



The Politics of Livestock Sector Policy and the Rural Poor in Peru

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EXECUTIVE SUMMARY

FAO's Pro-Poor Livestock Policy Initiative is designed to promote economic opportunities and hence improve the standard of living for the rural poor. The organizations that coordinate the FAO initiative in Peru have chosen to focus initially on five regions of the country: Ancash, Ayacucho, Huancavelica, Cajamarca, and Puno. These regions share two characteristics that make them ideal for the FAO initiative: particularly high poverty rates and a pronounced importance of livestock among the economic activities and survival strategies of poor families.

This report explores public policies that would advance pro-poor development in the livestock sector, with special attention to organized actors, their interests, and the political feasibility of state initiatives. It focuses on two sub-sectors that involve large numbers of small producers: the dairy sector and the alpaca sector. Emphasis is placed on the latter, since there is a greater potential role for Peru's weak, neoliberal state in promoting pro-poor development in the alpaca sector.

The dairy sector holds promise for providing economic opportunities for small producers. However, small producers in this sector are poorly organized, and politically feasible public policies to promote their interests are limited. For example, the main problem afflicting the sector, according to producers, is the price they receive for milk, a realm in which the neoliberal state is highly unlikely to intervene. The most important action the state could take to promote development in the dairy sector would be to prevent the dumping of subsidized dairy products in the free trade treaty which was under negotiation with the US while research for this project was conducted. Indeed, dairy producers associations had joined forces with other traditional agriculture sectors in demanding continued trade protections.

Peru's alpaca fiber producers are among the very poorest members of Peruvian society. The alpaca herders, known as *alpaqueros*, are poorly organized and geographically diffuse, a situation that has helped perpetuate domination of the fiber sector by three oligopsonic processing industries since their creation in the 1950s. These industries have a longstanding reputation for lack of interest in the wellbeing of the alpaca herders. Further, intermediaries capture much of the value in the production chain, leaving *alpaqueros* with very low prices for their fiber. Past state interventions in the fiber sector to correct distortions and increase producer prices have failed to improve the situation of the poor herders, as have various NGO initiatives, largely due to the political and economic power of the processing industries and the intermediaries.

Current conditions, however, are more promising for improving the wellbeing of the *alpaqueros*. First, the industries have become extremely concerned over the declining quality of alpaca fiber, which threatens the viability of the entire production chain. Improving the quality of fiber requires greater attention to the alpaca herders and their animal breeding practices. Second, a new generation of leaders is emerging within the industries who are somewhat more open to working

with both the state and the *alpaqueros* for the good of the sector as a whole. Third, the specialized state agency that focuses on the camelid sector, Conacs, has recently emerged as a highly professional and proactive agency. It is spearheading noteworthy efforts to foster coordination among the actors in the alpaca fiber production chain, among other activities designed to benefit small alpaca herders. Serious impediments to progress remain, yet concrete opportunities now exist.

This report's main overarching findings are as follows:

- Key public agencies of importance for the livestock sector suffer from politically motivated turnover of functionaries, the absence of a professionalized, meritocratic bureaucracy, insufficient funding, lack of coordination, and a limited capacity to act as regulatory and coordinating agents. These widespread problems seriously hinder efforts to design and implement effective public policies in the livestock sector. These problems are exacerbated by a weak state presence in rural areas, due partially to downsizing that accompanied far-reaching neoliberal reforms in the 1990s.
- There are few organized actors at the national level capable of advancing the interests of small producers. Peru's political parties are weak, elitist, volatile, and have no stable links to constituencies. As such they are poor vehicles for representation. Further, there are essentially no strong associations that represent the interests of small agriculture and livestock producers at the national level. Two partial exceptions are AGALEP, which represents milk producers, and SPAR, which organizes alpaca producers; both have emerged only recently as relevant at the national level, but they do hold promise for the future.
- Decentralization initiated in 2002 has created new institutional spaces for participation by the poor in politics and resource allocation. In practice, however, numerous obstacles hinder participation and limit the overall effectiveness of these institutions. Issues that must be addressed before decentralization can lead to more equitable development outcomes include problems with the legal framework, incomplete implementation of the laws, lack of resources, and under-representation of traditionally marginalized groups.

The report recommends several specific public policies that could promote pro-poor development. The most important are as follows:

- Securing protections in free trade treaties for the milk sector
A healthy and expanding Peruvian dairy sector is obviously critical for promoting pro-poor development for small milk producers. To protect the sector from cheap subsidized imported milk, it would be reasonable for the Peruvian government to demand a clause in the US free trade treaty preventing the sale of dairy products at prices below those charged for imports from other countries. Prices any lower would reflect US subsidies, not market forces.
- Promoting direct marketing of alpaca fiber from producers to the industries.
Reducing dependence on the intermediaries is in the long-term interest of both producers and processing industries, although the intermediary-based marketing system has proved very difficult to change. The state is currently working toward this goal through Conacs' National System for Collection and Commercialization of Alpaca Fiber initiative.
- Implementing national standards for quality grading of alpaca fiber.
A uniform standard could make it possible for *alpaqueros* to gain value-added by sorting fiber before sale to the industries, whereas at present, this option is less feasible because each industry uses its own classification system. It also would create incentives for producers to improve quality.

The report also identifies a number of more general strategic entry points for improving opportunities for small producers to benefit from expansion in the livestock sector. The most salient of these entry points are detailed below:

- Providing support for small producers associations.
Since small producers must ultimately be protagonists in the political struggle for pro-poor development policies, strengthening associations that represent them is critical to the success

of the FAO initiative. The international community could further this goal through financial support and / or technical assistance for producers' associations.

- Providing assistance for small fiber-processing industries.
Promotion of small fiber-processing operations would help to create more jobs and opportunities in artisan garment production, which would help generate more value-added within Peru in the camelid sector. In the long term, encouraging the emergence and consolidation of small fiber-processing industries could help to reduce the *alpaqueros'* dependence on the three major processing companies and to improve producer prices. International institutions and donors should thus consider providing technical training and / or loans for small entrepreneurs interested in fiber processing.
- Promoting institutionalization and professionalization of state agencies.
In particular, Conacs' leadership and personnel must be protected from politically motivated replacement. At present, this agency has made important strides toward professionalization, but political pressures could conceivably arise with the change of government in 2006.
- Providing or pressuring the state to better fund agencies relevant to the livestock sector.
Key public institutions active in the livestock sector, including Conacs and the Ministry of Agriculture's Dirección de Crianzas, need greater financial resources if they are to more effectively promote pro-poor development. International actors could help by directly providing funding for these entities and / or by pressuring the new administration that will take office in 2006 to prioritize these agencies and their livestock programs.
- Promoting greater coordination among donor projects and between donor projects and state agencies.
Lack of coordination among international institutions that manage or fund development projects in Peru, duplication of efforts, and creation of organizations parallel to state agencies involved in similar activities are all problems that hinder efficiency. It is recommended that donors and the FAO work closely with existing state institutions rather than creating semi-independent project offices, and coordinate efforts with international actors already involved with similar projects.
- Support for decentralization
Flaws in the legal framework of decentralization and other problems that have arisen in practice must be corrected. The FAO and other international actors could help by calling attention to these issues, among them the importance of increasing resource transfers to regional and local governments (contingent on the development of capacity at these levels), and the need to clarify the functions of the new participatory institutions.