

# Cooperating to compete ? easier said than done

## Rural producer organisations in Chile

Author: Julio A. Berdegué, Latin American Center for Rural Development (RIMISP), Santiago, Chile< jberdegue@rimisp.org>

**Since 1990 the Chilean government has supported the participation of small-scale farmers in one of the most competitive economies in the developing world.**

Between 1990 and 2004, the Chilean government invested about US\$2.3 billion in small-scale agriculture. Key elements of the government's strategy included promoting rural producer organisations (POs) and developing their entrepreneurial capacities to help them become more profitable. This article is based on a survey of nearly 500 POs working to improve the economic performance of their members.

The government's effort to promote market-oriented producer organisations has generally been successful. In less than a decade, 780 organisations were formed, and about one-third of small-scale farmers became members. These POs provide a broad range of services for members and other farmers, including technical and financial assistance, marketing, accounting and legal services, as well as farm equipment, storage and processing facilities. But about half of these organisations have fewer than 30 members, and earned less than US\$33,000 per year. More than 70% of them have no paid staff. Nearly 50% of the POs have been successful in accessing national markets, and 13% in exporting their products.

## Household survey

An additional survey of 3000 small-scale farmer households showed that some rural producer organisations had helped members increase their incomes, while others had had a negative effect. On average, membership made no significant difference in terms of incomes. Whether membership increased the profitability of agricultural production depended on the product: if it was to be sold in spot markets, there was no positive effect. This was the case with wheat, beans and potatoes. If marketing the product required a degree of vertical coordination with the buyer, then a positive effect was observed. This was the case with milk and raspberries.



The surveys revealed that, after a decade of sustained efforts by the farmers, advisors and government agencies, only about 20% of the POs could be regarded as viable organisations. A PO was considered viable if, after three years, its income could cover its costs, if the proportion of the organisation's income derived from subsidies, donations and external grants was less than 60% of total income, and if its liabilities were no higher than 60% of its assets. About 45% of the POs had annual expenses that were higher than their revenues, 33% had extremely high debts (mainly with government credit programmes) relative to their assets, and 33% were dependent on subsidies and grants for more than 60% of their total income. In short, it has been easier to form these organisations than for them to become viable and sustainable.

## Success factors

For the POs that did become viable, autonomous organisations, three factors seem to explain their success. The first is that they must act as vehicles for change. Producer organisations can be effective for farmers who are willing to change their practices, but not for those who wish to maintain the status quo in the context of traditional commodity production systems. The second factor is related to the POs' networking capability. Effective organisations are embedded in dynamic multi-agent networks that link their members to ideas, resources, incentives and opportunities from beyond their rural communities.

Finally, a system of rules and incentives for the internal allocation of costs and benefits, both among the members, and between the farmers as a group and the organisation itself, is key to success. With effective and sustainable POs, these rules typically transmit undistorted market signals to individual members, to which the members are able to respond. However, if the rules are designed to 'shield' members from market signals, then the PO will fail. Furthermore, the systems of rules must minimise the transaction costs of negotiating, monitoring and enforcing agreements between the collective and individual farmers.

## Further reading

Berdegú, J.A. (2001)  
*Cooperating to Compete: Associative Peasant Business Firms in Chile*. PhD thesis. Wageningen University, the Netherlands.

## Links

[Latin American Center for Rural Development / Centro Latinoamericano para el Desarrollo Rural](#)

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