapidly and easily increase its output by 25 to 33 percent using existing excess catch capacity.

### G. Institutions Serving Agriculture

There is no lack of institutions serving the interests of Chilean agriculture. The Ministry of Agriculture is the main public sector body dealing with this sector. This Ministry has in recent years grown exceedingly large and unmanageable. An effort is now underway to cut back staff and to consolidate functions into three main branches: the Center for Agricultural Investigation (CIA) will be responsible for applied agricultural research; the State Agricultural Service (SAE) will be responsible for extension and training and include the functions previously performed by the Agriculture and Cattle Service (SAG), the Agrarian Reform Corporation (CORA) and the National Forestry Corporation (CONAF), and a Rural Development Service (SDR) which will serve the smallest of Chile's farmers and take on many of the activities formally carried out by the Agriculture Development Institute (INDAP). A sub-secretariat of fisheries is also being created which would bring together the functions of some twenty different agencies now concerned with the fishing industry in Chile.

Another important public sector agency is the Banco del Estado. In recent years the Banco del Estado has been responsible for about three quarters of the production credit flowing to the agriculture sector. In addition it has had a near monopoly position in the import and distribution of fertilizer and is active in the import of other agricultural inputs such as tractors. The Government is now encouraging other private sector entities to compete with the Banco del Estado in the import and distribution of fertilizer.

The GOC has recognized that in order to restore the agricultural sector to full productivity, the country's small and medium producers, who now are in the dominant majority, must be reached with services designed to increase their productivity. The government has officially indicated that it expects the cooperatives to play a major role in filling this gap.

Historically there have been three basic types of cooperatives in Chile; traditional, "campesino", and agrarian reform. However, efforts are now being made to restructure the cooperative movement. Unions of cooperatives are organizing themselves along rational economic lines and are trying to reach the new farmers who previously worked on a communal basis in the "asentamientos".

#### H. Agricultural Credit

Since the rate of interest charged on agricultural credit has generally been very low, the demand has almost always exceeded the supply. The present government has eliminated a major portion of the subsidy element from agriculture loans, but at the same time has allowed the prices of agricultural inputs to go up according to the market forces of demand and supply.

However, with a view to controlling inflation, the monetary authorities have been restricting the availability of credit to the private sector. The IBRD in its recent Survey 1/ of the Chilean economy estimates that in 1973 farm credit, in real terms, equaled to about 3 percent of the 1969 availabilities as follows:

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1/ IBRD, "Special Report of the Chilean Economic Outlook", Vol. 1, page 50.

AGRICULTURAL CREDIT 1968-1973<sup>1/</sup>

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
	(in billions of E)				
Public Agencies of which:	1,446	1,540	2,410	2,864	1,907
Banco del Estado	1,012	1,083	1,817	2,371	1,729
Commercial Banks <sup>1/</sup>	306	284	299	327	88
<b>TOTAL</b>	<b>1,752</b>	<b>1,824</b>	<b>2,709</b>	<b>3,191</b>	<b>1,995</b>
Index, 1969-100	100	104	155	182	114
Price Index <sup>2/</sup>	100	150	207	798	4,028
Index, Real Volume of Agricultural Credit <sup>3/</sup>	100	70	75	23	3

<sup>1/</sup> Year-end totals outstanding

<sup>2/</sup> IBRD Price Index

<sup>3/</sup> It may be added that USAID/Santiago, has detected some mathematical errors in these computations. Nevertheless availability of credit in real 1969 Values is considered to be extremely inadequate for the needs of this Sector.

The increases in nominal values of credit during 1970, 1971 and 1972 (Allende period), went mostly to asentamientos (communally-operated farms in the reformed sector). The credit requirements of other small and medium scale farmers went largely unmet. In 1974 the total available credit (from both private and public sources)

<sup>1/</sup> IBRD, "Special Report on the Chilean Economic Outlook", page 50

is estimated to have covered only 60 percent of the operating expenses of the farmers. The government is aware of this shortfall but does not want to increase credit availabilities from the central bank for fear of adding to inflationary pressures. It is, therefore, seeking loans from external sources.

#### I. Land Reform and Rural Poor

The roots of Chile's agrarian reform programs have been well documented. It began slowly. As late as 1964, two percent of the farms accounted for nearly 70 percent of the country's arable land. In July 1967, a new and much stronger law was passed which authorized the government to expropriate all lands which were not managed efficiently, and made liable for expropriation all farms above 80 basic irrigated hectares even though efficiently run.

In November, 1970, when the Allende administration came to power, land reform policy took a new turn. The pace of expropriations was accelerated even if it sometimes meant going beyond guarantees provided by the law. By the end of 1973 approximately 46 percent of Chile's total arable land had been expropriated.

#### Land Expropriated 1965-1973 (1,000 hectares)

	<u>N° of Farms</u>	<u>Irrigated and arable</u>	<u>Non-arable</u>	<u>Total</u>
1965-70	1,468	652	2,905	3,557
1971-73	<u>4,395</u>	<u>1,445</u>	<u>4,860</u>	<u>6,305</u>
Total	5,863	2,097	7,765	9,862

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Source: CORA

The present Government has turned its attention to providing individual titles to the beneficiaries of the reform. Five thousand eight hundred large estates which contain 60 percent of the irrigated

land and 45 percent of the arable dry land are expected to go to 58,000 rural farmers at present farming collectively under the "asentamiento" system.

In addition to integrating this new small farmer group into the agricultural economy as rapidly as possible, the government faces the task of serving the 150-200,000 traditional small farmers. These farmers' status has not been materially altered as a result of the reforms; they may represent a hardcore problem with which the government must deal over a longer term.

<u>Basic Irrigated Hectares</u>	<u>Farm Size</u>		<u>Area</u>	
	<u>No. of Farms</u>		1965	1972
	1965	1972	% of total	
Less than 5	81.4	79.3	9.7	9.7
5-20	11.5	11.3	12.7	13.0
20-80	5.1	7.4	22.3	38.9
More than 80	2.0	.1	55.3	2.9
Reformed Sector	<u>0.0</u>	<u>1.9</u>	<u>0.0</u>	<u>35.5</u>
	100	100	100	100

Source: ICIRA

#### J. Cooperative Movement

The GOC recognizes that, in order to restore the agriculture sector to full productivity, the national agricultural policy must be based on some effective means of organizing the small and medium producers who now dominate the agriculture sector. It therefore is looking to the cooperative movement to play a leading role in this regard. This is why the beneficiaries of the land reform program are required to form or join cooperatives for the supply of inputs and marketing of their outputs. However, the history of the cooperative movement in Chile does not begin with the land reforms; it has its origin as early as the beginning of the twentieth century.

The earliest cooperatives are known to have been the consumer cooperatives which began as early as 1900-1910 and were designed to assist working class people in the Santiago area. With the passage of time the cooperative movement began to cover other activities as well, with the result that in 1970 there were about 1,500 cooperatives in a country of 9.5 million people. Of these, about 750 or 50 percent were agricultural or livestock oriented.

### Structure of the Movement

Largely due to the effects of agrarian reform, the Chilean agricultural cooperative movement is highly diverse and fragmented. Producers which are grouped into product-oriented cooperatives for example, wine and milk, and those belonging to multi-activity cooperatives dealing in more than one product and/or service to members, which did not come into being as a result of agrarian reform, are generally referred to as members of "traditional cooperatives".

Many small, low-income producers are members of traditional cooperatives, as are many asentamientos. Low income farmers who were not affected by agrarian reform (i.e., already owned their land) may belong to campesino cooperatives<sup>1/</sup> organized and supervised by INDAP. Asentados and campesinos belonging to agrarian reform cooperatives (i.e., the members have individual title to their land) are generally referred to as the "reformed" sector and are supervised by CORA.

According to government estimates,<sup>2/</sup> no more than 10 percent of small producers belong active to campesino cooperatives, which include some 300 organizations with an active voting membership of 40,000 individuals. The rest are variously split between traditional and reformed cooperatives, or remain unaffiliated. The government itself recognizes that campesino cooperatives have tended to remain social/communal groups leading, at best, a precarious existence, due to chronically insufficient resources and administrative capability.

<sup>1/</sup> Article 192 of Law 16,640 defines campesino cooperatives as, "Those which exist and function to integrate the campesino into the national economy by meeting his social, economic and organization needs".

<sup>2/</sup> Source: ODEPA and INDAP

In addition to asentamientos, whose communal form of ownership and operation does not qualify them as true cooperative structures, the reformed sector consists of three different types of agrarian reform cooperatives <sup>1/</sup> supervised and assisted by CORA. As few of these groups keep up-to-date books, there is no reliable data on the state of the reformed sector. ODEPA believes the general level of deterioration to be about the same as in the campesino cooperatives, as credit and delinquency rates are extremely high.

On the positive side, the reformed sector has evolved organizations called Multi Activity Regional Cooperatives (MULTIRRECOOPS), outside the direction of CORA, (formed by the union of a number of agrarian reform cooperatives and asentamientos). These serve as agro-business enterprises (with varying levels of skill and capacity) which market the produce of their cooperative members and supply them with agricultural inputs.

Cooperatives may be members of "second degree" organizations on a national level (e.g., federations and confederations). At the moment there is a separate set of provincial federations and a confederation for non-agrarian reform campesino cooperatives. There are also provincial federations and a national confederation (now forming) for agrarian reform cooperatives and asentamientos.

### Present Position

The new government has set a policy of forming regional (large scale) cooperatives consequently most campesino cooperatives are disappearing.

<sup>1/</sup> Article 191 of Law 16.640 created (a) Land Assignment Cooperatives, (b) Cooperatives of Assignees, and (c) Mixed, i.e., combination of the two.

Legal Position of Campesino Cooperatives in Chile to 15 January 1974

INDAP Zone	Permanent or Undecided	Dissolved	To be Dissolved	Will merge with agro	Changes to Agriculture and cattle	Changes to cooperative	Total
I	5	-	-	1	-	-	6
II	18	-	2	1	1	-	22
III	9	3	2	13	-	-	27
IV	14	2	20	3	3	-	42
V	9	3	18	-	8	-	38
VI	4	-	5	10	1	-	20
VII	-	-	2	14	2	-	18
VIII	-	-	1	12	3	-	16
IX	1	-	-	14	-	-	15
X	3	-	-	7	-	-	10
XI	17	-	13	17	2	2	51
XII	-	-	12	6	-	-	18
XIII	2	1	-	3	-	-	6
XIV	-	-	-	4	4	-	8
XV	-	-	1	2	4	1	8
XVI	-	-	-	-	3	-	3
Total	82	9	76	107	31	3	308

Source: ODEPA and INDAP

Some of the agrarian reform cooperatives are merging with product line cooperatives while others are transforming themselves into agro-industry cooperatives serving farmers regardless of class distinction. The government's effort to unify agriculture is moderately successful even though many difficulties still remain.

The major changes which have taken place with respect to agricultural cooperatives are:

a) Creation of the Confederation of Agricultural Cooperatives (COPAGRO) to serve all cooperatives regardless of income level.

b) Merging of campesino cooperatives or their transformation into economic oriented cooperatives serving all types of farmers (nearly 140 have taken these steps).

c) The formation of regional unions and regional cooperatives. Two unions have been formed and several more are contemplated.

- d) The entry of many cooperatives into agricultural processing.
- e) The widespread adoption of a no-nonsense business oriented philosophy.
- f) Within the government, the former Division of Cooperatives in the Ministry of Economy has been transformed into a Department within DIRINCO and is vigorously assisting in the needed process of movement change.
- g) Former government agro-industries are being sold with most of them going to cooperatives.
- h) The consolidation of cooperatives has raised anew the possibility for direct food sales from cooperative to distributors or retail stores. A number of agreements have been made and many more are being considered. The Chileans are responding to the stimulus of free market prices and, while innumerable obstacles still exist, there is reason for optimism.

On the more negative side the cooperatives, although diverse both in terms of income and products produced, nearly all have the common problem of inadequately prepared managers, administrators, and members of boards of directors which has resulted in inadequate daily decision making. These cooperatives are currently at an even greater disadvantage given the newly promulgated government policy of free prices which will require cooperative managers to make operating decisions based upon new and changing variables such as input costs and market demand. Thus, there exists a great need for both financial and technical assistance in this area of activity.

#### K. Prospects for Development

In the short run the prospects for agriculture are definitely up. The confidence being generated in the rural sector plus the fact that prices are free to respond to demand should bring production at least to pre-1970 levels. However, the freeing of prices was not an unmixed blessing for the farmers. Allowing all prices to fluctuate

has greatly increased the cost of inputs such as fertilizer, machinery, and pesticides.

For the longer run, Chile has the potential to increase agricultural output, reduce imports of basic foods, and possibly to expand export markets. To bring about this increased level of production, the government will have to support a high level of resource flows to the agricultural sector. This includes imports of fertilizer, pesticides and veterinary supplies -- estimated to be up to \$150 million a year for the next few years. Further investment will undoubtedly be needed for machinery, irrigation improvements and agro-industries. In addition, the government intends to use its resources to improve the farming practices of the traditional small farmers and integrate the newly titled reform sector farmer into the system. This must be accomplished at a time when Chile is cutting back public expenditures sharply in order to curb inflation and must cope with a major problem in its external accounts. In this process, outside assistance judiciously applied can play an important supporting role.

#### L. U.S.A.I.D. Strategy

Chile's agriculture now is going through a major reorientation after ten years of agrarian reform and a heavy dose of socialist experimentation. The priorities of the new government are reasonably clear:

a) to stimulate as quickly as possible production of major food crops in order to return overall agriculture performance at least to pre-1970 levels and thus reduce the record foreign exchange expenditures for food, currently running at \$600 million a year;

b) to distribute individual titles to the beneficiaries of the agrarian reform and to integrate these newly titled landholders productively into the agricultural sector as rapidly as possible.

c) to develop mechanisms and institutions capable of reaching small scale farmers and artisan fishermen in order to help them increase their productivity;

d) to reduce rural poverty;

e) and, in the longer run, to create policies, institutions, and infrastructure necessary to reverse the historical decline in agriculture's contribution to the overall economy.

The GOC appears to have taken the basic steps necessary to achieve the first of these objectives, i. e., increased production. This has meant the decontrolling of major commodity prices and has substantially raised food prices to the consumer. The government has also moved the exchange rate toward more realistic levels and appears prepared to supply foreign exchange for the import of fertilizer, pesticides, and machinery necessary to return farming technology to its pre-1970 levels.

Preliminary analysis indicates, however, that major problems may arise in connection with the availability of production credit for the medium and small farmer. The World Bank economic survey of Chile, completed in the fall of 1974, reports that available agricultural credit has dropped from an index level of 100 in 1969 to 3 in 1973. While these figures have been seriously questioned, there appears to be no doubt that production credit is exceedingly short and that this shortage may be a major factor in limiting production increases. The A. I. D. Mission is studying various means by which short-term credit could be channelled to small and medium farmers, and will later propose that A. I. D. funds be used as seed capital to launch a country-wide production credit system. Without this essential ingredient, the drive for increased production could become stymied.

In addition to assisting in the field of production credit, A. I. D.'s efforts can be appropriately directed to specific areas related to certain of the other major objectives listed above. These efforts would help to stimulate agriculture production and mitigate rural poverty by upgrading the technology available to Chile's medium and small scale farmers; to strengthen the institutions which can most effectively serve those farmers; and to encourage the development of those agricultural subsectors -- both crops and agro-industries -- which will more efficiently utilize Chile's human and natural resources and provide the greatest contribution to reducing total net demand on international food supplies.

The GOC has announced that it intends to rely heavily on the cooperative movement to reach the small and medium size farmers of the country with the technical and marketing services they require. The A. I. D. program will be designed to support this goal. One loan for this purpose has already been authorized -- a \$15 million dollar loan to IFICOOP (a cooperative bank) for agro-industry expansion and modernization. IFICOOP will relend to a number of independent cooperatives which in accordance with the loan guidelines, will emphasize projects beneficial to the poorer segments of the rural sector.

Two other proposed activities which would support the agricultural cooperative movement have already been identified, and others are in the process of incubation. The first of those identified is the establishment of a mechanism to facilitate the flow of technology to Chilean cooperatives. The mechanism would be established within COPAGRO, the national agricultural cooperative federation; it would use grant funds to employ foreign specialists, send Chileans abroad for specialized contacts, provide literature on new technological developments, and otherwise serve as a liaison between the member cooperatives and the world of outside ideas.

The second activity already identified would provide loan funds to the Ministry of Agriculture to help expand the capacity of regional centers which are expected to provide training in the business aspects of farming to new farmers. Thousands of families which have not previously been required to make business decisions will be receiving titles to their new land during the next few years. The training provided by the Ministry of Agriculture will initially be directed toward loosely formed groups or associations of farmers from the reform sector. As the cooperative movement expands and is capable of providing such services as credit, inputs and marketing to these newly-titled farmers, the training program can be phased out and the cooperatives take over.

Other activities targeted on specific areas or specific agricultural problems are under discussion.

For example the supply of irrigation is a severe limitation on the expansion of crop acreage, and such water as is available often is not used effectively or efficiently. An on-farm water management and improvement project for an area where dams, storage reservoirs, and major canals already exist is being discussed. The project will benefit some 6,200 farm families, enabling them to bring new lands into production and to change cropping patterns toward more efficient and intensive production.

While improved irrigation can raise the income levels of some farmers, it is not a universal solution. There are vast areas in Chile where irrigation is impractical. Nevertheless, these areas support on dry-land range a large number of poor subsistence level sheep and goat farmers. CORFO, the GOC's national development corporation, has developed a 5,000 hectare ranch in one such area to test ways to increase the productivity of range land. With a developmental package of improved livestock breeds, new pasture varieties, and range management practices now available, CORFO has requested A.I.D. assistance to extend these practices to some 4,500 families on 250,000 hectares in the immediate area. If successful, this project would have a substantial impact on some of Chile's poorest farmers.

Proposals for the loan funding of agro-business projects through a private development bank are also being considered. The bank would relend to private agro-enterprises along specific guidelines which emphasize sub-projects having the greatest benefit to the small farmer. Channelling A.I.D. funds through private agro-enterprises may be an effective way to deal with the great diversity of crops and farming activities carried out in Chile. The IFICOOP loan already authorized provides such funding through the cooperative channel. The proposal would involve a parallel channel in the private sector to encourage enterprises which are not within the cooperative system.

Wheat Production in Chile

	Area Under Cultivation 000 ha.	Total Production 000 tons	Av. Output Per ha. 000 kg.	U.S.
1964	727	1,116	15.3	17.3
1965	780	1,346	17.3	17.9
1966	719	1,203	16.7	17.7
1967	700	1,220	17.4	17.4
1968	743	1,214	16.3	19.2
1969	740	1,307	17.7	20.6
1970	727	1,368	18.8	20.9
1971	712	1,195	16.8	22.8
1972	600	550	9.2	22.0

Note: Mexican average per ha. output of wheat is highest in L.A. Region around 29,000 kgs. per ha.

## CHILE

Total Value of Agricultural Production

(Constant 1965 Prices)  
(In millions of \$s)

1965	1,607
1966	1,782
1967	1,806
1968	2,114
1969	1,919
1970	2,069
1971	2,175
1972	2,164

Source: ODEPA, Ministry of Agriculture.

Area Planted and Yields of Major Crops

1970- 1975

Cultivated Area  
( 1,000 hectares )

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Wheat	740	727	712	<u>534</u>	601	663
Barley	47	53	67	<u>64</u>	94	71
Corn	74	77	85	<u>86</u>	108	75
Rice	25	27	26	<u>19</u>	11	26
Beans	57	70	78	<u>68</u>	75	73
Sugar beets	42	35	31	<u>23</u>	26	43
Rapeseed	54	49	56	<u>31</u>	25	50

Yields  
( tons/ ha)

Wheat	1.77	1.88	1.68	1.40	1.26	1.51
Barley	2.06	2.16	2.07	1.68	1.72	1.94
Corn	3.24	3.35	3.35	3.40	3.40	3.42
Rice	3.02	2.46	3.36	2.96	2.40	2.82
Beans	1.15	1.03	1.04	0.95	0.98	1.18
Sugar beets	39.69	39.57	38.22	29.16	36.54	38.16
Rapeseed	1.30	1.66	1.39	1.23	1.21	1.21

Source: Ministry of Agriculture, ODEPA

Price Changes

CPI 1970 - 100

	<u>Chile</u>	<u>U.S.A.</u>
1963	<u>16.7</u>	<u>76.7</u>
1964		
1965		
1966	38.6	81.9
1967	45.6	84.0
1968	57.8	87.6
1969	75.5	93.1
1970	100.0	100.0
1971	120.1	105.8
1972	213.5	110.4
1973	966.7	117.4

Indices of Agricultural Production

CHILE  
(1961 - 65 = 100)

	<u>Total Agricultural Production</u>	<u>Food Production</u>
1965	102	101
1966	114	114
1967	113	112
1968	118	119
1969	111	111
1970	118	118
1971	114	116
1972	108	108

Production of Major Crops and Livestock

(In millions of 1970 escudos)

	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>CROPS</u>						
Wheat	1,007	1,054	920	575	583	771
Corn	82	197	215	224	279	196
Rice	75	66	85	54	26	73
Sugar beets	312	262	227	161	180	311
Beans	232	255	293	229	238	305
<u>LIVESTOCK</u>						
Cattle	1,225	1,058	1,118	1,169	1,200	1,194
Sheep	211	191	181	126	178	198
Poultry	417	464	487	255	288	333

Source: Ministry of Agriculture, ODEPA

## Housing

### Background

During the past 15 years almost half of all housing construction in Chile has originated in the public sector. During the 1960s an average of 36,000 houses were built each year. This required about 18 percent of the total government capital investment budget. Besides the social impact of providing needed housing for a growing population, housing has contributed about 1.5 to 2 percent annually to the gross domestic product and provided employment for 70,000 persons.

By the end of the three years of the Allende government, construction activity had dropped sharply. From November, 1970, to June, 1973 the GOC initiated construction of 114,000 housing units but completed only 50,000. In part, this resulted from the policy of authorizing the construction of only complete permanent housing and neglecting the concepts of semi-permanent and self-help construction. Shortages of construction materials and financial resources were also limiting factors. Between 1971 and 1973, completions dropped by almost 50 percent from the 1960-1970 average.

### B. Current Status

The housing sector, under the present government, is receiving renewed attention. The first order of priority is to complete the approximately 64,000 units left uncompleted by the previous administration. The government has also initiated a program of "semi-permanent" housing aimed at improving squatter settlements and other marginal communities in urban areas. Most of this construction is for the metropolitan Santiago area.

The GOC housing program for 1975 is summarized below. The intention is to increase housing activity from 2 to about 3 percent of gross domestic product. While itself completing unfinished public housing and developing new projects for semi-permanent housing, the GOC will also encourage the private sector,

particularly cooperatives, to play a more active role in housing finance and construction. Self-help measures and non-traditional forms of construction will be emphasized since financial and physical constraints make it impossible to meet all urgent needs of the society through traditional programs. The 1975 budget for the Housing Ministry aggregates E°313,681 million, which continues the past practice of allocating roughly 6 percent of the central government budget (17.2 percent of the capital budget) to housing construction programs.

### C. Housing Requirements

The Ministry of Housing and Urbanization (MINVU) has estimated that as of the end of CY 1974 there was a shortage of 575,000 housing units in Chile -- 350,000 in urban areas and 225,000 in rural areas. This requirement is growing at the rate of approximately 50,000 units per year, as a result of deterioration which makes some housing units unsuitable for habitation (accounting for perhaps 12,000 units of the annual increase) and of population growth and migration.

As the following table shows, the GOC's projection of housing starts over the next few years will barely equal the anticipated annual increase in shortfall so that no net reduction in the present shortage can reasonably be expected unless external financial and technical assistance is made available to Chile.

#### Projected Construction of New Housing Units

	<u>Total Units</u>	1975 - 1978		<u>P r i v a t e Permanent</u>
		<u>"Social Interest"</u>	<u>P e r m a n e n t</u>	
1975	64,200	37,600	19,900	6,700
1976	56,600	35,000	14,400	7,200
1977	58,600	35,000	15,900	7,700
1978	61,000	35,000	17,700	8,300

Source: Based on data obtained from ODEPLAN

The fact that much of the planned construction during this period is of a "social-interest" type -- i.e., semi-permanent with an expected useful life of only 10-15 years -- means that a significant increase in the shortage can be expected to take place during 1985-1995 unless herculean efforts are undertaken in the early 1980s. Thus, today's social interest housing is a stop-gap measure which will be a likely source of social and economic development problems in the future.

It should be noted that in MINVU's projections of the present shortage of housing units, 225,000, or approximately 40 percent, are identified as in rural areas. Since less than 40 percent of the population is in rural areas -- perhaps 25 to 30 percent -- the rural housing shortage is comparatively more acute than the urban shortage. The GOC's plans for construction appear to be primarily oriented toward alleviation of the urban housing shortage, however, and it should be expected that the rural housing shortage will become even more critical in the years just ahead.

#### D. Organizational Capacity

The public sector dominates the origin and financing of housing programs in Chile. Various agencies under the Ministry of Housing and Urban Development are responsible for their assigned roles: the Housing Corporation (CORVI) is mainly responsible for housing design and construction; the Housing Administration Corporation (CORHABIT), for financing and housing management; the Urban Renewal Corporation (CORMU), for land acquisition and urban renewal; the Savings and Loan System Regulatory Agency (Caja Central de Ahorro y Préstamo), for supervising various savings and loan agencies; and the Urban Construction Corporation (COU), for urban infrastructure. Given proper policy guidance and financial support, this existing infrastructure of the Ministry of Housing is capable of meeting the social welfare needs of the country and implementing the economic policies of the government relating to housing.



### E. Resource Capacity

As stated above, there is a shortage of some 575,000 housing units in Chile. At present, however, the national capacity to construct traditional housing is believed to be limited by financial and physical resources to about 55,000 units a year. Therefore even if all available national resources were brought into use, the housing shortage is likely to persist for the foreseeable future unless substantial new capital is located and essential construction materials imported.

A major weakness of the existing public housing program, according to the Ministry of Housing, is the level of delinquency rates on housing loans which have been rising during the past several years. In 1973, for instance, around 70 percent of all the outstanding loans were delinquent. In some cases these delinquencies were purely nominal, however, since inflation had reduced the required payment to an amount which was less than the cost of collections.

### F. GOC Planning

Housing construction activities are comparatively labor intensive and generally cyclical, with the result that the labor force employed in this sector constantly faces periods of boom and bust. By undertaking a major portion of the housing program itself and by adopting counter-cyclical investment programs, the government can and often does reduce the severity of the fluctuations in these activities. Similarly, by bringing the housing program under its own control, the government is fulfilling what it perceives as a public welfare role. It is doubtful if financial and entrepreneurial resources available in the private sector could meet the expanding housing needs of lower and middle income groups.

Despite the fact that the GOC has been spending, during the past few years, a substantial portion <sup>1/</sup> of its public investment budget on housing, it has not yet developed a systematic plan to close the housing gap.

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<sup>1/</sup> 1970 - 16.38%; 1971 - 23.52%  
 1972 - 26.04%; 1973 - 21.06%  
 1974 - 20.60%; 1975 - 17.17%

A "Shelter Sector Study" is now in preparation in A.I.D. It is hoped that the findings of this study will encourage the government to develop a more systematic strategy for attacking the housing problem.

G. Short-Term GOC Housing Plans

1. Termination of Incomplete Projects. This involves completion of all the housing construction and community development infrastructure that remained incomplete as of December 31, 1974.

2. Construction of Semi-Permanent Housing Units. This program will initiate construction of wood houses which have a projected life of 10-15 years. The idea is to construct around 35,000 rental units annually to meet the pressing demands of low income families.

3. Activation of Suspended Projects. This program will resurrect projects that were initiated by CORVI and CORMU but were later suspended. Construction has not yet begun on these projects.

4. Construction of Defined New Projects. This involves subcontracting some of the construction activities to the private sector, to accelerate construction of housing units.

#### H. Other Donors

No international donors are currently involved in housing programs in Chile.

#### I. Considerations Upon Which USAID Strategy Is Based

1. The housing sector, an important factor in the Chilean economy and an important factor in the well-being of the people, is in a critical shortage situation which cannot be solved without major outside assistance.

2. GOC bureaucracy and infrastructure are adequate to handle the construction of additional urban housing units. A.I.D. assistance should be in the form of major capital support, as with a Housing Investment Guarantee Program.

3. The rural housing situation is particularly critical. A.I.D. should support creative new technologies and self-help solutions in the form of replicable pilot projects, preferably through the private sector.

#### J. USAID Strategy in Housing

##### a. Urban Sector

Planned USAID input in the shelter sector includes both urban housing and rural housing. In the former case, USAID believes that traditional housing programs should be continued

and the beneficiaries made to pay a reasonable share of their income for the shelter they obtain. For this purpose a Housing Investment Guaranty Loan for \$50 million is being proposed. The loan will be disbursed partly through the savings and loan associations and partly through CORHABIT to members of housing cooperatives. The beneficiaries will be required to save a certain amount of down-payment before they can purchase a house and, afterwards, they will make monthly payments in accordance with the loan amortization plans, based on a percentage of monthly income.

Housing suitable to the Chilean terrain can be purchased by low-income families only with some help from the government. Despite its desire to cut expenditures, the Chilean government believes so strongly in the social aspects of better housing for low income families that it is prepared to continue to help new home-owners in some form, as it has for many years in the past. Some 7,000 families have already saved their entire down-payment through CORHABIT and have purchased and prepared land, and are waiting only for construction on their houses to begin. The houses to be built through the HIG loan will be in approximately the \$4,000 to \$6,000 range, directed toward that part of the urban lower classes with steady employment but without any other opportunity to purchase housing.

The advantages of this program are that it will (1) enable the nation to produce more housing units than it otherwise would be able to; (2) help Chile import those inputs that it lacks to accelerate housing construction programs; and (3) keep inflationary pressures under control both by syphoning off money from circulation (due to servicing of housing loans) and by importing those goods and services that the country currently needs.

b. Rural Sector

The rural housing program in which USAID will be making an input has as its objectives to improve the opportunities of the rural poor for decent shelter through the application of cooperative techniques, rational planning, systematized logistics, new housing technologies, and mobilization of self-help and other non-monetary resources. The proposed project will provide shelter to approximately

2,500 rural families, will demonstrate replicable, mainly self-help technologies and processes, and will establish an abiding institutional capability for producing low-cost self-help rural housing in Chile. This project will demonstrate that the GOC or local public or private entities may be able to meet the needs of the rural areas with greater speed and at less cost than other programs would entail.

A second USAID project in the rural sector involves improvement of the water and sanitary facilities of the rural poor. Approximately 80 percent of the houses in rural areas have no covered water supply or sanitary latrine. The project, on a pilot basis, will supply some 4,500 families with the most elemental pump and sanitary facilities, with technical assistance on how to install them, and with an orientation as to the significance of these items to improved health. The project obviously will fulfill objectives in both the housing sector and the nutrition and health sector. The provision of water and sanitary facilities can bring certain rural homes up to satisfactory living standards. Thus a project of this nature can have a major impact in easing the housing deficit problems of the rural areas.

c. Plans Beyond FY 1976

The public and the Government of Chile have demonstrated an intense interest in improved housing, and it is likely that additional projects in this sector will be sponsored. If a satisfactory basis for the currently proposed \$50 million Housing Investment Guarantee Loan can be arranged, an additional loan will be proposed for FY 77. In the rural sector, as new technologies are developed for providing low cost housing, additional pilot projects will be proposed.

## Nutrition

### OVERVIEW

Chilean efforts to improve the country's nutrition status have historically been heavily weighted towards children. The approach to improved child nutrition has been through traditional institutional feeding programs. These programs have grown steadily since their inception in about the mid-1950s until today some 550,000 school age children receive a daily ration in the classroom. In the mid-1960s a Maternal and Child Health program was added which now covers over 1.6 million pregnant and nursing women and pre-school-age children. The GOC estimates that these programs currently cost well over \$100 million annually, and there is every expectation these costs will continue to increase. Since the beginning of the programs the U.S. has donated nearly 1.1 billion pounds of food through the Title II program. Three major U.S. private voluntary agencies are working in Chile in the field of child nutrition. Nevertheless, the lion's share of these programs and the food used in them are paid for by the GOC.

These efforts have unquestionably improved the nutrition status of Chilean children in general. But despite this considerable progress, nagging problems persist. Among them are:

- (1) the relatively high percentage of infants with low birth weights, indicative of inadequate maternal nutrition (15% of the newborn infants weigh less than 2,500 grams), and
- (2) malnutrition of infants and pre-school age children among the lower 1/3 income group, most severe under 2 years of age.

### Infant Mortality

The infant mortality figures reflect one of the most dramatic consequences of these problems. Infant mortality in Chile, according to 1973 figures, is 65 per 1,000 live births. While this is a significant improvement over the 1963 level of 108 per 1,000, it still is very unfavorable in comparison with, for example, the present 18.5 per 1,000 U.S. figure or even with, for example,

Panama's 41 per 1,000. The recent PAHO study of infant mortality in Latin America indicates that nutritional deficiencies could have been the basic or associated cause of more than 30 percent of the infant deaths in Chile. Although precise data are not yet available, there is some evidence that there are also serious nutrition problems among other segments of the economy.

An attack on the underlying causes of malnutrition will require the commitment of a significant amount of resources over a long period. Real wage increases, changes in dietary habits, improvements in overall environmental sanitation, and improvements in general educational levels are all long-term high investment undertakings. However, nutrition experience indicates that there are short-term measures that can be taken to neutralize or alleviate the effects of the basic problems. For example, targeted free food distribution can compensate in part for low family income. Education campaigns to promote proper dietary habits, stress the importance of personal sanitation, and teach adequate food preparation have also been shown to improve eating practices and overcome deficiencies in environmental sanitation.

GOC authorities recognize the potential significance and importance of these short-term measures, and even though not always directly and systematically addressing the priority problems, an extensive institutional infrastructure has been created and significant annual financial support to programs of this nature has been made available. The on-going nutrition programs include a recently established national nutrition planning effort, and massive nutrition intervention programs go back some 10-15 years.

#### CONPAN

A little less than a year ago, in March, 1974, the GOC created the National Council for Food & Nutrition, with the Spanish acronym CONPAN. CONPAN is chaired by the Minister of Health and its board members consist of Ministers and Directors of a number of important GOC agencies. CONPAN is charged with responsibility for the formation of a comprehensive national nutrition policy. To accomplish this, CONPAN is expected to pull together all relevant existing information on food and nutrition, complete required new data, and translate these into action programs. CONPAN will finance research and development programs and has responsibility for redirecting the allocation of public and private food resources. By creating CONPAN (and providing it with a substantial budget), the GOC has officially adopted the view supported by Chilean

experts and shared with others in the field elsewhere, that improved nutrition is an inter-sectoral problem that must be dealt with through an intersectoral approach.

CONPAN is a fledgling institution and has yet to prove itself. At the same time much is going for it. Although the core working staff is still small in number, they are first class. There is no lack of Chilean expertise to draw upon to expand this staff, but low government salary scales could seriously affect the agency, both by failing to attract additional good people and eventually by causing its present staff to leave for better-paying jobs. It enjoys a very good position in the governmental structure and is so placed that it can channel information and action recommendations directly to the decision making levels. Aside from CONPAN, Chile has a number of institutions affecting or relating to nutrition which are in full operation. Examples are food research, nutrition laboratories, nutrition training at the university level, and linkages of all of these to international institutions.

#### A. I. D. Support

A. I. D. is supporting Chile's attack on its nutrition problems in several ways.

First, a Child Nutrition Grant project has been approved to (a) provide funds to the Mission for monitoring purposes; (b) assist U.S. voluntary agencies and their Chilean counterparts to sharpen the targeting of their food distribution programs; and (c) finance CONPAN's initial steps toward the establishment of a national nutrition planning and support system.

Second, a Nutrition Sector loan is now in preparation. This will support CONPAN in its efforts to complete the development and installation of a nutrition information and planning system. It will also provide financing for a series of research and development projects designed to identify Chile's most urgent nutrition problems and develop methods for tackling them. In addition, it will finance equipment to attack one problem which has already been pinpointed, i. e., inadequate treatment of drinking water in urban areas and small towns.

Third, support to the specialized nutrition programs of three U. S. voluntary agencies active in Chile is continuing under Title II of PL 480, although the world-wide cutback in Title II availabilities has reduced the outreach of these agencies and their Chilean counterparts. In 1966 a total of 2 million beneficiaries was reached with 100 million pounds of commodities. Present support levels represent only 37 percent of that figure, and as a result these programs are being redesigned to target on the highest priority groups as they are identified by CONPAN.

#### Other Donor Participation

The Interamerican Development Bank (IDB) has granted \$50,000 for a study of breast feeding in Chile. The World Bank (IBRD) has provided \$100,000 to the Chilean Development Corporation for various nutrition-related projects. No known capital assistance projects in the field are being actively considered by either entity.

The United Nations has shown interest in nutrition in Chile through the Pan American Health Organization, which conducts several small grant activities. The Ford Foundation has financed the National Survey of Nutrition through CONPAN. This will be an essential part of CONPAN's information system to be funded by the A. I. D. loan.

The Peace Corps currently has one professional nutritionist working as a volunteer with the National Health Service and one other scheduled to start soon. The Peace Corps has indicated willingness to provide further volunteer help in support of the A. I. D. project.

The U. S. volags are also developing programs in the priority problem areas as these are identified in the CONPAN planning system. SAWS has already developed a pilot program with the National Health Services for a comprehensive remedial care program for those children identified as being mal-nourished in the NHS out-patient clinics. CRS is in the final stages of developing a nationwide program to stimulate proper breast feeding and weaning practices. Finally, CARE has agreed to begin working on an in-depth study of the GOC's school feeding programs to study whether or not there are more cost/effective

alternatives to solve the nutrition problems of 6-13 year old children.

The improvement of human nutrition enjoys a high priority in Chile. Of equal, and perhaps greater importance, the Chilean concern in nutrition is focused on the poorest 1/3 of the population as well as the most vulnerable groups, namely, pregnant and nursing mothers and infants under six years of age. Within these groups the malnutrition problem for children under two years of age appears most severe. The nutrition priorities of the GOC coincide closely with A. I. D.'s concern that its assistance be directed at the lowest income groups.

#### Potential A. I. D. Activities

Chile's nutrition problem is believed to be due to four major causes: low income, poor feeding habits, deficient environmental sanitation, a low cultural educational level. A sector assessment performed by three U.S. experts in late summer of 1974 supports this view. The U.S. can be of direct assistance in the last three of these areas. Much would depend on what CONPAN proposes for future financing and whether or not these proposals would be appropriate for U.S.A.I.D. resources.

One of the results expected from the institutionalization of an information-gathering and planning capability in CONPAN is the early identification of sectors and areas which would benefit from nutrition projects and programs. As these target groups are identified and plans to deal with them developed, A.I.D. expects to be requested to supply limited amounts of technical and financial assistance.

To the extent that Title II foods continue to be available, feeding programs operated through the U.S. voluntary agencies will continue to be supported. In addition, grant funds are being provided directly to the voluntary agencies to enable them to better focus their efforts on priority areas.

Also, beginning in FY 75, loan funding is proposed for support of CONPAN activities. Funding would be provided for technical assistance, support of studies and surveys and for pilot projects. It is expected that the FY 75 loan of \$4.5 million would be sufficient

to help launch CONPAN on its way to becoming a viable institution, and that no further U.S. resources for that purpose would be required.

The need and use of U.S. resources beyond those mentioned above is somewhat less clear. One of Chile's greatest problems in the nutrition field, and one which CONPAN was created to help solve, is that large amounts of information exist, but is not properly channelled and collated so that it can be effectively used for problem solving.

Good opportunities exist for mass media educational programs in improved nutrition aimed directly at the poor. This is an area where the U.S. has considerable expertise. Again, the precise definition of these programs and how and where the U.S. can be of assistance would evolve from CONPAN directed research.

Insofar as CONPAN will be using the multisectoral approach, we can expect that U.S. assistance could be required in areas related to nutrition such as improved food production. One possibility that will be further explored is suspected severe malnutrition among the rural poor. Only a very preliminary first cut has been taken at this problem, but it is in CONPAN's agenda.