



The Management Centers in Chile

Arturo Barrera
Feb 2007

Chilean Management Centers are companies specialized in development the management and competitiveness capacities of individual family farms and of market-oriented rural producers organizations (known in Chile as associative peasant businesses firms). They are owned by consortia of RPOs, and generally they have the legal status of closed corporations.

This agricultural policy instrument was promoted by the Ministry of Agriculture since 1995, in order to foster the business development of smallholder, family-based agriculture. The set of instruments for productive development that this Ministry implemented through INDAP (Agricultural Development Institute) had to be complemented and strengthened with one more specifically focused in supporting smallholders in their transit from traditional producers to market-oriented entrepreneurs, by developing the necessary skills and competences to integrate and operate in open and more demanding markets. From this perspective, the Management Centers constituted a good alternative to support the expansion of decision-making, entrepreneurial and managerial capacities in this productive sector. The objective was to help peasant agriculture to take advantage of the opportunities and benefits of agricultural growth and openness to international markets. Some years later, in 1998, the Corporation for Productive Promotion (CORFO) began to support Management Centers focusing on medium-scale agriculture.

At present there are 12 Management Centers working for smallholders. They operate in seven of the eight most important agricultural regions of the country, providing services to around 120 RPOs, as well as an additional 400 individual small scale farms. They also provide indirect benefits to 3500 smallholders, who work with the RPOs without being members. The farmers working with Management Centers are engaged in a wide range of activities, including: dairy, berries, vegetables, beef cattle, honeybees and flowers. Five of these centers are located in the two major areas of milk production in the country.

The Management Centers are constituted by a board, a professional manager and some functional units depending on the emphasis of each one of them (e.g. accounting, business plans). Their teams of professionals and technicians vary from 5 to 8 members, depending on the size and activities of the center. In order to develop their impact potential, the Management Centers have constituted a national network in which, with the support of Fundación Chile, they share information and experiences, develop methodologies and software and set common criteria to systematize the obtained results.

The annual costs of a Management Center depends on the services it provides and the number of clients, ranging from USD 111,000 to USD 167,000. About 80% is financed by the State and the other 20% by the members and clients. In 2006, the public funds allocated to the twelve existing management centers reached USD 1.3 million.

The activities and services of the Management Centers are designed so that their clients: (a) have a better knowledge and understanding of their costs and revenues; (b) make better decisions on what to produce, what investments to make and how to improve their economic processes; (c) have more and better market information; and (d) have a greater understanding of, and positioning in value chains. Management Centers' provide services in at least the following areas: management control, planning of activities and resources, economic and commercial analysis of the market environment and training. Additionally, some provide legal advice, strategic planning, tax accounting, project evaluation and informatics consultancy services.

During the first years of implementation, the Management Centers were operated by third parties, mainly universities and NGOs. Nonetheless, it was soon decided that the RPOs should be the direct owners and directors of the centers, delegating their operation to teams of professionals and technicians specially hired for this task. This was a right decision since one of the expected outcomes of the Management Centers is to strengthen the institutional framework of family-based agriculture.

When creating new centers, INDAP calls for public bids, and consortia or groups of RPOs compete for the public funding, thus ensuring a transparent and efficient allocation.

In these years, some of the Management Centers have become good articulators of other support services implemented by the Chilean government through INDAP, the National Service for Training and Employment, Pro-Chile (export promotion) and other public agencies. These Management Centers are engaged in technological advisory services, training, Good Agricultural Practices, promotion of associativeness, and exporting promotion. Such articulation of public programs has allowed for a better integration and impact of policies targeted to family-based agriculture.

By establishing separate units to provide these additional services, the Management Centers *per se* remain focused on their own core functions and responsibilities. Some of the services are delegated to one or more of the RPOs that own a center. For example, marketing activities are undertaken by some of the RPOs that own the centers which have specialized in these activities and supply this service to the rest of the producers and RPOs that participate in the Management Centers.

Among the major achievements of Management Centers, at least most of them, are: the development of good management practices like the use of records; management control; the elaboration of operational and financial budgets; the comparison of performance indicators between RPOs and individual farms in the same value chain; the reduction of direct costs due to a better use of inputs; better negotiation with agriprocessors (nowadays 34% of the RPOs operating with the centers sell their products to agriprocessors, a much higher percentage than the average for small scale agriculture); economic diversification through the incorporation of new activities; and the expansion of capacities by the Boards of the Associative Peasant Business Firms (RPOs) that are part of the Management Centers.

Good examples of success in some of the issues aforementioned are the Maule Sur Management Center and the Agricultural Management Center, GEGA S.A. The former is located in Parral, VII Region of Chile, providing services to 10 associative companies and their corresponding family business which mainly produce raspberries. This management center has been the articulator of the development of a strategic vision of the activity in the area, of increasing exports in direct terms, and of working in a program for a more profitable productive structure of its users by incorporating new activities. GEGA S.A., on the other hand, is located in Río Bueno (X Region of Chile) having as users 7 milk collection centers. This management center, without having a direct commercial

activity, is the one that negotiates with the dairy agro-industry COLUN, some relevant elements for the development of the activities of producers and their milk delivery to the plant, such as the improvement of the network of cold storage, the access to credit for some investments in the Milk Collection Centers and the provision of information on payment schemes set by the agro-industry and their consequences for producers.

Some relevant problems during this time have been the weak coverage extension of the management centers, due to the still scarce consciousness regarding the importance of management for the successful performance of the agricultural businesses. When trying to produce behavioral changes from a perspective of entrepreneurship, the results are observed in the long run, which is not always in agreement with the demand imposed to public programs to rapidly produce noticeable results. Other problems are the fulfillment of the co-payment scheme by associative companies and small producers; and the not always easy articulation of management services provided by management centers and other relevant services for the development of peasant agriculture supplied by other institutions related to productive development, specially the transference of hard technologies.

From the observed successes and mistakes during a decade of operation of this experience, it is possible to suggest some lessons and recommendations. The first is that it is very difficult to think in the development of family-based agriculture without consistently considering its business development, and doing that requires of specialized instruments like the management centers. The second is that promotion of family-based agriculture requires of perseverance, particularly when applying policies and instruments to generate behavioral and attitude changes, like those related to formalization of the business. The third is that nowadays, due to higher demands of the market environment, the promotion of small farmers business is more intensive in terms of knowledge and resources. A good example of this is management, specially when there is certainty that this kind of services should be provided with quality and competitively. And fourth is that the fact that smallholder agriculture can count on an autonomous and professionalized institutionality, built on entities like those analyzed before, allows for having actors with a better interlocution; a basic aspect for the design, implementation and evaluation of more pertinent, efficient and participatory public policies.