



## Cooperating to Compete – Easier Said than Done

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Since 1990 the government of Chile has made a sustained effort to support the participation of small-scale agriculture in one of the most liberalized and competitive economies in the developing world. Between 1990 and 2004, about \$ 2.3 billion were invested by the government with this purpose. A key element of the strategy has been the promotion of Rural Producer Organizations (RPOs) and the development of their entrepreneurial capacities. Berdegúé (2001) conducted an in depth study of close to 500 RPOs whose main purpose was to improve the economic performance of their members.

The government's effort to promote the formation of this kind of market-oriented RPOs was very successful. In less than a decade, 780 of them were formed, involving about one third of the market-oriented small farms in the country. Half of these RPOs worked with less than 30 small farmers each, and had annual sales of less than \$33,000. Over 70 percent did not have paid staff. Close to half of the RPOs were successful in accessing national markets, and 13 percent exported their products. The RPOs provided a broad range of services to their members and to other small farmers, including technical assistance, financial, machinery, storage, processing, marketing, legal, market information and accounting services.

An econometric analysis of data from a 3,000 household survey showed that membership in an RPO did not make any significant difference in terms of annual net household income. The effect of RPO membership on the profitability (net margin) of agricultural production, depended on the product: if the product was sold in spot markets, such as in the case of wheat or beans, there was no positive effect, but if marketing the product required some level of processing and a degree of vertical coordination with the buyer, as in the case of milk, then a significant positive effect was observed.

The most important finding of the study was that after one decade of sustained effort by farmers, technical advisors and government agencies, only about one-fifth of all the RPOs could be considered to be viable organizations. In 1999, about 45 percent of the RPOs had annual expenses that were higher than their revenues, one third had extremely high debts (mainly with governmental credit programs) relative to their assets, and one third depended on subsidies for 60 percent or more of their income.

In short, it is easier to support the formation of RPOs than for them to actually make a difference in their members' economic performance or to become self-sustainable.

What explains the success of the 20 percent of these Chilean RPOs that had managed to become strong, viable and autonomous organizations? According to Berdegúé (2001, p. 253) three factors deserve special attention:

- (a) RPOs as vehicles for change – RPOs can be effective vehicles for farmers willing to change their practices, but not for sustaining the *status quo* in a context of traditional commodity production.
- (b) Networking – Effective RPOs are embedded in effective multi-agent networks that link the farmers to ideas, resources, incentives and opportunities that are located beyond the rural community.
- (c) Rules for allocation of costs and benefits – Successful RPOs have *over time* developed a system of rules and incentives for an adequate allocation of costs and benefits among the members, and between them and the RPO

as an entity. These systems of rules typically transmit undistorted market signals to each individual member, and reduce the transaction costs of negotiating, monitoring and enforcing agreements between the collective and the individual.

### **References**

Berdegúe, Julio A. 2001. Cooperating to Compete. Associative Peasant Business Firms in Chile. University of Wageningen, The Netherlands.