

COOPERATING TO COMPETE
ASSOCIATIVE PEASANT BUSINESS FIRMS IN CHILE

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SUMMARY

The research context

Since 1990 the government of Chile has made a major effort to support the participation of small-scale agriculture in one of the most liberalized and competitive economies in the developing world. In particular, the Agricultural Development Institute (INDAP), an agency of the Ministry of Agriculture, has spent close to \$ 1.5 billion on technical assistance and investment programs to enhance smallholders' capacities and to link them to more dynamic and profitable markets. A key aspect of this effort has been the formation and development of *Empresas Asociativas Campesinas* (EACs, or Associative Peasant Business Firms).

EACs are legally constituted organizations whose members or owners are exclusively or mainly small farmers and peasants who control the organization's decision-making process. Such organizations carry out marketing or value-adding activities directly linked (upstream or downstream) to their members' primary production, and their main purpose is to improve the performance of their members' farms as economic units engaging in market transactions.

About 780 of these EACs have been formed in the past decade, with a total membership of approximately 58,000 small farmers (about one-fifth of all small farms in the country). Their gross sales in 1998 amounted to about \$ 100 million.

This program reflects a new approach to improving the economic performance of small farms and the well-being of peasant households. It is a significant move away from the traditional strategy, which took a transfer of technology approach to agricultural innovation, and emphasized yield increases of undifferentiated commodities. This new approach, which has gradually evolved since the early 1990s, instead emphasizes: (a) promoting market-driven small-scale farming, which in Chile means diversifying into non-traditional enterprises and value-adding; (b) replacing the linear research-extension-farmer arrangements with more complex and diverse private-public networks and alliances; (c) recognizing EACs as the primary social agents of peasant agricultural development; (d) developing new facilitation approaches to support the new strategy.

The research questions

The research focused on the following questions: (a) Have EACs achieved their purpose of improving the performance of their member's farms and the income of their households?; (b) Are EACs sustainable as economic organizations?; (c) What is the relationship between the institutional and the economic performances of these EACs, and; (d) What changes in public policies are needed to improve the impact and sustainability of these EACs?

Conceptual framework and methods

A multi-disciplinary approach is used in this research, taking advantage of various theoretical perspectives, including: the concepts of agricultural knowledge and information systems, and of innovation as the product of social learning within multi-agent networks; the concept of transaction costs advanced by neoinstitutional economics; the theory of social capital; and the concept of design principles of institutionally robust organizations for collective action, proposed by comparative institutional analysis.

The research combines descriptive and analytical quantitative methods applied to large data sets obtained from national surveys of peasants households, small farms and EACs, with 14 qualitative in-depth case studies of specific organizations engaged in milk, potato, vegetable and raspberry

production, marketing and value-adding.

Main results

The main findings are as follows:

1. Small farmers' participation in EACs depends more on market and policy incentives than on the assets at their disposal. The exception is the poorest strata of peasant households, who tend not to participate in these organizations. Market incentives are closely linked to farmers' transaction costs. EAC participation is higher among small farmers working in product markets with high transaction costs.
2. Community groups and organizations facilitate the formation of EACs, as they provide the initial fora where alternatives can be discussed, weighed and decided upon. These local groups 'incubate' EACs. However, a local tradition of rural organization on its own does not seem to have a decisive influence, as many regions with high levels of civic organization have low levels of EAC membership, and *vice versa*.
3. The support of external agents (such as NGOs, private extension firms, etc.) is essential for the emergence of EACs. While local leaders build on farmers' willingness to question the *status quo* and to take action, external agents provide 'road maps' for collective action, as well as the networks needed to obtain information, expertise and financial resources.
4. Hence, EACs emerge through the interplay between all these actors: individual farmers, rural communities, external facilitators, governments, and markets. The nature of that initial interaction, and the balance of each agent's contribution, has a major influence on the EAC's characteristics and future performance.
5. EAC participation only has a significant positive impact on members' farms' net profit margins when it operates in markets with high transaction costs, such as the dairy sector. An EAC cannot offer any increased benefits for small farmers operating in markets with low transaction costs, such as the spot markets for undifferentiated commodities like wheat or potatoes.
6. EAC participation does not have a significant impact on members' total household income, even where markets with high transaction costs are involved. Whatever income gains are derived from on-farm production, they are undermined by the corresponding loss of non-farm employment and income opportunities.
7. A large majority of EACs would not be viable without significant public subsidies. Only around one-fifth of EACs could survive if the current government programs were suddenly discontinued; an additional 15% could probably consolidate their position reasonably quickly if they changed their way of doing things.
8. EACs established primarily to trade undifferentiated commodities in spot or wholesale markets tend to fail. They do so when members default on their agreements regarding the collective marketing of their produce. Members' commitment wanes when they realize that under these types of markets, the EAC cannot improve on market prices or other market benefits, whilst being a member implies additional costs and risks compared to individuals trading alone. Moreover, members withdraw selectively; they may work alone to market their products, yet still take advantage of other EAC services, usually access to public programs and subsidies. Under such conditions, these EACs are rapidly undermined.
9. On the other hand, EACs can be successful when their core activities aim at: (a) differentiating the members' raw products through value-adding; (b) providing price and market information when such information is costly to obtain and when obtaining a good price can be difficult without it; (c) overcoming investment, technology, or knowledge and management market access barriers; and (d) expanding the portfolio of clients, especially where highly perishable products are concerned.

10. Effective EACs are part of effective multi-agent networks. Linkages to actors outside the rural communities are crucial when operating in dynamic and competitive markets.
11. When EACs are embedded in a rural community, this aids more effective and less costly internal rules and decision-making processes, because of their members' close social and geographic proximity. For example, it makes monitoring members' compliance with agreements and obligations cheaper; reduces members' heterogeneity, in turn aiding the formulation of rules acceptable to all; enhances the social costs and consequences to members of not complying with agreements and obligations; ensures just and appropriate treatment of those who break the rules (due to better local information about the context in which the violation occurred); and provides greater and better organizational participation. However, such close social and geographic proximity can also undermine an EAC's operational rules; for example, when enforcement of agreements is hampered by family obligations or when those with greater power in the community exert an undue influence within the EAC.
12. An EAC will ultimately fail if its system of rules 'shields' members from market signals. Effective internal rules systems must address not only the allocation of costs and benefits between the individual members (i.e., the free riders problem), but also their distribution between the members as individual and independent farmers, and the EAC as a business-oriented organization. The balance between the EAC's economic and financial performance and sustainability, on the one hand, and the impacts of the collective effort on individual farms and households, on the other, depends on how this dual allocation problem is solved. Only when the rules clearly transmit market signals to individual members, *and* when such rules effectively reduce the transaction costs of negotiating, monitoring, and enforcing agreements between the EAC and its members, can this problem be solved.

Thinking about the future

The policies and programs designed during the past decade have run their course. Dozens of EACs are currently in crisis, signaling the need for a revised strategy to improve the quality of the existing EACs. Such EACs must be: (a) more effective in improving their members' performance as independent farmers in a market economy; (b) increasingly sustainable and autonomous as business firms, and; (c) institutionally robust as social platforms for collective action. To achieve these goals, revised policies:

1. Should develop alternatives for the thousands of smallholders who produce traditional agricultural commodities and who lack the capacity to diversify into new products and markets. For many, these alternatives are to be found in new rural non-farm activities. If the options for rural development continue to be restricted to agriculture, then the political pressures to set up ineffective EACs will be irresistible.
2. Should not assume that forming an EAC is always the answer. EACs are only effective under certain conditions and can only achieve a narrower set of goals than was thought 10 years ago. EACs are not a panacea for developing 'social capital' and civic participation in the countryside. This is true even for those policies and programs designed to improve the productive, technological and economic development of small farmers. To achieve such goals public programs must work with a broader set of rural organizations and groups, and not just rely on EACs.
3. Should promote social learning as part of EAC development. While significant progress has been made in moving away from the linear transfer of technology approach, it is still not enough. To a large extent, many continue to see the development of EACs as the outcome of pre-conceived social engineering initiatives. This study has found that successful EACs are the result of gradual and complex processes of innovation involving multiple agents with different perspectives. We need to invest more in finding approaches and methods to facilitate social learning processes in EAC formation and development.
4. Should invest in human capital. The effort to develop the human capital relevant to EACs has been

negligible compared to the hundreds of millions of dollars invested in ‘brick and mortar’ projects. We urgently need to decide how to provide all relevant actors with the knowledge, capacities and skills indispensable to their new domains of activity.

5. Should think and act in terms of networks. Effective EACs are part of effective multi-agent networks. We need to find out how to work with EACs in the context of these wider networks. We need new concepts, methods and tools to support such work.
6. Should understand that EACs only succeed if they transmit clear market signals. EACs offer an organizational platform for small farmers to access more dynamic and profitable markets; this almost always means that they will be subject to more, not less, intense competition. Understandably, public programs in support of peasant farmers want to somehow protect them from the adverse consequences of moving into fiercely competitive markets. Whilst no-one could question the need for mechanisms to ease the transition, the question is how we do it. Until now we have relied almost solely on direct subsidies and subsidized loans which very often decouple EACs from the market signals they are supposed to respond to. What are the insurance systems, the risk-sharing private-public contracts, the training programs, the government regulations and legal frameworks, that can help small farmers and their EACs learn their way in the new markets, but which do not create artificial ‘bubbles’ that burst when the external funding stops? We must stimulate and support institutional experimentation with this question in mind.

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ACRONYMS AND ABBREVIATIONS

APPA	Association of Small Farmers
BOGAN	Program for the Development of Small-scale Animal Production Systems (an INDAP program)
CAL	Milk Collection Centers (in Spanish, CAL, <i>Centro de Acopio Lechero</i>)
COOPEUMO	Peumo Inter-Municipal Peasant Cooperative (an EAC)
CORFO	Chilean Economic Development Agency (in Spanish, <i>Corporación para el Fomento de la Producción</i>)
EAC	<i>Empresas Asociativas Campesinas</i> or Associative Peasant Business Firms
FAO	United Nations Food and Agriculture Organization
FECOSUR	Federation of Cooperatives of the South
FODEM	Fund for Entrepreneurial Development (an INDAP program)
FOSIS	Solidarity and Social Investment Fund
GARIM	Rural Associative Group for Entrepreneurial Initiatives (in Spanish, <i>Grupo Asociativo Rural de Iniciativas Microempresariales</i> , an INDAP program)
Ha	Hectare
Hh	Household
HRB	Equivalent Irrigated Hectare
INDAP	Agricultural Development Institute
INIA	Agricultural Research Institute
IPM	Integrated Pest Management
PTT	INDAP's Technology Transfer Program
RIMISP	International Farming Systems Research Methodology Network
SENCE	The National Labor Training and Employment Service
SFO	Small Farmers' Organization
UFOCO Ltda.	<i>Unión para el Fomento de la Competitividad</i> , or Union for the Development of Competitiveness
VAT	Value Added Tax

CHAPTER 1. INTRODUCTION

Cuando la estrategia del gobierno de firmar tratados internacionales nos dejó al margen, nos quedaron dos opciones como era vender las tierras o cambiar. Y nos inclinamos por lo último.

When the government's strategy of signing international [trade] treaties left us aside, we were left with two options, to sell the land or to change. And we chose the latter.

Rafael Castro

Member of Sociedad Agrícola y Ganadera El Sobrante

1.1 Presentation

This book is about the experience of thousands of small farmers who, like Rafael Castro, decided to walk the difficult and uncertain path of innovation in order to survive in Chilean agriculture in the context of one of the most open and liberalized economies in Latin America. It is also about the policies and the public and private organizations that stimulated and supported this change.

I look at one aspect of the changes made by these small farmers: the formation, development and work of economic organizations, known in Chile as *Empresas Asociativas Campesinas* (EACs), or Associative Peasant Business Firms.

I define an EAC as:

a legally constituted organization whose members or owners are exclusively or mainly small farmers and peasants and who control the decision-making process in the organization; the organization carries out marketing or value-adding activities directly linked (upstream or downstream) to its members' primary production, and its main purpose is to improve the performance of its members' farms as economic units engaging in market transactions.

In Chile, as in other Latin American countries, economic collective action by small farmers and peasants has grown in the last 10 or 15 years in response to the simultaneous processes of economic liberalization, opening up of national economies to international competition, and privatization or outright elimination of many agricultural public services.

Economic collective action is one strategy used by small farmers and peasants in a context where market competitiveness determines the survival of any small farm that is substantially or primarily market-oriented (Berdegue and Escobar, 1997). Such economic collective action can take a variety of forms, and might include:

- the once-a-year collective purchase of seeds, fertilizers and other inputs in order to be able to negotiate lower prices;
- forming a local committee to hire a private veterinarian to improve milk production;
- negotiating local farmers' production contracts with a private agribusiness firm;
- establishing a processing firm to add value to fresh vegetables through grading, packaging and labeling;
- organizing a peasant-owned business firm capable of exporting non-traditional products such as flowers to countries in the North;
- establishing a municipal savings and loans committee to partially replace some of the financial services that used to be provided by a now-extinct public agricultural development bank.

Economic collective action can be conducted by groups and organizations formed solely for that purpose, or by others involved in many diverse activities, such as providing social services, political

and social representation, improving local public infrastructure, or managing natural resources.

EACs are a particular type of economic collective action organization. They differ from a conventional private firm in that their own objectives, even those of an economic nature, are subsidiary to their fundamental purpose of improving the economic performance of their members' farms. They differ from informal groups because their organizational objectives and obligations are different to their individual members' and because they can participate in formal and enforceable contracts with market and non-market agents. And, finally, they differ from other small farmers' organizations and groups that provide agricultural support services such as credit or technical assistance, in that their core activities focus on processing their members' raw products and/or on marketing of inputs or products required or generated by their members' farming systems. However, they can and often do provide additional services in support of agricultural production.

Since 1990, but increasingly since around 1993, Chile's Agricultural Development Institute (INDAP), the national public organization charged with developing small-scale agriculture, began to move away from its conventional promotion of primary production of traditional crops. Its new focus was on 'reconverting'¹ peasant agriculture by:

- (1) linking peasant farms to more dynamic and profitable markets;
- (2) diversifying away from traditional commodities towards non-traditional crops and enterprises, and;
- (3) placing a much stronger emphasis on farm management, marketing and value-adding, in contrast to the traditional almost exclusive reliance on the technological improvement of on-farm primary production.

This new strategy required three major institutional changes. First, it required the development of strong, business-oriented small farmers' organizations. An individual peasant could not expect to approach a non-traditional market in the same isolated manner as he or she would a commodity market. Second, it meant developing multi-agent networks, since the old linear arrangements of agents based on the Transfer of Technology (ToT) approach simply could not even begin to deal with the organizational and institutional complexity implicit in the new strategy. Third, new approaches to facilitation were needed, since those that were part of the ToT school proved inadequate for dealing with the more complex processes of change and innovation that were being stimulated.

Several hundred EACs were formed in Chile with the stimulus of the new policies and their concomitant incentives. A decade since this strategy was launched, the time is now ripe to assess its results, achievements, failures and limitations.

1.2 The research questions

1.2.2 Public policy perspective

From the point of view of public policies, I attempt to answer the following questions through this research:

- (1) Have EACs achieved their purpose of improving the performance of peasant agriculture in the context of a market economy open to international competition?
- (2) Are EACs sustainable as economic organizations, or, as is often the case in many Latin American countries, are they simply dependent appendices of the public programs that created them?

¹ The label 'reconversion' has lost favor in Chile in recent years, as it tended to be interpreted by many as excluding traditional crops, enterprises or activities. However, I still think it is an appropriate concept to describe the purpose and objectives of the new policies put in place since the 1990s. I define this reconversion policy as an attempt to 'retool' peasant agriculture with the human, financial, physical, natural, social and political assets needed to survive and develop as a viable economic and social agent in the context of an urbanized society and an internationally competitive market economy.

(3) What changes or adjustments to public policies and their instruments are needed to improve EACs' impact and sustainability?

These questions are important for the 58,000 small farmer members of the 778 Chilean EACs, for whom these organizations constitute the main, or one of the main, vehicles for accessing different markets for goods and services. From their point of view, better designed and implemented public policies and instruments in support of their organizations should result in greater benefits from their collective efforts.

These questions also matter to the Government of Chile and especially to INDAP, who is investing around \$ 160 million² per year to support small-scale agriculture, much of it in programs directly targeted at EACs. It is quite obvious to anyone familiar with Chile that INDAP still has a long way to go in designing more pertinent, efficient and effective policies and programs to help small farmers consolidate their position in the country's new economic and institutional context.

These questions are also important because major flaws are coming to light in the policies and programs designed in the early and mid-1990s. A large number of the EACs formed in the past five to 10 years are failing and falling apart, and many people are becoming increasingly and justifiably skeptical about the policies' continued effectiveness. Unfortunately, much of the current debate, while necessary and even indispensable, is weakened by an almost complete lack of research to enlighten the discussion and separate the many myths, political preferences and expressions of self-interest from the more substantive and grounded criticisms.

Very few people in Chile would today question the need for in-depth reform of the current policies and instruments which support EACs. Nor would they question the need for a new generation of policies to improve their pertinence, efficiency and impact. To me it seems that there is no better place to start this dialogue than by taking a hard look at what has actually occurred over the past decade.

1.2.3 Conceptual perspective

From a conceptual point of view, the main aim of this research is to understand the relationship between the institutional and the economic performance of these EACs. Hence the title of the book: *Cooperating to Compete*.

By 'institutional performance' I refer to two complementary processes:

- (1) Internal institutional performance: the development of rules governing the interactions between EAC members, allowing them to improve the efficiency and effectiveness of their collective action.
- (2) External institutional performance: the formation of networks used by the organization to interact with the broader rural community, with governmental programs and policies, with market agents, and with intermediate organizations and agents involved in promoting agricultural and rural development.

There are many 'technical' factors that can have a strong impact on the effectiveness and sustainability of an EAC. For example, good or bad management can make or break a business-oriented organization. Similarly, most would agree that if you are operating in a competitive market environment, it is important to do the right things and do them right in terms of the technologies and processes used by the EAC, in order to turn out a product that conforms to the demands, preferences and requirements of your clients or consumers.

² All monetary figures in this book are in US dollars, unless otherwise stated. The exchange rate to the Chilean peso is the rate published by the Central Bank of Chile for the last day of the month to which the figure corresponds. Whenever a monetary sum is mentioned in one of the interview quotations included in the book, it has also been converted into US dollars, even if the person quoted actually mentioned Chilean pesos.

While the social capital literature has recently drawn attention to the relationship between rules, norms, networks and economic performance³, few studies demonstrate how these two factors relate to each other in the case of small farmers' organizations trying to compete in a developing country with a market economy.

As I will discuss in the next chapter, several studies show how rural economic organizations with 'bridging' social capital are better able to capture more resources from external agents (Woolcock and Narayan, 2000; Bebbington, 1997). This will make sense to anyone familiar with rural development programs, either of the type designed by governments, international donors and agencies, or by local NGOs: those better organized tend to be favored in the allocation of resources. By the same token, often these same institutional and organizational qualities prove insufficient when it comes to managing these resources in a way that sustains the organization when the external support comes to an end.

There is also an abundant literature showing how institutionally 'robust' communities and organizations tend to manage common property resources better, especially when there has been a long-standing association between these resources and their managers (Ostrom, 1990; Uphoff and Wijayaratna, 2000).

But few of these publications explore the specifics of the relationship between the institutional and the sustainable economic performance of business-oriented rural organizations. My research aims to contribute to filling this knowledge gap.

1.3 The context

1.3.1 The economic and social context⁴

It is vital to stress that the formation and development of EACs has taken place in a national context of rapid economic growth and of very significant improvements in most social indicators. This favorable environment is very different to many other Latin American countries, where rural economic organizations have to struggle against a backdrop of economic and social stagnation or even involution.

After 17 years of military rule and extreme neoliberal economic policies, in 1990 the new democratic government headed by Patricio Aylwin and his Center-Left coalition established a program of economic and social policies labelled "*Growth with Equity*". This program called for the maintenance of the fundamental aspects of the neoliberal macroeconomic policies put in place under the military, complemented by an aggressive expansion of social policies to tackle the very high poverty rates and great inequality inherited from the dictatorship. This basic development strategy has been maintained by the last two democratic administrations (Eduardo Frei Ruiz-Tagle, 1994-2000, and Ricardo Lagos, 2000-2006).

This program led to an average 8% annual growth rate of Gross Domestic Product (GDP) in the 1990s, to an increase of 66% in the per capita GDP between 1989 and 2000, and to a rapid reduction of the annual inflation rate to around 4% from two-digit levels. The economy is increasingly export-oriented, and the value of exports grew in the '90s by about 90%.

Because of the positive performance of the economy and also due to the strong growth in public social expenditure (up by 140% in the 1990s, reaching US\$ 747 per capita in 1999), the percentage of poor households fell from 39% in 1990 to 22% in 1998, and the rate of extreme poverty also dropped in the same period from 13% to 6%. Rural poverty has fallen from 40% to 28%, and rural extreme poverty also dropped from 15% to 9%. Even in areas where rural poverty is concentrated, the real per capita

³ For a recent review, see Woolcock and Narayan, 2000.

⁴ Section based on official data from Chile's Central Bank (www.bcentral.cl) and Ministry of Planning and Cooperation (www.mideplan.cl).

income of poor households grew by over 50% between 1996 and 2000 (Ramírez et al., 2001).

Illiteracy has been low for many years, and in 2000 it affected only 5% of the population. Essentially all children attend and complete primary education, and about 90% of those in the relevant age group attend secondary schools, even in the lowest two income quintiles.

Age expectancy at birth is 78 years for women and 72 years for men. The child mortality rate is only 10 per 1000 and decreasing. About 80% of the population is affiliated to one of the two health systems: one public, the other private.

However, there has been no progress whatsoever in the reduction of inequality: in 1990 the richest one-tenth of the population had an income 14 times larger than the poorest one-tenth; a difference that by the year 2000 had grown to 15.3.

It is also important to understand that Chilean society is highly urban. In the year 2000, 86% of the population of 15 million people lived in urban locations. Even those households whose main source of income is agriculture are rapidly becoming urban dwellers. In 1996, 40% of those 'agricultural households' lived in urban areas, compared to 30% only six years before (Berdegúe et al., 2001).

1.3.2 Agriculture in the 1990s⁵

Chilean agriculture has experienced significant growth since the mid-'80s, with an average annual rate of growth of 6% between 1985 and 1997. Since agricultural growth is slower than the economy as a whole, its contribution to the national GDP dropped from 8% in 1990 to only 6% in 1997.

Employment in agriculture also decreased from 22% in the mid-'80s, to 14% in the late '90s. The gap in labor productivity between agriculture and the economy as a whole has continued to expand steadily, and by the mid-'90s the difference was 42% between both indicators. In a context of growing employment outside agriculture and increasing educational standards among the rural population, this gap in labor productivity creates a tremendous incentive for agricultural workers and members of farmers' households to look for jobs outside the sector.

However, these average figures mask the considerable heterogeneity within Chilean agriculture. The same economic and institutional policies that created a very favorable environment for the expansion of export agriculture, have led to the decline of the 'traditional' agricultural sector, i.e., the production of basic food commodities for the domestic market.

Chilean agricultural exports more than tripled in value between 1987 and 1996, while the positive agricultural trade balance more than doubled in the same period. Fresh fruit and forest products each represented slightly less than half of the total value of agricultural exports in 1987, but 10 years later their relative contribution had dropped, showing the increasing diversification in exports, with the growing importance of the agroindustrial sector. In any case, all of these non-traditional exports have grown by between 300% and almost 600% since the mid-'80s.

In contrast with the very successful expansion of export agriculture, the area under traditional commodity crops for the domestic market shrank by almost one-third in the decade prior to 1996. In part, this is due to significant growth in yields, allowing Chile to more or less maintain production levels of domestic crops, despite using less land.

However, the main factors behind the relative stagnation of traditional agriculture have been:

- opening the economy to international competition through a unilateral reduction of import tariffs and the signing of bilateral free trade agreements with a large number of countries, and,
- the appreciation (by over 30%) of the Chilean peso against the US dollar; paradoxically the outcome of Chile's success in its export-promotion policies and in attracting direct foreign investment.

⁵ Section based on data from Chile's Ministry of Agriculture, Office of Agrarian Studies and Planning (www.odepa.gob.cl), Central Bank (www.bcentral.cl) and Ministry of Planning and Cooperation (www.mideplan.cl).

For these reasons, real prices for the main traditional products dropped sharply between 1987 and 1997: wheat by 37%; sugarbeet by 36%; potatoes by 43%; maize by 28%; and dry beans by 48%. During the same period, the Consumer Price Index (CPI) increased by over 350%. The CPI more or less reflects the cost of the inputs and consumer products that small farmers need to buy given the decreasing income from their crops.

Clearly then, since the early 1990s peasant agriculture in Chile has been subjected simultaneously to 'push' (decreasing value and profitability of traditional crops) and 'pull' (increasing economic attractiveness of non-traditional enterprises) incentives to move away from the traditional crops that almost completely dominated its farming systems 10 or 15 years ago. Rafael Castro, the small farmer quoted at the start of this chapter, was referring to this when he said: "*to sell the land or to change. And we chose the latter.*"

As I will discuss later in this chapter, agricultural development policies aimed at small farmers picked up these signals in the early 1990s and shifted from the conventional emphasis on increasing commodity yields to supporting the 'reconversion' of peasant agriculture into non-traditional and high-value products.

1.3.3 Peasant agriculture in Chile

According to the 1997 Agricultural Census, Chilean agriculture is composed of about 330,000 farms, of which about 8% belong to medium and large capitalist farmers and agribusiness firms. As in any other Latin American country, there are many different types of peasant farms and farming systems (CEPAL, 1984; Escobar and Berdegué, 1990), but these can be simplified into two very broad categories:

- (1) *minifundia*, where the household engages in subsistence agriculture to supplement other farm and non-farm sources of employment and income, and;
- (2) market-oriented small farms, where family-based agricultural production is the central activity around which the household's livelihood strategies are structured and organized.

Most of the *minifundia* have their origin either in the early occupation during colonial times by impoverished Spaniards and *mestizos* of the areas surrounding the large *Haciendas*, or in the forced relocation of the native people a few decades after independence, in the early 20th century.

A recent study based on 1997 data states that the *minifundia* category includes 102,766 farms (31% of all farms in Chile) covering 1.2 million hectares of land (2% of the total), of which slightly less than half is used for agricultural production. This gives an average of slightly more than five hectares of crops and pastures per farm (ODEPA, 2000). Other authors put the number of these subsistence farms at about 130,000 (Echenique, 2000). Most of these households are poor or extremely poor; their income is increasingly dependent on non-farm rural employment (Berdegué et al., 2001) or on being hired by commercial farms (Ramírez et al., 2001). In the past 10 years or so, monetary and non-monetary subsidies from different social programs have grown in importance in the composition of the total income of these households. Out-migration by these households' younger members is high, as an expanding economy and better educational standards offer them non-rural employment opportunities (Ramírez et al., 2001).

According to ODEPA (2000), market-oriented small farms number about 176,000, or about half of all farms in Chile, although Echenique (2000) puts their number at around 100,000. They cover eight million hectares (16% of the national total), of which slightly more than 40% are under crops or pasture (ODEPA, 2001). According to ODEPA (2001), market-oriented small farmers in Chile control around 40% of the area under annual crops, vegetables, and grapes, and between one-quarter and one-third of fruit orchards and improved and seeded pastures. These farmers also own around one-third of the bovine cattle, dairy cows, and sheep, and an even higher proportion of the goats and pigs. Over two-thirds of these farms originated during the expansion of the agricultural frontier in the late 19th and early 20th centuries, while the remaining third or so are survivors of the agrarian reform process (1964-73) and its liquidation under the military dictatorship in the mid-'70s (Box 1.1).

Box 1.1 Land reform in Chile

The agrarian reform was designed to create collective farms (*asentamientos*) from the *Haciendas* expropriated from the large landowners. The members of the *asentamientos* were basically extremely poor landless peasants who worked for the *Haciendas* under a pre-capitalist system known as *Inquilinato*. After the military coup in 1973, the new government dissolved the *asentamientos*, returned a large fraction of the land to the original owners, and sold the rest to the peasants as private farms (*parcelas de Reforma Agraria*). More than half of the new *parceleros* eventually lost the land they received, either because they could not pay the government back, or simply because they could not survive the radical neo-liberal policies of the military dictatorship and the concomitant lack of public agricultural support services. Those market-oriented small farmers who survived are thus the veterans of an extreme liberalization process, and many of them evolved, in less than one generation, from illiterate, socially marginalized landless servants under the *Hacienda* system, to small-scale entrepreneurs operating in a liberalized and internationally competitive market economy.

1.3.4 The Agricultural Development Institute (INDAP)

A brief history

The Agricultural Development Institute (*Instituto de Desarrollo Agropecuario*, INDAP) was founded in 1962 as part of a number of timid agrarian reform measures taken by Jorge Alessandri's right-wing government. This government was under pressure from the Kennedy administration in the USA and its Alliance for Progress, in response to the Cuban revolution. From 1964 under Eduardo Frei Montalva's⁶ Christian Democrat administration, and to a greater extent under Salvador Allende's left-wing Popular Unity government, INDAP's political, financial and technical roles were expanded as part of the agrarian reform process. After the 1973 coup the military government put an abrupt end to INDAP's political role of supporting the emerging class of peasant landowners. It was reduced to a small and extremely weak agency providing extension services and small loans to fewer than 15,000 small farms, although its coverage was expanded in the late 1980s to a total of about 25,000 beneficiaries. In 1978, INDAP pioneered the semi-privatization or outsourcing of extension services, in an arrangement in which private consultant firms were subcontracted and paid with public funds to deliver technical assistance to small farmers (Berdegué, 1998).

By the end of the military dictatorship in 1990, INDAP was limited to managing a rather small credit program and the outsourced extension service for small farmers. Its focus was strictly on providing on-farm support for improving yields. To be fair, between 1984 and 1990, many commodities of great importance to small-scale farmers were achieving rather favorable prices, so it made economic sense for these growers and their advisors to put their energy into improving their yields as a way to increase income.

INDAP's extension approach at this time was based on the Training and Visit system, promoted under the auspices of two consecutive World Bank loans that supported the 'voucher system' of semi-privatized extension. As has been described elsewhere in detail (Berdegué, 1998), after an initial period of minimum governmental supervision of the work of the extensionist that ended in disaster, INDAP's Technology Transfer Program became rigid in its approach, fixing such parameters as the numbers of farmers per extensionist, or the number of farm visits and field days per year per farmer, and valuing the number of activities conducted over the actual results achieved. Farmer participation did not enter into the picture at all, except where individual extensionists were bold enough to deviate from official prescriptions. The private consultant firms were selected and hired by INDAP through a restricted bidding system that excluded any agency (such as NGOs) that could be remotely suspected of not being sympathetic or at least neutral to the military regime.

During the military regime the formation of any sort of grassroots organization was strictly forbidden, so INDAP's extension approach emphasized working primarily with individuals. INDAP's loans were

⁶ Not to be confused with his son, Eduardo Frei Ruiz-Tagle, who was President of Chile between 1994 and 2000.

all given to individuals, never to an organization, and were mostly short-term to finance the direct cost of the annual production cycles. There were few and limited financial instruments to support long-term investments on-farm.

With the return to democracy, the new INDAP authorities pushed for a new law to allow the institute to work with farmers' organizations, and to provide new forms of support. As soon as the law was approved, INDAP declared that one of its three main objectives was to strengthen farmers' organizations (INDAP, 1992). These organizations were now allowed to be subcontracted by INDAP to deliver extension services to their members and other small farmers and began to receive short and long-term loans so they could carry out economic activities on their own.

The system of working through private organizations to deliver INDAP technical support services was maintained, but participation was immediately opened to NGOs, farmers' organizations, universities and to any other agency that could legally provide these types of services to small farmers. Extension methods were soon revised and updated.

However, between 1990 and 1993 or so, a tension arose in INDAP's work with farmers' organizations. This tension was between its social representation role (an important policy objective in the years immediately following the return to democracy), and its role as a platform for the economic development of its members. This debate not only touched the public sector institutes, but also the farmers' organizations, as well as NGOs, academic centers, and so on.

This debate was tied up with discussion about the basic strategy that Chile should take to support peasant agricultural development. On the one hand, some argued that public policies should emphasize broad social objectives and should develop institutional and economic barriers to partially isolate and protect small farmers from the effects of the country's free market policies. Others - myself included - thought that an agricultural or rural development policy going against prevailing trends and processes in the wider society and in the economy in particular, could not hope to succeed. Instead, we argued that development policies should create incentives, transfer assets, and support the emergence of new skills so that small farmers could have a better chance of being successful market agents.

The debate began to settle down as the crisis in traditional agriculture - in which most peasants were involved - worsened. With the accelerated opening of the economy and agriculture to international competition and the drop in the prices of most agricultural commodities for the domestic market, it became increasingly clear that unless action was taken peasants, and in particular those who were already market-oriented, would soon find themselves in an untenable position. The need to diversify away from traditional commodities and to gain new positions in the value-adding chain, was spontaneously recognized by a growing number of small farmers who started to loudly demand that INDAP reorient its support in that direction.

In 1992 INDAP and the Ministry of Agriculture approved an official document that called for the restructuring of the technical assistance services along those lines. By 1993 the training program for extensionists was revised to give top priority to learning about non-traditional crops. More or less simultaneously, a number of new technical and financial instruments were designed and approved to stimulate the formation and strengthening of EACs as the key organizational platforms through which small farmers could link to new, more dynamic and profitable markets. A new Marketing and Agroindustry Department was formed in INDAP to support market studies and the formulation and evaluation of investment projects in those areas. A huge effort was launched jointly by INDAP and FOSIS to expand small-scale irrigation systems, essential if small farmers were to move away from wheat and potatoes into vegetables, fruit and flowers.

In 1994 a fresh INDAP administration strengthened this new approach through three strategies:

- (1) an acceptance that the productive orientation of small-scale farming was market-driven (which, in the conditions of Chile at that time, meant among other things diversification away from commodities into non-traditional enterprises and value-adding);
- (2) the replacement of the linear research-extension-farmer arrangement by more complex and diverse private-public networks and alliances, organized within a clearly-defined rural territory and geared

towards giving peasant farmers access to a clearly identified 'market opportunity', and;

- (3) the recognition of business-oriented farmers' organizations (EACs) as the primary social agents for peasant agricultural development policies (INDAP, 1994 and 1995).

At first, these strategies were implemented via Microregional Development Projects (INDAP, 1995); projects in which one or more EACs, operating in a well-defined territory, would interact with as many private and public agents as necessary to compete successfully in a clearly identified market. Each of these projects would involve a fairly large number of small farms (500 to 1000 or so). Instead of channeling its different technical and financial instruments individually, INDAP would provide all the necessary support in one single decision, against a well evaluated project proposal designed at the local and regional levels, with greater (but, in practice, limited) participation of the farmers through their EACs. Several of the EACs discussed in this book emerged from one of these Microregional Development Programs.

At about the same time, INDAP began working on what were unofficially called 'mega-investment projects', projects costing US\$ 1 million or more, to develop the production, marketing, processing and organizational infrastructure required to give small farmers access to particularly demanding and competitive markets, such as processed fruit and vegetables or cut flowers for export. While working for INDAP in 1994, I was directly responsible for designing and implementing the first of these large projects (to produce top quality fresh vegetables for the upmarket supermarkets in Santiago). This project, and most others of its kind, failed miserably for reasons that will be discussed later.

By 1995 it was clear that the formulaic approach of the Microregional Development Projects was too rigid, given the diversity within rural areas. In particular, INDAP and the EACs soon learned that most market opportunities could not accommodate dozens or hundreds of small farmers, and that in many instances the relatively complex organizational arrangements were too cumbersome to manage and almost inevitably escaped the control of the farmers themselves, even when organized.

INDAP thus abandoned this last attempt to apply a formula to implement its strategies. From then on, any arrangement would be supported provided that: (a) it was based on an EAC, and (b) it was market-driven and market-oriented.

Since INDAP was already working with over 100,000 households by 1994, the integration of individual farmers into the new scheme was necessarily gradual, if nothing else because of the limitations of human and financial resources. A given local group of farmers - usually working with one of the private extension consultants - would first receive partial support for two or three years to gradually develop a market-oriented project and an EAC. After that period of time, if the group did not manage to achieve these objectives, INDAP would discontinue its support. This policy decision proved to be a grave mistake since it induced farmers to artificially form EACs even when they did not need or want one, or simply needed more time for their project to mature. Those farmers who did form an EAC (nearly all of them, given the incentives), could then benefit from better technical and financial support to implement their market-oriented project.

INDAP's programs and instruments

INDAP has developed a large number of programs and instruments to deliver the basic strategies outlined above. Table 1.1 briefly describes the main programs and instruments operating in 1999.

One INDAP policy instrument used by many EACs to launch their projects was the Contest of Projects for the Modernization of Peasant Agriculture (Table 1.1). Instead of having to apply to each program separately, an EAC could enter a project into this contest. Their application could include funding for all types of technical and financial support required to launch their market-oriented project: legal services, technical assistance, management and administration staff, working capital, long-term loans to buy, build or equip any sort of productive, marketing or processing infrastructure, market studies, etc., without limit. When an EAC expressed its interest in participating in the contest, INDAP would hand out a grant so that it could hire the technical staff necessary to formulate the project proposal. The recipient of these grants and loans would be the EACs themselves, who of course retained the full right to select and hire whatever technical or managerial staff they required for

their project. About 940 of these proposals were approved between 1995 and 2000⁷. Many of the EACs studied for this book launched their projects using this facility.

The effectiveness of this instrument was constrained by inadequate and insufficient human resources within and outside INDAP to formulate good market-oriented projects and to then be able to distinguish the good ones from the bad ones. In addition, very often when the technical staff rejected a project proposal during the evaluation phase, the EAC would use their newly acquired political power to publicly denounce this result, in many instances forcing a reversal of the technical decision.

All of the policies and programs listed in Table 1.1 were possible thanks to the sustained growth of the INDAP budget, growing at an average annual rate of about 6% in Chilean pesos, adjusted for inflation. In 1998, INDAP had a budget of US\$ 164 million, nearly two-thirds of the total budget of the Ministry of Agriculture.

During President Eduardo Frei's term (1994-2000), INDAP spent or invested close to US\$ 900 million to support about 150,000 small farmers and their households⁸. Of this amount, about 6% corresponds to long-term loans and 4% to short-term loans to rural organizations (including EACs, but not restricted to them). Approximately two-thirds of the loans to rural organizations were allocated through the Contest of Projects for the Modernization of Peasant Agriculture. Slightly more than one-third of the budget during 1994-2000 was allocated to individual small farmers - of which about 40% were EAC members - through long and short-term loans (37% and 63%, respectively). An additional 15% financed the cost of the technical assistance services provided by private subcontractors, in many cases the EACs themselves. About 8% of the budget is spent on a number of subsidies to EACs, other rural organizations and individual farmers, for a number of professional services (e.g., market studies and evaluation of investment projects) and farm and off-farm investments. INDAP's administrative overhead is around 19% of its budget, and about 10% goes to paying the foreign debt of the Institute (essentially the World Bank loans). The remaining 5% is spent on a number of smaller programs.

Around 33% to 40% of INDAP's annual budget is financed by the recovery of loans to farmers and organizations, a similar proportion through fresh funds from the Ministry of Finances, 14% through foreign loans, and the rest through the sale of INDAP assets and various other sources.

⁷ Plus an additional 400 that were approved under individual projects.

⁸ These and the following budget data come from the Annual Reports published by INDAP. The annual accounts are audited by the National Comptrollers Office and can be trusted to closely reflect actual expenses.

Table 1.1 Programs and instruments operated by INDAP in 1999

Area	Program or instrument	Description
Financial services	Short-term loans to individuals	Finances all types of annual crop and animal production expenses, with loans up to US\$ 7,772 and an annual interest rate adjusted for inflation of 7.8%
	Short-term loans to organizations	Finances all types of annual crop and animal production, marketing, and processing expenses. There is no maximum limit to the amount that can be lent. The interest rate is the same as that for individual loans.
	Long-term loans to individuals	Finances all types of investment projects related to agricultural production, marketing, processing, machinery, equipment, buildings, etc., up to US\$ 18,660. The annual interest rate adjusted for inflation is 7.8%
	Long-term loans to organizations	Finances all types of investment projects related to agricultural production, marketing, processing, machinery, equipment, buildings, etc. There is no maximum limit to the amount that can be lent. The annual interest rate adjusted for inflation is 7.8%
	National Contest for the Modernization of Peasant Agriculture	Competitive fund that in a single decision allocates all the forms of support necessary to carry out a predefined development project. The contest gives priority to projects that will allow a farmer or group of farmers to carry out innovative economic activities. The project investments are financed with 75% long-term loans, 15% in a direct subsidy to offset the risk of innovation, and 10% that is contributed by the beneficiaries. The professional services required by the project are subsidized with up to US\$ 500 per direct participant. INDAP also subsidizes the cost of the professional services required to prepare the project proposal.
	Irrigation and Drainage Program	This program operates under two arrangements: (a) Direct financing of minor projects, in which INDAP allocates up to US\$ 3,111 per project in the form of a direct subsidy to the beneficiaries. (b) Law 18,450. This law established a subsidy to stimulate private investments in irrigation or drainage by any farmer in Chile; the subsidy is administered by a special agency, and funding is allocated through a competitive system. To facilitate the access of small farmers to the benefits of this law, INDAP subsidizes the cost of the engineering and economic evaluation studies, and then provides a bridging loan of up to US\$ 750,000 per project. INDAP is paid back by the farmers after they receive the subsidy established by this law, once the irrigation or drainage system is built according to specifications.
	Program for the Development of Small-scale Animal Production Systems	This program, known as BOGAN, provides a direct subsidy to projects that involve: (a) improvement of infrastructure for animal production or for processing and marketing of animal products (up to US\$ 3,111 for on-farm investments, and up to US\$ 31,000 for off-farm associative projects), and/or (b) improvement of the herds (up to US\$ 1,867 per farmer).
	Program for the Recuperation of Degraded Soils	This program subsidizes investments carried out by small farmers to control or revert soil degradation processes. It considers several different subprograms, such as restoration of natural pastures or building of works to control soil erosion. Depending on the nature of the investment, it subsidizes between 50% to 80% of the total cost, with a maximum of US\$ 6,900 per farm. To access this program, the farmer must submit a Soil Management Plan. The subsidy is allocated after the plan has been implemented according to its specifications. INDAP can give a loan to the farmer to carry out the investments, and the loan is paid back with the subsidy.
	Subsidy for Financial Articulations	The purpose of this subsidy is to stimulate private banks to give loans to small farmers. The subsidy offsets the higher transaction costs of lending to a small farmer. Through a system of public biddings, INDAP gives a subsidy of US\$ 175 per client to the private banks.
	Forestry Subsidy	Law 19,561 establishes a subsidy to stimulate forest plantations and management. The subsidy is administered by another agency. The subsidy is allocated once the project has been implemented according to specifications. In the case of small farmers, INDAP provides a bridging loan so they can carry out the project. The loan is paid back with the subsidy. The amount of the loan (and subsidy) differs according to regions and types of forests, but in the case of small farmers it is calculated so that it can pay up to 75% of the total cost of planting up to 15 hectares per farmer.

Area	Program or instrument	Description
Professional and technical services	Entrepreneurial Advisory Services	<p>This program subsidizes the cost of the advisory services provided to small farmers or their organizations by private subcontractors (private consultants, NGOs, farmers organizations, universities or technical departments of municipal governments). The program includes three main arrangements: (a) Local Advisory Services (SAL), pays up to 90% of the cost of the professional services, with a maximum of US\$ 373 per farmer. It is aimed at supporting local informal groups who for the first time receive technical assistance and who, in a period of up to two years, must formulate a concrete market-oriented development project. (b) Advisory Services to Projects (SAP), pays between 90% (year 1) and 70% (year 5) of the cost of the professional services, with a maximum of US\$ 560 per farmer. It is designed to support the implementation of the projects formulated during the previous two year phase. (c) Specialized Advisory Services (SAE), provides an annual subsidy of up to US\$ 68,500 per economic organization, with a ceiling of US\$ 311 per member. SAE is allocated to formal economic organizations (EAC) that are already involved in the full implementation of their business.</p> <p>In all cases, the professional services can be of whatever nature is required by the group, organization or project, including agronomists, business managers, etc.</p>
	Management Centers (CEGE)	<p>The CEGE are specialized units that provide management and administration services and advice to economic organizations. The CEGE are owned by one or more farmers' organizations, but the services are subcontracted to qualified agencies such as universities. The costs of the CEGE are variable and are almost fully subsidized by INDAP, although the CEGE is expected to generate income.</p>
	Fund for Entrepreneurial Development (FODEM)	<p>This subsidy is allocated through a competitive bidding process. It pays for the costs of specialized external advisors who help farmers' organizations carry out a diagnosis of strengths, weaknesses, opportunities and threats, followed by the formulation of Strategic and Business Plans. The whole process can last for up to two years. The amount of the subsidy varies.</p>
	Fund to Support the Development of Farmers Organizations (GESTOR-FONDAC)	<p>This instrument subsidizes the cost of the advisors and facilitators involved in the initial development stages of an economic organization. It can pay for such activities as participatory diagnosis and planning, training, training of leaders, legal costs, and so on.</p>
	INDAP-TELEDUC Training Program	<p>A TV-based distance education program implemented in coordination with a specialized department of one of the most important universities. It is aimed at farmers who are already receiving the support of the Entrepreneurial Advisory Services, and it focuses on farm management and administration. Between 1997 and 1999 it trained 12,000 farmers, with a total cost of US\$ 1.3 million.</p>
	INDAP-PRODEMU Training Program for Rural Women	<p>This program is run in collaboration with another specialized agency. It organizes training workshops to develop skills, mostly in income-generating non-farm activities. Between 1996 and 2000 it trained 22,000 women with a per capita cost of US\$ 160.</p>

Area	Program or instrument	Description
	Price and Markets Information System	This system is managed by a network of national and regional agencies. It provides price and market forecasts for all major products of small-scale agriculture, as well as several regional daily price and market bulletins which can be accessed by phone, fax or the Internet. The bulletins are also faxed daily to many EACs who usually post them on a bulletin board for public consultation.
	Local Development Service for Poor Rural Communities (PRODESAL)	PRODESAL is the standard program providing technical assistance to poor and extremely poor households, at a cost of US\$ 250 per household. Each PRODESAL unit is managed by the municipal government. The services are provided by private subcontractors, who carry out activities in three main domains: agricultural production, natural resource management, and facilitation of access by poor households to any type of economic development program or social service provided by the government or the private sector. In 1999 PRODESAL was working with about 20,000 households through 166 Cooperation Agreements with municipal governments.
	Chile Norte and Chile Austral Projects	These two projects provide services to 1600 households in poor rural areas in the extreme north and south of the country, at a total cost of US\$ 1.1 million, donated by the European Union.
	Project for the Development of Peasant Communities in Region IV (PRODECOP-IV)	PRODECOP-IV is partially funded with a loan from the International Fund for Agricultural Development (IFAD). It provides technical and financial services to some of the poorest rural communities in Chile, benefiting 7,400 households at a total cost of US\$ 14 million. Two of its strongest areas are natural resource management and the development of rural micro-enterprises, some of which have had considerable success. It pioneered an institutional innovation called CDL (Local Development Committees), which bring together multiple stakeholders under the umbrella of the municipal government, to plan and direct local development strategies and activities. The CDL have been adopted by other INDAP programs. In the year 2001 it received a prize from the Ford Foundation for " <i>institutional innovations in the fight against poverty</i> ".
	Project for the Development of Peasant Communities in the Dryland Areas (PRODECOP-Secano)	PRODECOP-Secano is partially funded with a loan from the World Bank. It provides technical and financial services to 8,000 poor households in the dryland areas of six regions, at a cost of US\$ 15 million. It focuses on natural resource management and the development of small-scale irrigation systems linked to productive diversification projects.

Over the past seven years or so, the main budget trends relevant to our discussion have included:

- a continuous growth that has more than doubled the proportion of loans given to organizations as opposed to individual farmers, especially those allocated through competitive mechanisms;
- a higher rate of growth of long-term loans compared to short-term credit;
- a higher rate of growth of subsidies to EACs and individuals to pay for professional services and investments, compared to financing through loans.

1.4 Organization of the book

After this introductory chapter, this book is organized as follows:

- Chapter 2 reviews the literature and presents the conceptual framework on which this research is based.
- Chapter 3 outlines my research methods.
- Chapter 4 describes the EACs, based on a survey of 424 organizations.
- Chapter 5 analyzes the characteristics of EAC members in terms of their households and farms,

and compares them with a control sample. It also analyzes the variables that affect the probability of a small farmer joining an EAC.

- Chapter 6 assesses the impacts of EAC membership on farms' economic performance and on the income of participating households.
- Chapter 7 analyzes the balance sheets and income statements of 410 EACs, to understand their financial sustainability.
- Chapters 8 to 12 look at several case studies to analyze the factors that have led to the relative success or failure of 14 EACs. Here I present and discuss the relationship between EACs' institutional and economic performance and their sustainability. The case studies have been arranged in different chapters based on the types of products, activities and markets involved:
 - Chapter 8: milk collection centers who sell their production to small and medium-sized cheese factories;
 - Chapter 9: milk collection centers working with contracts with large dairy agribusiness firms;
 - Chapter 10: EACs marketing potatoes for the wholesale market;
 - Chapter 11: cooperatives marketing fresh vegetables, and;
 - Chapter 12: EACs processing and marketing raspberries.
- Chapter 13 discusses the main conclusions of this research.

1.5 A word about myself and the subject of this book

I warn the reader that I do not write this book as an external and detached observer, but as someone who has been thoroughly involved in, and committed to supporting, designing and implementing the public policies and programs for developing these EACs. Between 1984 and 1990, during the years of the military dictatorship in Chile, I worked for an NGO that carried out various farming systems research and development projects; our experience, together with that of many other NGOs and a few of the surviving local rural organizations, provided many of the initial ideas for the agrarian program of the democratically elected government inaugurated in 1990.

In 1989 I was a member of the Agrarian Commission in charge of preparing the Program of Government of Mr Patricio Aylwin (President of Chile 1990-1994), and coordinated the committee to design the governmental program for rural development and small-scale agriculture. At that time, many of us were already saying that the major macroeconomic and institutional changes occurring were largely irreversible and that we therefore needed to implement strategies that challenged the conventional way of promoting rural and agricultural development, especially those most directly affecting small-scale farming. It seemed clear that small-scale farmers would increasingly have to compete on the domestic and international markets, and that it was folly to think that rural and agricultural development policies could be powerful enough to protect peasants from the wider macroeconomic and institutional context. In addition, we argued that most small farmers would never compete with large-scale capitalist producers by continuing to focus on increasing their productivity in traditional agricultural commodities.

In 1991-1992, I coordinated a public-private Commission based at the Ministry of Agriculture. Its aim was to reform one of the main small-scale agriculture policy instruments, INDAP's Technology Transfer Program (PTT). This Commission was the first to target public policy and its instruments at the 'reconversion' of small-scale agriculture. This process was actively supported by the public sector, and aimed to strengthen the individual and collective capacities of small-scale farmers, and to give them effective access to the different markets for goods and services. The ultimate aim was for small farmers to achieve adequate levels of competitiveness in a market-oriented and globalized economy. This policy had four areas of action, each aimed at overcoming one of the obstacles to small farmer competitiveness:

- (1) *Markets*: emphasizing the need to improve small farmers' market orientation and marketing options, particularly supporting value-adding and processing of their primary products;
- (2) *Technologies*: including what we called 'hard' (primary production focused) and 'soft' (management and administration focused) technologies. They all aimed to help small farmers move away from traditional commodities towards new farm enterprises;
- (3) *Financing*: substantially increasing the flow of long-term funding, through loans and subsidies, to support the investments required to reconvert small-scale agriculture towards new and more profitable enterprises; and
- (4) *Organization*: developing strong economic organizations to allow small farmers to overcome their limitations of scale of production, access to all sorts of resources, lack of political power, and so on.

Between 1992 and 1995 I was INDAP's Chief of Agricultural Development, a position more or less equivalent to being Director of Operations. Under two different National Directors, I was part of a group of people responsible for designing and managing the policies and programs dealing with technology, marketing, agro-processing, irrigation and credit for small-scale farmers. This job gave me major responsibility for implementing the reconversion strategy for small-scale agriculture.

Many changes, large and small, were implemented during those four years. As this book will show, many of them led nowhere due to poor diagnosis, bad design, faulty implementation or friction with the surrounding contexts, policies, institutions and organizations. In many instances, I had direct or even sole responsibility for these mistakes. But I think that most observers would agree that the many hundreds of people involved in promoting these changes, did manage to change the nature of the development policies that supported small-scale farming, to the extent that today very few would want to return to the old policies and strategies. There is of course a lot of discussion in agrarian circles in Chile today, but by and large that debate centers on *how* to do things in a better way, with very few questioning what needs to be done. Few would argue with Rafael Castro, the member of the EAC El Sobrante, when he says that given the macroeconomic and institutional context, small farmers have to change to survive. Public policies should aim at stimulating and supporting this change.

Since leaving INDAP in 1995, I have worked for RIMISP (the International Farming Systems Research Methodology Network), a Latin American network of public and private research and development organizations with projects in several countries in the region. Together with several collaborating institutes, RIMISP has been evaluating some of the programs in Chile which I helped to design. Part of the field data and information on which this book is based was obtained as part of those studies.