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**Guidelines for Rural
Group Enterprises**
Ten Lessons from Latin America

Guidelines for Rural Group Enterprises: Ten Lessons from Latin America

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Foreword

In the 1990s development cooperation started to look beyond subsistence agriculture; it shifted its attention from production to marketing and considered every farmer a potential entrepreneur. While this sounded good in theory, it was often difficult in practice. Many attempts of rural or farmer-based enterprise projects failed. The undertakings were too idealistic; they protected and subsidised the market actors, and the enterprises – after hopeful beginnings – often collapsed in the face of the rough winds of the real world. The challenge is on how to link activities, approaches and clients of rural development in order to mainstream business, enterprises and markets. Intercooperation deals with rural family enterprises in many of its programmes throughout the world, from Bangladesh to Ecuador and from Madagascar to Kosovo. In Latin America, possibly because of its pre-colonial heritage of a strong social, cultural and economic community fabric, business associations of small rural (generally farm-based) enterprises were promoted more than anywhere else. But in Latin America too, by far not all attempts were successful. What worked, and why?

The Ruralter study of rural group enterprises (RGEs) tries to answer these questions. Through the study, 35 successful examples of such business associations were identified in various countries of Spanish-speaking Latin America. From them, lessons were drawn on what to do, and what to avoid, in order to achieve success, and guidelines thus developed. When I first saw the study and the guidelines, to which Patricia Camacho of the Intercooperation Andes programme had made a substantial contribution, I found it so relevant and interesting that I suggested bringing out a summary in English as an IC series publication.

I am pleased that this publication is now available. It will certainly be very useful for many people directly or indirectly involved in rural enterprise development in many countries throughout the world. I also see this publication as very central form of knowledge management: making experiences available to others. Thank you to all those colleagues – named and unnamed – who have contributed to it.

Felix von Sury
Executive Director
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1 Introduction

Guidelines for working with rural group enterprises, RGEs

From an examination of the requirements of a variety of institutions working in rural development in Latin America, it became apparent that it is the fragmentation of small productive units that makes them less able to compete with large businesses. In consequence, and over the past several decades, aid organisations have been promoting Group Enterprises in rural areas.

However, decades of support have demonstrated that few of these RGEs have been successful or sustainable over time.

For this reason, between 2004 and 2005, the inter-institutional platform Ruralter carried out a regional study in seven Latin American countries: Bolivia, Colombia, Chile, Ecuador, El Salvador, Honduras and Peru. A total of 35 successful Rural Group Enterprises, RGEs, were analysed with the aim of identifying the elements that caused these experiences to be successful, learning from their practice and creating guidelines that would serve all actors working in the RGEs environment.

The study identified ten critical success factors, on the basis of which this study presents guidelines for the promotion and consolidation of RGEs. As such, it represents a synthesis of the original Ruralter publication.

2 Rural Group Enterprises, RGEs

What is meant by a RGE?

An RGE is a legally constituted association made up principally of small rural producers. It has a professional management structure, and operates on a commercial basis.

Characteristics of a successful Rural Group Enterprise:

- a) *Favourable* results, including results related to business revenue as well as to the services/benefits provided to the associates and their production units.
- b) *Economic Sustainability*: This means that the RGE, over its lifetime, has achieved a certain degree of financial independence and autonomy in its management.
- c) *Institutional Sustainability* demonstrated by operation over a prolonged period of at least five years, and by the existence of conditions that allow the enterprise to survive and operate in the future.

The RGE versus the conventional private business

Conventional entrepreneurial activity in rural areas involves taking on huge challenges and overcoming endless problems, both internal and circumstantial. By way of contrast, and to demonstrate that RGEs face even greater challenges than conventional businesses, we present an analytical table on the next page.

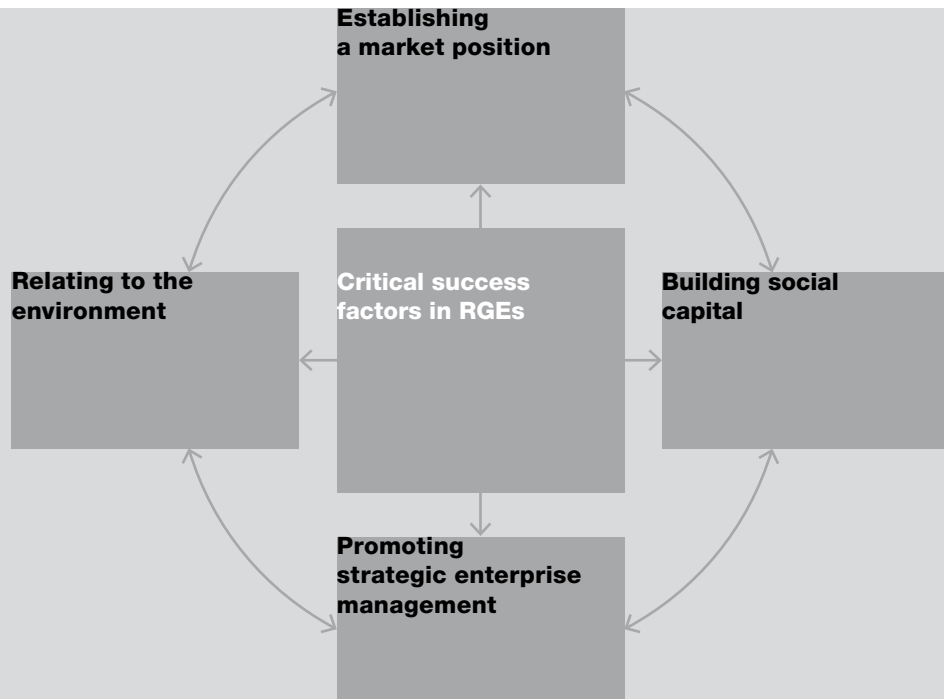
In summary:

- A private company seeks profitability and economic sustainability while a RGE has the additional objective of social benefits for the families of its associates.
- A private company develops its activities around a plan that is driven primarily by economic factors; a RGE usually has, in addition, a social agenda.
- A private business aims to have a highly qualified professional management with a medium to long-term plan of activities; a RGE, alongside its professional management team, has a team of worker-leaders. Their role is to participate in the taking of certain decisions and to maintain a permanent channel of communication and contact with both associates and the management team.

	Conventional enterprise	RGE
Entrepreneurial management	Board generally made up of people with a high level of education and entrepreneurial vision.	Board made up of peasant leaders who require guidance and advice on entrepreneurial strategies.
Decision making	Decisions are taken in an agile and timely manner. There is usually a high level of confidence.	Time is needed for consultations with and explanations to associates in order for consensus to be reached. Confidence must be built: this is a time-consuming process.
Association	Fusion is spontaneous and in function of the business interests of the associates.	Given the number of producers and the logic of the business demands, efforts must be made to strengthen the association. It is necessary to invest in communication, information and the development of mechanisms of internal democracy.
Pre-investment capital	Associates are either in possession of pre-investment capital or are able to access it through credits.	Pre-investment capital is rarely available. The RGE and its associates are highly dependent on external support in terms of capital, time and management.
Quality	Production and product quality is homogeneous, thanks to the existence of a standard technological package in line with the parameters of a pre-established quality system.	Production is individual and demands investment if quality is to be standardised and the requirements of the market met. The process of implementation the standardisation of systems, and quality management, is very slow and expensive.

	Conventional enterprise	RGE
Access to business development services	These companies have a good level of access to commercial contacts, both in terms of resources (technology, capital, human resources) and services (financial and non-financial).	RGEs have limited contacts and access to information in the entrepreneurial world, and their supply of (and access to) financial and non-financial services is also restricted: this is also determined by the fact that they operate in areas remote from dynamic markets.
Identification of innovations	Board members and associates normally have facilities to travel and find out about innovations. They take advantage of state subsidies for export-promotion and technological innovation programmes.	RGE associates have difficulty in travelling, discovering other dynamics and finding technologies that are coherent with their requirements. In addition, they rarely have the facilities to identify and take advantage of the opportunities afforded by state subsidies.
Human Resources	The conventional business has plans to identify and contract qualified professionals, and the associates are in agreement on the necessity of hiring such people. Remuneration offered is attractive.	There are few resources available to contract external personnel who both have adequate qualifications and share the RGE's objectives. Getting the producers to understand the need to invest in professional teams to support the management of the enterprise is difficult. Levels of pay are generally lower than in the open market.

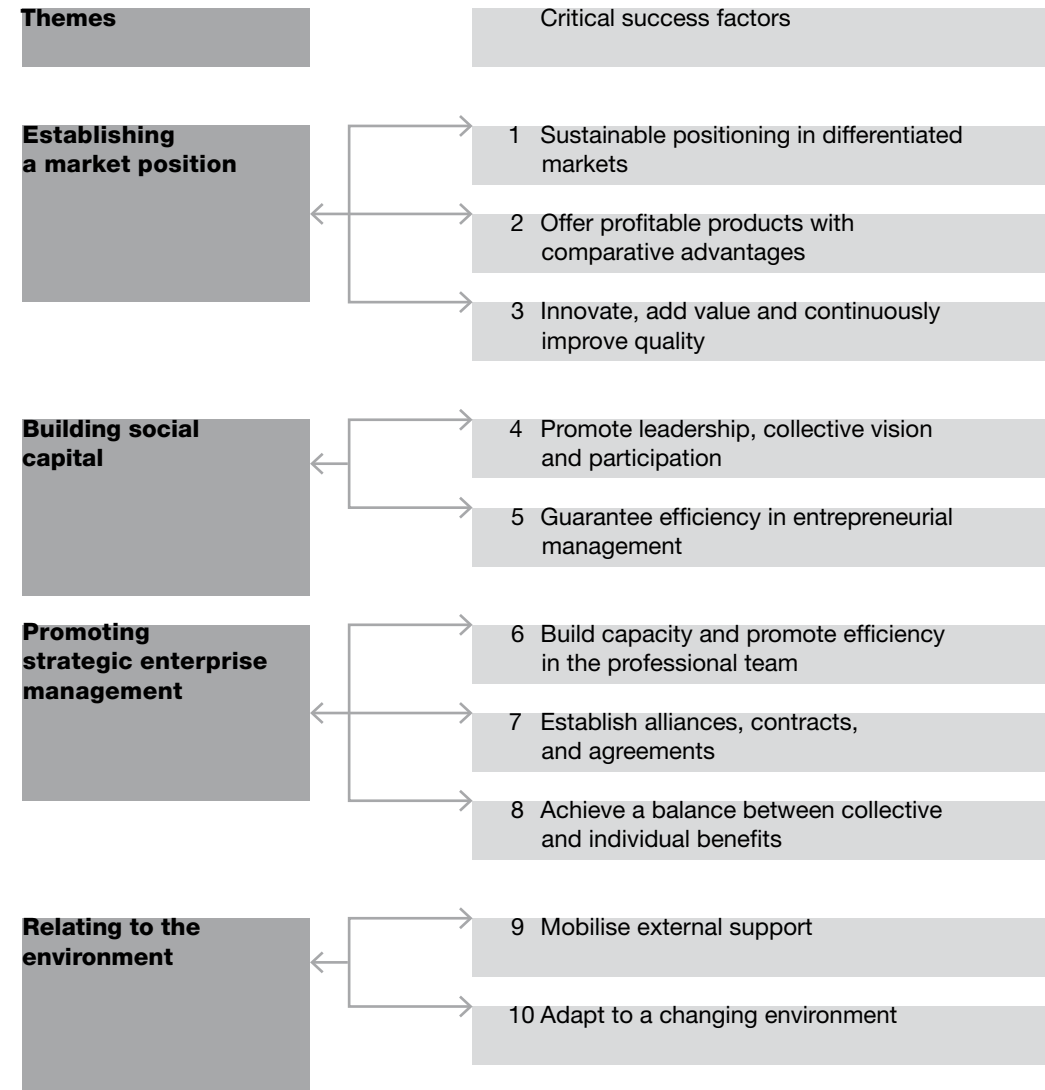
3 An Overview of the Ten Critical Success Factors for RGEs



Despite the considerable differences of environment in the various Latin American countries, the critical success factors for RGEs are similar. For methodological reasons, they have been grouped under four themes.

The diagram suggests that the four themes are inter-related and that all contribute to the success of the RGEs. Although the successful experiences tend to give special weight to the development of access to markets, other factors should not be overlooked.

In the following chapters, each success factor is explored and, where possible, pertinent examples of RGEs are given in text boxes.



4 Establishing a Market Position

1 Sustainable positioning in differentiated markets

- Respond to concrete market demands
- Take advantage of market niches
- Close relation with clients

2 Offer profitable products with comparative advantages

- Understand productive capacity and potential
- Seize comparative advantages
- Establish profitability

3 Innovate, add value and continuously improve quality

- Market focused innovation
- Adopt innovative ideas
- Quality management

Critical success factor 1: Sustainable positioning in differentiated markets

The logic driving successful RGEs has been to produce according to concrete demand and to adapt in a timely manner to the requirements of the market for goods and services.

Entry into the market must be stable, either through a service agreement or some other formal link that ensures a permanent commercial relationship.

1.1 Working according to concrete market demands

This means responding to the specific requirements of clients in terms of the product, volume, price and reliability of delivery. This permits an association to establish itself securely in a sustainable market.

Having market security encourages dynamism in product innovation, in the production process and in the organisation itself. RGEs whose production is rooted in concrete market demands are capable of making timely modifications to their productive processes, investing and assuming greater risks in order to meet the requirements of the buyer.

1.2 Taking advantage of market niches

RGEs do not normally work in large-scale production. Their strategy of competitiveness is therefore based on differentiation.

By taking advantage of market niches, some enterprises have expanded into wider markets.

Some market opportunities that have been particularly seized by RGEs are:

- *Fair markets*, value being added as a result of being an association
- *Organic and /or ecological markets*, that value crop diversification and production for environmental sustainability
- *Special or gourmet markets*, that value quality, value added and the cultural identity of products

1.3 Establishing a close relationship with clients

One essential strategy for a successful RGE is to maintain close communication with the client in order to ensure a creative response.

1.1 Working according to concrete market demands

The RGE known as “Huertos Gatazo Zambrano” (HGZ) in Ecuador, which produces and sells broccoli, is an example of innovation through a guaranteed market. On the basis of a commercial agreement between HGZ and the company IQF, HGZ associates started using a technological package that was both cleaner and more standardised: they used special crates for harvesting and protective headgear during product cleaning and selection. For its part, IQF allocated HGZ a fortnightly quota for broccoli supply at a fixed price of US\$ 0.22 per kilogram, year round.

1.2 Taking advantage of market niches

The main coffee producers organisation of Piura, CEPICAFE, is a Peruvian RGE that exports special quality coffee. This company managed to identify with some precision “market niches” that allowed it to take advantage of the favourable market for the whole range of speciality coffees, including organic coffee. This was particularly noteworthy in a context of generally declining market prices for standard coffees.

1.3 Establishing a close relationship with clients

In Chile, successful RGEs that export fruit (grapes and berries) do so through established exporting businesses. They have formed long-term relationships with these companies with regard to:

- Supply of all their production at export quality.
- Use of improved techniques by the RGE and its producers (in fertilization, pruning systems, pest control, dates and harvesting systems, etc.).
- Provision of inputs according to quantity, quality and delivery dates contracted.
- Packing services for harvested fruits.

Critical success factor 2: Offer profitable products with comparative advantages

Successful enterprises are those that have organised themselves to supply a product with comparative and competitive advantages, generating an attractive return. This in turn motivates the associates.

The comparative advantages of rural group enterprises may lie in:

- Specific eco-systems, for their potential to generate their own products (high altitude coffee, produce of small organic farms).
- Attributes relating to the provenance of the product, such as culture or territorial identity (for example, hand-woven indigenous art).
- Intensive use of locally available labour that the products require (produce picked by hand, artisan-style manufacturing and so on).

2.1 Understanding productive capacities and potential

Building a relation of confidence with the buyer is a fundamental task. To achieve this involves establishing mechanisms to get to know clients directly: this will facilitate exchange of ideas on improving the product being offered as well as on timely and relevant responses to market requirements.

Productive capacity is related to the quantity of goods that the company is able to deliver to the market, of the required quality, at the present time and in the future.

RGEs need to know both their capacity and potential for production and the perspective for demand. This means giving importance to, and developing the know-how of, producers.

2.2 Seizing comparative advantages

At AGROPEHUENCHE, a Chilean berry producer, fruit is hand-picked by family members of the associates, complemented by the efforts of paid workers from the local area.

It is estimated that harvesting work requires between 200 and 300 person-days per hectare; the packing plant also provides employment for a significant number of additional workers. Women make up a large percentage of workers in both of these areas.

2.2 Seizing comparative advantages

For a RGE to be successful, it needs to select a product with comparative advantages. These advantages may arise from the conditions of production, culture and geographical origin. Products with territorial identity that make intensive use of locally available labour or are produced by associations, often have strong comparative advantages.

2.3 Establishing the profitability of a product

The RGE must be clear about the costs of production, transport and commercialisation of the product in order to establish a pricing policy and clearly determine the degree of product profitability.

This means fixing a price that is attractive to the producer but at the same time acceptable to the company, enabling costs to be covered and leaving a reasonable margin of profit to ensure the RGE is sustainable.

Critical success factor 3: Innovate, add value and continuously improve quality

To be successful, RGEs need to develop their capacities to identify, adapt and implement innovative processes at several levels – technological, commercial, logistical and financial. This is the way in which they can differentiate themselves and create added value in response to client demand, thus improving the competitiveness of their enterprises.

Successful RGEs are founded upon competitiveness, quality products and a policy of permanent innovation in their productive processes.

3.1 Innovation with a market focus

Successful RGEs are permanently developing new ideas in response to the needs, requirements and wishes of their clients. One key element for innovation is knowledge of the market and the characteristics of the competition.

While market-oriented innovation may mean investment and expense, it has the advantage of offering greater security of return (price, certainty of sales) and fewer risks for the RGE.

3.1 Innovation with a market focus

With regard to technological management, CECOALP is the only alpaca-producing organisation in Peru that has developed processes for the selection and classification of alpaca fibres according to quality: for this, it has a team of specialist women. This particular capacity has allowed CECOALP to develop a differentiated product that commands higher prices in the national and international market-place. The selected and classified fibre has become the key to profitability for CECOALP's business, since the differentiated prices obtained allows the association to play an enhanced economic and social role.

When a RGE operates a strategy of differentiation and positioning in market niches, it has a greater chance of obtaining better prices and agreements on the supply of product in volumes consistent with the size of its productive facilities.

3.2 Adopting innovative ideas

The key point for the success of a RGE has been its capacity to pick up new ideas, adopt and implement them. These ideas have generally come from external agencies – whether clients, service suppliers or members of development organisations.

The fact that the RGE is operating in competitive territory or forms part of a cluster contributes to the promotion and diffusion of innovation.

Innovation is not limited solely to the product; it also pertains to market information, delivery logistics, brand name guarantees and other factors valued by the clients.

3.3 Quality management

Successful RGEs have developed an integral concept of quality as a strategy for competitiveness and have implemented demanding quality control systems, applied to their associates. These systems have repercussions on the quality of the product, the production process, the value added, the services associated with the product, and in marketing and the management of the company, among others.

3.2 Adopting innovative ideas

At the Chilean wine producer known as Lautaro de Sagrada Familia, the grape-bearing vines are managed under a system of Good Agricultural Practice (BPA). This is a system of controlled agricultural labour that respects pre-established norms relating to: environment, sanitation, labour relations, handling of agro-chemical inputs, animal welfare, treatment of water, etc. These practises carry great weight when it comes to competing in international markets. In addition, the State has promoted innovative investment in vineyards (or the reconversion of corn to vineyards). To this end, it provided information on the export potential of the product and its derivatives, developed a legal framework to facilitate and promote investment in the product and in the productive reconversion of cornfields to vineyards. In addition, it supported producers through a series of instruments to inject dynamism into production and investment.

3.3 Quality management

The Association known as El Guabo is an Ecuadorian RGE that commercialises organic bananas and has adopted a series of procedures and practices related to quality. Its production processes are organic and correspond to the standards of Good Agricultural Practice (BPA) and Good Manufacturing Practice (BPM). El Guabo is certified by SKAL (certification with Euregap is under way). In addition, it has various Fair Trade certifications: with FLO (Fair Trade Labeling Organization) and Esselunga.

5 Building Social Capital

4 Promote leadership, collective vision and participation

- Credible leadership
- Culture of association and confidence
- Information and communication

5 Operate transparently and democratically

- Mechanisms for transparency
- Mechanisms for democracy

Critical success factor 4: Promote leadership, collective vision and participation

4.1 Developing credible leadership

One fundamental role of RGE leaders is related to promoting the active participation of associates in the decision-making process. This encourages the creation of a collective vision for the operation of the company, developing and maintaining relations of confidence and respect with associates.

Those leaders who succeed in moving their RGE ahead assume a variety of responsibilities in an efficient and determined manner. Thus, in the sphere of production, their performance motivates others to innovate and improve productivity; in market decisions, they take timely action to minimise risks affecting capital; in company communication matters, they are usually the liaison between the assembly, the board and the management team, taking advantage of all contacts in order to channel resources to the enterprise.

4.2 Promoting a culture of association and building confidence

Successful RGEs invest effort into building a culture of association that evolves in parallel with the existence of deeply held values and shared principles among the associates.

Among the values and principles of RGEs are solidarity, loyalty, responsibility, cultural identity, honesty, transparency and equity.

At the same time, internal confidence forms the basis of all entrepreneurial activity: it implies developing levels of communication, information and accountability among the management team, the worker-leaders and the associates. It also implies the creation of fora for reflection and dialogue.

The building of confidence in the group is a gradual process reached by consensus and putting in place standards for behaviour, establishing agreements on the duties and rights of the associates, on mechanisms for conflict resolution and the application of incentives and sanctions. That is, arriving at a clear set of statutes and appropriate internal rules and regulations. Only in this way is it possible to ensure that associates fully recognise and accept the decision-making bodies.

4.1 Developing credible leadership

In Peru's "La Florida" agrarian coffee-growers cooperative, the leaders are visionary individuals who possess a clear idea of what they must achieve through their programmes and their teams; they have succeeded in transmitting with clarity that vision to other members of the RGE, generating a high level of internal confidence that has been critical in ensuring that the company's objectives are met. In addition, leaders have been able to implement strategies for change to help the company adapt to a new environment.

4.2 Promoting a culture of association and building confidence

In CEPICAFE, the principal coffee-growers association in Piura, Peru, has a Board of Directors comprising representatives of the 73 associated organisations. These representatives analyse, discuss and approve, on a regular basis, the policies of the association. They consider equity as the most important business factor. Supported by these participatory and democratic practices, CEPICAFE has now entered the market for specialty coffees.

4.3 Developing mechanisms for information and communication

If democracy is to function within the enterprise, it is essential that rules, values, principles, ethics and responsibilities are recognised, shared and applied by all associates.

It is fundamental that worker-leaders have the capacity to set up effective information and communication mechanisms. These are essential if associates are to understand the direction in which the enterprise is moving, its aims, and the reasons for certain demands and decisions.

4.3 Developing mechanisms for information and communication

Inca Pallay is a Bolivian RGE whose activities centre on the production and commercialisation of hand-woven Andean items. The organisation is founded on three basic principles:

- 1) Ethnic cultural identity and the production of indigenous art of high quality, responding to a series of norms established by associates.
- 2) Equity and solidarity in production and in the distribution of benefits amongst all the associate weavers and,
- 3) Empowerment of the woman in society, that is, within her home and her community.

5.1 Developing mechanisms for transparent operation

COHORSIL is the acronym for the Siguatepeque coffee-growers cooperative that operates in Honduras. This RGE has clearly defined policies that all associates understand and share. They are as follows:

- Every activity carried out must be planned and be of quality.
- Every important decision is taken by a team.
- The principle of equity is applied in the provision of services, in distribution of surpluses and in the treatment of individuals.
- Every business undertaking must be competitive, efficient and profitable.
- Important decisions must be supported by technical studies.
- The RGEs personnel are qualified, trained and have a proactive attitude.
- Procedures are respected.

Critical success factor 5: Operate transparently and democratically

5.1 Developing mechanisms for transparent operation

In a successful RGE, associates can observe genuine transparency in the management of the company: this is intimately connected to the existence of a policy of information and communication on the part of management and directors.

When a RGE expands, available information becomes wide-ranging and complex: here, visual means of communication may be of considerable assistance, as are periodic summaries of accounts, analysis of needs carried out directly with associates during General Assemblies or in small groups, or presentation of up-to-date results on paper or on a blackboard. It is always important to establish a relation between what had been planned and what has been achieved.

In addition, it is important that associates and directors have access to the services of an external auditor, that is, someone outside the management team, contracted to present or explain the accounts to the worker/leaders (not just to the manager). This person should have no personal interest in the company results. In this way, the owners of the RGE are adequately guaranteed the veracity and reliability of the information presented by the management.

5.2 Developing mechanisms for democratic operation

A group enterprise cannot operate with everyone participating in everything. If efficient and timely actions are to be taken, it is necessary to establish mechanisms for delegating power to people with the capacity and credibility to exercise it.

The mechanisms set up by successful RGEs to ensure delegation of power operates in a harmonious manner are:

- Definition of *clear rules for delegation of power*: statutes, regulations, norms, timetables, procedures and so on.
- Building of *operational mechanisms* to support the regulations: this often focuses on the imposition of sanctions on associates who fail to comply with rules and incentives.
- Incorporation of *ethical aspects into the operation* of the RGE. Ethics means what is good, proper or morally correct and it is what gives legitimacy to the worker-leaders to whom associates of the enterprise delegate their power.
- Strong *principles of responsibility*. This principle, simple though it appears, is of vital importance if the associates are to trust their leaders and allow them to exercise the power, with which they are charged.

5.2 Developing mechanisms for democratic operation

The Peumo Cooperative in Chile, COOPEUMO, has established democratic mechanisms to ensure the participation of its associates. Three of these are notable:

- The existence of a Committee of Directors made up of 12 associates drawn from the different technical and geographical areas of the cooperative. In effect, they set all policies and oversee Coopeumo's agreements, programmes and budgets.
- The information bulletin which is published each month to keep associates informed about the company's activities and advances in its programmes.
- Regular assemblies in which all associates participate.

6 Promoting Strategic Enterprise Management

6 Guarantee efficiency in entrepreneurial management

- Strategic business management
- Performance in main operating areas
- Best management practices

7 Establish alliances, contracts and agreements

- Horizontal alliances
- Vertical alliances
- Agreements with service providers
- Collaboration with aid agencies

8 Achieve a balance between collective and individual benefits

- Clear benefits and obligations
- Generating income and capital

Critical success factor 6: Guarantee efficiency in entrepreneurial management

Although all companies need to recruit qualified personnel, this is a particular priority in the case of a RGE – given that the associates are small producers who generally have little connection with the strategies, techniques and instruments used in business management. In the case of the RGE, the technical team must handle, in addition to the issues directly related to its management, the social aspects related to the group enterprise.

6.1 Promoting the strategic direction of the business

A successful RGE has a board of directors that has a broad vision of company management and follows the company's evolution on a regular basis. This constitutes a major challenge for a RGE since, at producer level, there is very little experience of this type of management.

A business plan for the company is a fundamental element that facilitates follow-up and timely strategic decision-making by the board. In addition, the business plan orients the management team in its task of leading the company and its associates.

Given their professional level, it falls to management and the technical team to present information, arguments and proposals to the board members, playing an advisory role in the processes of decision-making.

6.2 Ensuring performance in main operating areas

Successful RGEs have a management team which may often be small. What is important is that, regardless of the size of the company, the company operating structure is clear.

It is essential that the management team has management capacities in the three areas listed below: on this will depend the clarity and effectiveness of the business strategy.

- Technical and productive management: This involves production planning, implementation of systems of standardisation and quality control, access to information on available technologies, adaptation of these to the business, and innovations in production.

- Commercial management: Monitoring of markets and prospects; identifying market segments or commercial niches and exploration of market demand; establishing commercial and marketing contacts; defining pricing policies; setting up commercial alliances; negotiating contracts or agreements for supply and/or sale of products and making comparisons with other suppliers (benchmarking).
- Administration/accounting and financial management: implementation of registers and a reliable accounting system; analysis of results; application of internal and external control mechanisms; generation of reports with monitoring and evaluation indices; and the implementation of other mechanisms to ensure accountability of financial statements and results. As for financial management, the management team must have a short and medium-term financial plan and is responsible for negotiating budgets.

6.2 Ensuring performance in main operating areas

La Florida, Peru's coffee growers' cooperative, has professional management supported by a technical team specialised in the process of commercialising coffee (gathering and storing, processing and marketing). Currently, La Florida is involved in the implementation of a coffee-processing infrastructure that will make it the regional leader in processing. Management has an important role liaising between the cooperative's governing bodies and the technical departments.

6.3 Opting for best management practices

Chile has Management Centres known as CEGES: these are bodies that support the management of RGEs. The Centres sell their services to a variety of RGEs that operate in the same region and the same line of business: in this way, they reduce the implied fixed cost to each company of having its own full management team.

6.3 Opting for best management practices

In successful RGEs the management functions of the board and the executives have been assumed by a team of professional individuals made up – in size and specialty – in accordance with the requirements and the objectives of the company.

The management team in a RGE should be designed in coherence with the size of the business, its vision of the future and its projected financial situation.

Since this element may well represent an unsustainable fixed cost for the RGE, management costs must be envisaged in relation to the amount of business transacted. In the individual cases analysed, it emerged that pre-investment to fund a basic team was necessary until the RGE reached an adequate level of business.

Rural enterprises most commonly use the following forms of organising their management teams:

- A team made up of company associates who have received training in aspects of entrepreneurial management. This method involves considerable expense in time on the part of the RGE and its team, and generally does not guarantee an optimum level of professionalism.

- A minimal number of professionals contracted directly by the RGE who have specific skills, limited experience but are highly motivated to work with small producers.
- A mixed team made up of both associates and outside professionals, all contracted by the RGE using, from time to time, external subsidies. This is the most viable option and helps develop the management capacities of the associates who also form part of the team.

Eventually it may be useful to contract the services of external consultants who support the RGE on specific issues for short periods of time.

Critical success factor 7: Establish alliances, contracts and agreements

Successful RGEs have capacities to establish alliances and forms of association with different actors: a pre-requisite is the understanding of their roles and relationships to the value chain. On the basis of this information, negotiations can be designed that have a greater chance of creating “win-win” conditions.

7.1 Establishing horizontal alliances

RGEs may associate among themselves with similar organisations in order to take advantage of economies of scale and to improve their powers of negotiation and capacity to invest.

7.2 Promoting vertical alliances

RGEs may establish relations, integrate or make agreements with suppliers or clients

- *Forward in the value chain.* Supply agreements can be developed with other larger companies: this alliance mechanism requires the RGE to have a strategic supply role with the client.
- *Backward in the value chain.* Contracts on terms appropriate to the size of the business may be signed with input suppliers. The points to negotiate may relate to price, credit services, quality agreements and so on.

7.1 Establishing horizontal alliances

In Peru, COCLA is a RGE made up of 23 cooperatives that have associated to develop coffee-gathering and commercialisation activities that are either collaborative or in healthy competition with each other. Each cooperative strives to gather more coffee and to increase its own profitability to benefit its members. The type of alliance represented by COCLA is assisted by the democratic mechanisms for participation that have been established in each of the associate organisations as well as through widely available information at all levels. This allows better access by associates to transparent information on the alliance and its outcomes.

7.2 Promoting vertical alliances

ASARBOLSEM is a Bolivian RGE that produces and commercialises hand-made items and which has established alliances – both formal and informal – with the following networks and organisations:

- IFAT – Federación Internacional de Comercio Alternativa
- RELACC – Red Latinoamericano de Comercialización Comunitaria
- RENACC – Red Nacional de Comercialización Comunitaria de Bolivia
- CAMEX – Cámara de Exportadores de Bolivia

7.3 Signing agreements with service providers

In Chile, various successful RGEs receive advice on business management, accounting services and financial registration from the Management Centres known as CEGES. In the same way, the grape-producing RGE Lautaro delivers its product to an industrial wine processor that returns the finished product to Lautaro for storage and subsequent sale.

7.3 Signing agreements with service providers

With the objective of improving access and/or reducing the costs of entrepreneurial development, RGEs may outsource specific services to other companies and/or individuals who provide services. An example could be product preparation (“maquila”), permitting the RGE to make use of installed capacity while avoiding costly investments and rationalising costs.

The RGE may sign agreements with business management centres or consultancies on legal, management and tax matters in order to improve its own management capacities and those of other RGEs. It may also affiliate to information networks for issues relating to markets, technologies and so on, as well as for export promotion systems.

7.4 Seeking collaboration with aid agencies

RGEs may sign agreements with international or national cooperation agencies so as to receive consultancy services, training, technical assistance and, on occasion, finance for working capital, machinery and equipment. All the successful RGEs studied have received this type of support.

They may make alliances with universities and research centres to push forward processes of technological innovation.

They may also establish agreements with local governments to generate favourable conditions for production and commercialisation.

7.4 Seeking collaboration with aid agencies

Inca Pallay has an agreement with the International Finance Corporation (IFC Latin America), SME Facility and the Eziba organisation that is known as "Access to markets for indigenous enterprises". The objective is to promote sales by companies such as the Inca Pallay Association through catalogues, websites and shops. As part of the agreement, the IFC provides the technical assistance required.

8.1 Making benefits and obligations clear

Dairy collection centres in Chile are RGEs that not only receive the milk from various producers in one common facility but that also offer specialist services such as:

- Bacteriological and milk quality controls
- Cooling of milk in specially designed tanks
- Transport of milk to the processing plant
- Provision of inputs (veterinary products, feed, fertilizers, etc.)

8.2 Generating income and capital

In the Ecuadorian RGE known as FUNORSAL, which produces and commercialises cheeses, profits are not distributed; the guiding principle is that the benefit for associates is the guaranteed purchase of their milk at a higher price than that paid by intermediaries (in 2005, the RGE was paying 26 cents of a dollar for a litre of milk while intermediaries were paying 18 cents), as well as the credit services provided by the Cooperative.

Critical success factor 8: Achieve a balance between collective and individual benefits

8.1 Making benefits and obligations clear

One difficult issue for the management team and board of the RGE is to arrive at agreements with the associates so that profits generated by the company are not handed over in full to its members, but rather serve as source of capital to permit the consolidation and growth of the organisation.

The successful RGE is able to persuade its associates of the strategic importance of the company's associations and of building capital. To do this, it lays emphasis on arriving at short-term achievements and tangible benefits, which assists in building associates' confidence and motivation. These can include:

- Guarantee of collection or harvest of the product in the place where it is produced.
- Supply of services to improve associates' levels of competitiveness: technical assistance, credits, provision of inputs, etc.
- System of advanced payment for the product in order to finance sowing and harvesting or to cover small family expenses.

8.2 Generating income and capital

In the medium term, in addition to generating visible benefits for its associates, the RGE should also reach economic profitability through a series of different mechanisms: by taking a margin on the sales price; by optimising the costs of its activity; by adding value to its products, etc.

7 Relating to the Environment

9 Mobilise external support

- Identify opportunities, develop proposals
- Invest subsidies strategically
- Develop own business logic

10 Adapt to a changing environment

- Operate within local/regional environment
- Operate within the national framework

Critical success factor 9: Mobilise external support

In their early stages almost all successful RGEs have had to rely on third-party support (state programmes, international cooperation, the Church, etc) and have obtained public or private subsidies for initial investment, or for developing operational capacities. Later, they evolved into a phase of greater independence in which they generated their own capital.

9.1 Identifying opportunities and developing proposals

Successful RGEs that have been able to obtain external subsidies have, over time, developed considerable capacity for management, involving a broad knowledge of the existing mechanisms of co-operation, as well as contacts with bodies that specialise in this kind of subsidies. Also necessary are capacities at the level of management and worker-leaders to draw up projects in accordance with the specific requirements of the financing sources, and to negotiate donations or credits. These proposals are more attractive when they focus on the company's sustainability.

9.2 Investing subsidies strategically

Finance from subsidies or from co-financing sources must be invested strategically by the company. This means orienting these resources, with priority to: working capital; infrastructure (collection and processing centres, irrigation installations); technology (installing machinery, training and technical assistance); development of brands and markets; and operating costs (payments to managers, technical and administrative personnel).

9.3 Developing one's own business logic

Subsidies obtained should be oriented towards the sustainability of the company and the strengthening of the capacity of the business. However, it is essential that operational dependence on external funding is gradually reduced and that investments are financed through the profits of the company itself.

It is therefore important that, from the very start of a subsidy, the RGE sets out clear strategies for strengthening the business, and a timetable for the withdrawal of external support in order to avoid the organisation becoming dependent on subsidies.

9.2 Investing subsidies strategically

In Chile, the State subsidises up to 75% of high-tech irrigation infrastructure. In this way, it guarantees that production from small farmers is profitable while, at the same time, ensuring better use of the water resource.

9.3 Developing one's own business logic

The company known as FUNORSAL, in Ecuador, has received no external subsidy in the past five years. It is fully self-financing and has built up reserves: its level of indebtedness is relatively low. As its economic and financial situation demonstrates, the company is solvent. Profits have been built upon from the outset in its credit and savings Cooperative in order to increase the credit fund available to the associates and to make new investments.

Critical success factor 10: Adapt to a changing environment

RGEs are not isolated; they operate within a local, national and international context. The existence of a favourable environment is an important factor influencing the chances of success of a RGE.

If the RGE is to achieve its ends, it must always be tuned to its context and to its relationship with the surrounding actors: this means seizing the opportunities and facing up to the difficulties, problems and opposition that the environment may present.

10.1 Operating within a local/regional environment

A territorial environment that encourages and facilitates the development of a RGE is one in which access to the following is possible:

- Basic services: energy, irrigation, water, education, road infrastructure, health.
- Business development services: transport, information, technical assistance, financial services, legal and tax advice.
- Market security for the product with opportunities in terms of payments, price, fair weights and measures that will ensure revenue for the producer.
- Provision of social services that will support the associates and their families: medical insurance, mutual support funds, educational subsidies and so on.

10.2 Operating within the national framework

For almost two decades the Chilean State, through the Ministry of Agriculture (INDAP), and in cooperation with development entities such as the Development Corporation CORFO, has developed a large number of instruments to promote this type of business. Among them are: the Associative Development Project PROFO, which can subsidise by up to 70% the salary of the manager and other operating costs during the first year, the Suppliers Development Programme PDP, the Technical Assistance Fund FAT, and the Centres for Business Management, which operate as support companies for RGE management: at the outset, these are subsidised by the State and the Export Promotion Fund.

10.2 Operating within the national framework

It is important for a RGE to understand the environment in which its activity operates – the existence of policies, the legal framework and incentive schemes, promotion, training and research support, investment, commercialisation, association, export and articulation. For example:

- Policies for promotion of production
- Commercial policies for export
- Policies on subsidies
- Fora for interchange: consultative councils, chambers, round-tables for discussion
- Policies for formalisation, control and budgetary and financial incentives, legal and tax advice

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