



Pro-Poor
Livestock
Policy
Initiative

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

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PREFACE

This is the 32nd of a series of Working Papers prepared for the Pro-Poor Livestock Policy Initiative (PPLPI). The purpose of these papers is to explore issues related to livestock development in the context of poverty alleviation.

Livestock is vital to the economies of many developing countries. Animals are a source of food, more specifically protein for human diets, income, employment and possibly foreign exchange. For low income producers, livestock can serve as a store of wealth, provide draught power and organic fertiliser for crop production and a means of transport. Consumption of livestock and livestock products in developing countries, though starting from a low base, is growing rapidly.

This working paper 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, neo-liberal state in promoting pro-poor development in the alpaca sector.

We hope this paper will provide useful information to its readers and any feedback is welcome by the author, PPLPI and the Livestock Information, Sector Analysis and Policy Branch (AGAL) of the Food and Agriculture Organization (FAO).

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"Since poverty - especially extreme poverty - is concentrated in the rural sector and since the majority of those who live in poverty live off the land, it is not possible to hibe off discussions about agricultural policy from those designed to alleviate poverty. The ways in which agricultural policies are designed have an obvious and immediate impact on social conditions in rural areas, irrespective of other policies that may be pursued." - Crabtree 2002: 133

Keywords

Peru, political economy, livestock policy, camelids, dairy, institutional change

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ACRONYMS

Acricar	Association of Alpaca Breeders (Asociación de Criadores de Alpacas)
AECI	Spanish Agency for International Cooperation (Asociación Española de Cooperación Internacional)
AGAP	Association of Agro-Export Producers' Unions of Peru (Asociación de Gremios de Productores Agroexportadores del Peru)
AP	Popular Action Party (Partido Acción Popular)
CCL	Local Coordination Council (Consejos de Coordinación Locales)
CCP	Peasant Confederation of Peru (Confederación Campesino del Peru)
CCR	Regional Coordination Council (Consejo de Coordinación Regional)
Cecoalp	Cooperative Central for Special Alpaca Services, Puno (Central de Cooperativas de Servicios Especiales Alpaqueras de Puno Ltda).
Cepes	Peruvian Center for Social Studies (Centro Peruano de Estudios Sociales)
CITE Camelidos	Center for Artisan Technological Innovation and Tourism, Camelids (Centro de Innovación Tecnológica Artesinales y de Turismo Camelidos)
CITE Textile	Center for Technical Innovation and Camelid Textile Industry (Centro de Inovación Tecnologica Industria Textil Camélidos del Perú)
CNA	National Agrarian Confederation (Confederación Nacional Agraria)
Conacs	Consejo Nacional de Camélidos Sudamericanos
Conveagro	National Convention for Peruvian Agriculture (Convención Nacional del Agro Peruano)
Corepall	Regional Council of Alpaca and Llama Breeders (Consejo Regional de Criadores de Alpacas y Llamas)
DNC	National Livestock Directorate (Dirección Nacional de Crianzas)
DRA	Regional Agrarian Directorates (Direcciones Regionales Agrarias)
FAO	Food and Agriculture Organization
FMD	Foot and Mouth Disease
Foncodes	National Fund for Social Compensation and Development (Fondo Nacional de Compensación Social y Desarrollo)
Fongal	National Fund for Dairy (Fondo Nacional para la Ganaderia Lechera)
FUP	United Progressive Front (Frente Unido Progresista)
FTT	Free Trade Treaty
GTZ	German agency for international cooperation.
IDB	Inter-American Development Bank
Iniea	National Institute of Agrarian Investigation and Extension (Instituto Nacional de Investigación y Extensión Agraria)

IPAC	Peruvian Institute for Alpacas and Camelids (Instituto Peruano de Alpacas y Camelidos)
MARQA	Movement for Quechua and Aymara Vindication (Movimiento por la Reivindicación Quechua y Aymara)
MEF	Ministry of Economics and Finances (Ministerio de Economía y Finanzas)
Minag	Ministry of Agriculture (Ministerio de Agricultura)
OGPA	General Office of Agrarian Planning (Oficina General de Planificación Agraria)
OPD	Decentralized Public Agencies (Organismos Públicos Descentralizados)
PASA	European Union Program of Support for Food Security (Programa de Apoyo a la Seguridad Alimentaria)
PCM	Presidency of the Ministerial Council (Presidencia del Consejo de Ministros)
PDR	Democratic Power Party (Partido Poder Democrático)
PDRS	Sierra Rural Development Project (Proyecto Desarrollo Rural de la Sierra)
Pecsa	Special Project for South American Camelids (Proyecto Especial de Camelidos Sudamericanos)
PPC	Popular Christian Party (Partido Popular Cristiano)
Pradera	Program of Support for Andean Rural Development (Programa de Apoyo al Desarrollo Rural Andino)
PROALPACA	Program for Support to Pastoral Peasants in the Highland Departments of Apurímac, Ayacucho, and Huancavelica (Proyecto Apoyo a Campesinos Pastores de Alturas en los Departamentos de Apurímac, Ayacucho y Huancavelica)
Pronaa	National Program for Food Assistance (Programa Nacional de Asistencia Alimentaria)
Remurpe	Network of Rural Mayors (Red de Alcaldes Rurales)
Senasa	National Agrarian Sanitation Service (Servicio Nacional de Sanidad Agraria)
SER	Rural Education Services (Servicios Educativos Rurales)
SNARF	National System for Collection and Commercialization of Alpaca Fiber (Sistema Nacional de Acopio y Remate de Fibras)
SNV	Dutch agency for international cooperation
SPAR	Peruvian Society of Breeders of Registered Alpacas (Sociedad Peruana de Criadores de Alpacas Registrados)
UOPE	Operating Unit for Special Projects (Unidad Operativa de Proyectos Especiales)

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.

INTRODUCTION

The Food and Agriculture Organization's (FAO) Pro-Poor Livestock Policy Initiative is designed to promote economic opportunities and hence improve the standard of living for the rural poor. The institutions that will administer 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.

All of the selected regions are located in the Andean highlands (*sierra*) or plateaus (*altiplano*) and have large populations of indigenous peoples. As in Bolivia and Ecuador, indigenous populations in the Peruvian Andes have been subject to socioeconomic exclusion and marginalization ever since the arrival of the Spanish conquerors. In Peru, economic development has been concentrated in the coastal lowland regions. Accordingly, extreme poverty is concentrated in the rural areas of the *sierra* and *altiplano*. The national poverty rate in 2000 was 54%, with 15% in extreme poverty. In the rural areas of the *sierra*, in contrast, 66% lived in poverty and 30% in extreme poverty (Crabtree 2002: 148). The selected regions, moreover, have some of the highest poverty rates in Peru.

Poor rural families raise a range of different animals including cows, sheep, pigs, goats, alpacas, chickens, and guinea pigs (*cuyes*). The importance of these species varies by region. Cajamarca, for example, is Peru's third most important milk producing region, and it has an expanding local market for *cuyes*. Puno is Peru's principle producer of alpaca fiber. Livestock is perhaps of greatest importance to rural families in Puno, relative to other regions, since much of Puno is *altiplano*, with soil and climactic conditions that do not support a large range of agricultural activities. Ayacucho has important reserves of *vicuñas*, a wild South American camelid that produces highly valued fiber. And Ancash has a growing business of supplying cows to feed lots in Lima, due to its proximity to Peru's capital.

These regions display great diversity in terms of their political histories, sociopolitical characteristics, and natural resources. Ayacucho, for example, was particularly affected by terrorist violence propagated by the guerrilla movement *Sendero Luminoso* (Shining Path) in the 1980s. In Cajamarca, in contrast, peasant organizations successfully prevented *Sendero* from establishing inroads. Regional government institutions and civil society are weak in Puno, whereas Cajamarca's government tends to function better than average. Cajamarca also has a history of stronger peasant organizations. Some of the selected regions have important mining resources; the Yanacocha mine in Cajamarca is an important political and economic actor. Other regions such as Puno have fewer natural resources that could generate wealth.

Overall, then, Peru is a highly diverse country. Its regions show tremendous variation in terms of the characteristics mentioned above, as well as in geographical and climactic conditions that affect production activities. All of these factors will shape the particular policies and initiatives that will be necessary to promote pro-poor development in the livestock sector, and any development initiative must take this diversity into account.

This report, however, does not present a detailed analysis of political conditions and recommended policies on a region-by-region basis, nor does it offer a systematic discussion of each livestock sub-sector relevant to the FAO initiative. Such endeavors are beyond the scope of this study. Rather, the analysis that follows focuses on the milk sector, the camelid sector, and political dynamics at the national level. Due to Puno's importance in the alpaca fiber production chain and the large percentage of its

population whose livelihoods depend on alpacas, the political situation in this region is discussed in some detail in an appendix.

Although both the milk and the camelid sectors involve large numbers of small producers, emphasis will be placed on the latter, because of what the author perceives as a greater potential role for the state and public policies in promoting pro-poor development in the camelid sector. A specialized state agency that focuses on the camelid sector, Conacs, has in recent years spearheaded noteworthy efforts to foster coordination among the actors in the alpaca fiber production chain, along with other activities designed ultimately to benefit small alpaca herders. Although these efforts are fraught with problems and face severe impediments, they do hold promise and merit detailed discussion.

The remainder of this study proceeds as follows. Chapter I discusses state policies in the era of neoliberalism and public agencies of relevance to small producers in the livestock sector. While the agencies discussed serve as important reference points for producers, many of them suffer from problems that hinder their effectiveness in promoting pro-poor development. These include politically motivated turnover of functionaries, lack of funding, and limited capacity to intervene in the sector.

Chapter II examines the national political context in which policy decisions relevant to the livestock sector are made. Section 1 discusses the most salient feature of Peruvian politics: a collapsed party system. Section 2 considers the organized actors of relevance to the livestock sector. Political parties are weak, unstable, and largely incapable of representing small producers' interests. Civil society, including producers' associations, is also weak. Section 3 explains the salient aspects of decentralization, which was initiated when President Toledo took office in 2001. Small producers will be able to take advantage of the new possibilities for participation and interest advancement created by decentralization only if numerous problems with the legal framework and its implementation can be resolved.

Chapter III briefly examines the dairy sector. Small producers in this sector are poorly organized, and politically feasible public policies to promote their interests are limited. Small producers' interests and those of the processing industries do coincide in two realms: promoting continued protection for the milk sector in the context of an imminent free trade treaty with the US, and pressuring the state to purchase domestically produced milk to supply its food subsidy programs.

Chapter IV provides a detailed analysis of the alpaca sector, with an emphasis on the fiber sector. The main actors in the fiber sector and their interests are discussed in detail, including the powerful fiber-processing industries, state agencies active in the sector, and producers' associations. Some convergence of interests does exist, although impediments to pro-poor development remain. Prospects for improving the welfare of alpaca herders through various initiatives related to the meat sector are also discussed. Appendix B provides an overview of the difficult political situation in Puno, where the majority of Peru's small alpaca herders are found. Any initiative designed to improve the situation of herder families will have to take into account numerous structural obstacles to success in this region.

This report concludes with a discussion of strategic entry points in Chapter V. Various courses of action are suggested that could directly or indirectly help improve opportunities for small producers in the livestock sector. Among the recommendations are providing support for small producers' associations, promoting institutionalization and professionalization of state agencies, and attempting to foster coordination among actors involved in development efforts.

Section 1: Agriculture, Public Policy and the State in the Past Decade

In the 1990s, Peru, like much of Latin America, underwent a pronounced move away from state intervention toward neoliberalism, a shift that represents a dramatic break with the past. In 1969, Peru experienced a major agrarian reform that broke up large haciendas and distributed land to producers in the form of various types of cooperatives. For a decade thereafter, the state was deeply involved in the agricultural sector. Its activities included setting prices for agricultural goods, control of marketing, and providing cheap credit, subsidized inputs, and extension services to producers (Crabtree 2002: 151, Hunefeldt 1997: 109).

The shift away from interventionism began with the profound economic crises of the 1980s, which resulted in part from the failure of agrarian reform. Under President Belaunde, cooperatives were dissolved, and various steps were taken toward reducing the presence of the state in the agricultural sector. That process accelerated under President Fujimori, who initiated dramatic economic stabilization and liberalization programs after his election in 1990.

Fujimori's reforms included price liberalization, closure of the Banco Agrario, which had provided cheap credit to producers, and generalized reductions of tariffs (with some compensatory protections for specific products such as milk). Crabtree (2002: 140) notes that the agricultural sector as a whole was low on Fujimori's list of priorities; the administration focused instead on promoting more dynamic sectors of the economy, such as mining. As Fujimori worked to curtail state intervention, the Ministry of Agriculture (Minag) took on a role subordinate to that of the Ministry of Economics and Finance (Crabtree 2002: 138). Moreover, Minag was radically downsized from 23,000 employees in 1990 to only 5,000 in 1996. Crabtree (2002: 141) asserts that this retrenchment was carried out in an ad hoc manner, with little prior planning. Numerous programs were terminated or simply handed over to the private sector.

While some of Fujimori's reforms, such as price liberalization, may have acted to the advantage of agricultural producers, liberalization in the 1990s seems to have benefited primarily the agro-exporters on Peru's irrigated coast. Small producers in the Andean highlands have been increasingly marginalized. For example, increased imports have altered consumption patterns and undermined markets for traditional foods produced in the Andes. The end of state-subsidized credit also created hardships for small producers. Overall, Crabtree (2002: 131) concludes that "liberalization has probably brought more losers than winners... many peasant producers have been relegated further to the margins of the economic system."

President Toledo, elected in 2001 after the dramatic political demise of Fujimori, has adhered to a similar neoliberal policy framework, despite some rhetorical acknowledgements of and tactical concessions to growing discontent with that model (Barr 2003). In recent years, for example, Toledo has worked avidly in favor of free trade, signing agreements with Mercosur and entering into negotiations with the US.

In this continuing neoliberal context, there are significant limits on what the state may do to promote development, let alone pro-poor development, in the livestock sector. Many interventionist tools used in the past are no longer acceptable and had never achieved much success anyway. The state has withdrawn from directly providing services to producers and now engages in more nebulous "promotional" activities. New state roles include promoting alliances among actors in production chains, providing information services, and coordinating the efforts and activities of

multiple private economic actors. For example, many state ministries including Minag and the Ministry of Production have adopted methodologies focused on production chains (*cadena productiva* and *cadena de valor*), although their specific approaches appear to vary significantly.¹

The major problem with this new approach is that the state has little capacity to act as a regulatory and coordinating agent. Behind this problem lies the fact that Peru, like most other Latin American countries, has historically had a very weak state. Fujimori strengthened some public institutions, such as the Ministry of Economics and Finances and the Ministry of Foreign Commerce and Tourism. Yet other institutions have remained extremely weak; Minag is among the worst of these. Overall, Peru is far from possessing the lean, strong and efficient state now advocated by international agencies and academics alike.

The specific afflictions of state agencies are numerous. First is the problem of instability. Ministers, for example, change frequently, even during the term of a single president. And when a minister changes, there is often significant turnover of personnel within the institution in question, sometimes including members of technical and professional teams. Such rotation of public officials creates instability of priorities and projects within the ministries, as well as tremendous loss of efficiency and skills.

A second and related problem is the fact that Peru has no established professional civil service.² Public officials for the most part are not chosen through open competitions based on merit. Rather, job patronage is rampant; politicians seek to reward their political supporters with appointments in state agencies. Consequently, public institutions often cannot count on an adequate level of human capital; in fact, many informants complain of the low quality of public functionaries. Further, in the absence of a professional civil service, organized interests within society may be able to gain excessive influence over institutional agendas.

In addition to the above problems, there is a debilitating lack of coordination both among and within state agencies. In the agricultural sector, for example, numerous different agencies handle projects that should either be closely coordinated or handled by a single institution. Instead, the various efforts often appear to be diffuse and often ineffectual (Int. 10). Added to the mix are a plethora of international donor and NGO development projects that often duplicate the efforts of state agencies.

Decentralization in Peru, an ongoing process initiated in 2002, holds promise for making the state more responsive to its citizens, but it also poses the risk of creating even greater coordination problems among public institutions. Ministries are now required to transfer a range of different programs and functions to the regional governments, yet regional governments in most cases lack the capacity and experience to effectively manage them. These problems are compounded by the complicated and occasionally self-contradictory legal framework of decentralization (see Chapter II).

Finally, it must be noted that the state in general has a very limited presence in the rural zones where the poorest small producers are located, particularly in the aftermath of state retrenchment and downsizing of Minag in the 1990s. Even if the decentralization reforms succeed in dispersing human and financial resources away from Lima, where they have been heavily concentrated for decades, it will take significant time and effort to strengthen the capacity and extend the reach of regional and local public institutions into the countryside.

¹While research for this project was being conducted, Congress was reportedly analyzing a law that would create a uniform framework for the production chain methodology to promote standardization and coordination among the various different ministries working with this concept (OPA 3, Int. 30).

²The lament "*no hay carrera publica*" was frequent among informants.

Section 2: State Agencies Involved in the Livestock Sector

A complicated array of public institutions are involved in the livestock sector. The most important of these are Minag and various institutions that are ostensibly responsible to it. Minag and its sub-agencies are discussed in detail below, with special attention to their institutional capacities. In addition, various other ministries manage projects of relevance to the livestock sector, including the Ministry of Production, the Presidency of the Ministerial Council (*Presidencia del Consejo de Ministros*) and the Ministry of Foreign Commerce and Tourism. Regional governments also manage their own special projects that occasionally focus on livestock. These ministries and regional government projects will be mentioned where relevant in the following chapters, but are not discussed in detail here.

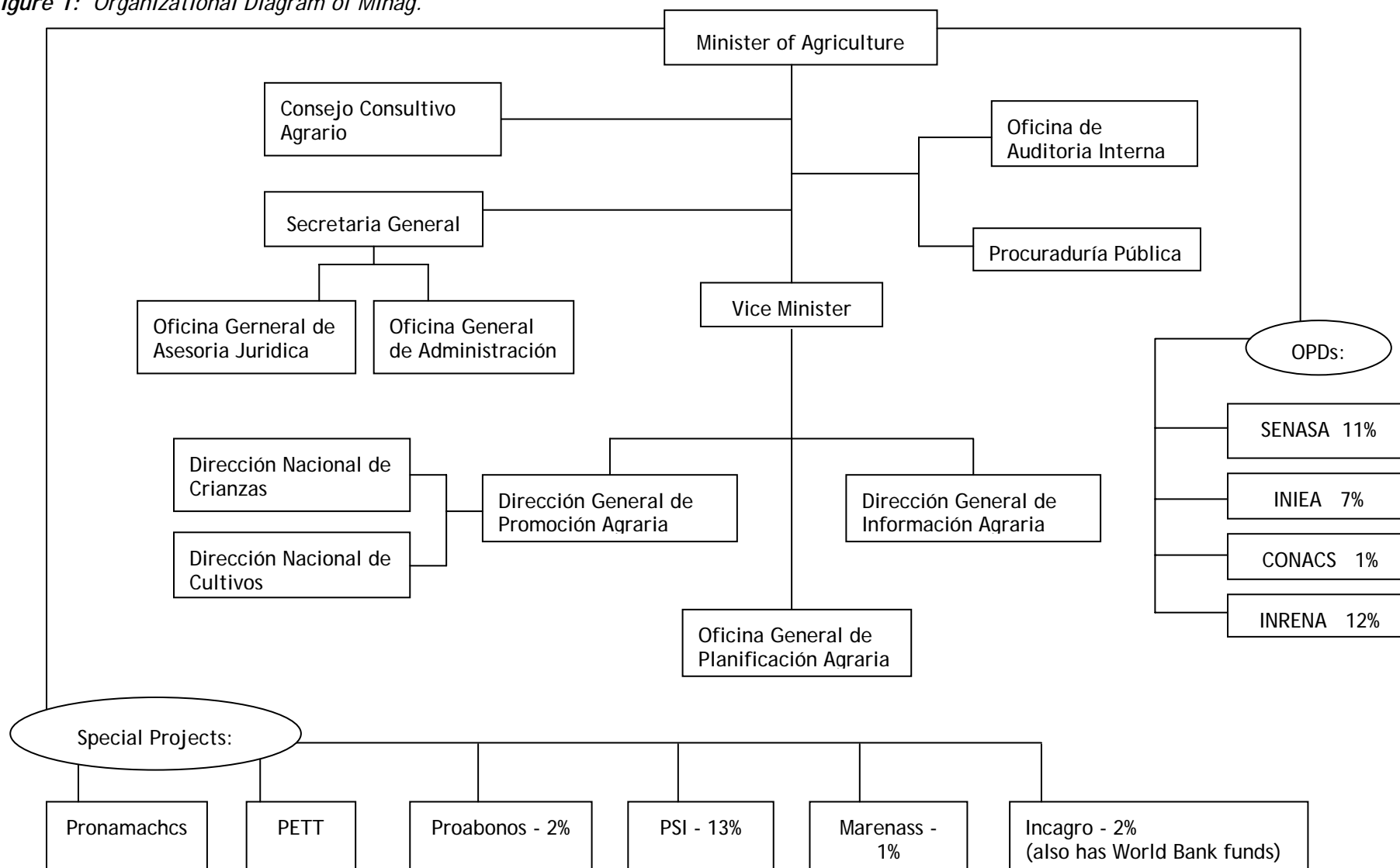
Ministerio de Agricultura (Minag)

The Ministry of Agriculture encompasses a large number of line agencies, special projects with administrative autonomy, and specialized semi-autonomous sub-organizations known as *Organismos Públicos Descentralizados* (OPDs) (See Figure 1).³ In addition to their central offices, each OPD has its own regional office. Further, Minag has deconcentrated agencies known as *Direcciones Regionales Agrarias* (DRAs) in each region that coordinate among the OPD offices and with the regional governments. As of 2003, however, the DRAs were transferred to the regional governments, in accord with decentralization laws.⁴ The DRAs replicate the basic line-agency structure of Minag at the regional level; for example, each has its own Dirección de Información Agraria and Dirección de Promoción Agraria.

³It should be noted that Minag has reportedly proposed a restructuring initiative, which was under debate but had not yet been made public while research for this project was being conducted (OPA 3).

⁴As I understand it, the DRAs are now administratively subordinate to and financially dependent on the regional governments (Int. 19, Int. 6). I am not clear if the DGAs also receive some funds directly from Minag.

Figure 1: Organizational Diagram of Minag.



Percentages of Minag's total 2003 budget (approximately USD 192.5) allotted to each special project and OPD are shown. Minag's central administrative offices received 40% of the total budget.

Source: Minag 2003a: 29, 101.

Normative Framework and Decentralization. Like other state agencies, Minag is in the process of withdrawing from service provision to producers. Such changes were of course part of the general reorientation of the state brought about during the 1990s with neoliberal reform. However, informants assert that Minag's most recent move away from service provision was initiated by interim president Paneagua with Supreme Decree 017 in 2001, which formalizes the ministries' new emphasis on promotional and coordinating activities.⁵ Moreover, with decentralization, service provision functions will fall under the mandate of either the regional governments or private actors.

Instead of service provision, like various other state agencies, Minag is now attempting to articulate private sector economic activities and promote coordination and alliances within production chains (*cadena productivas*). Specific institutional objectives listed in Decree 017 include strengthening the organization of producers around production chains, "fomenting" technical innovation and "facilitating" technical assistance for producers, establishing information systems to help private sector agents make efficient decisions, and "facilitating" articulation of small agriculture with both internal and external markets (*El Peruano* 2001: 201532).

Among the production chains that Minag plans to prioritize are milk, poultry and pork. The milk sector involves a large number of small producers and will be discussed in Chapter II. In contrast, the latter two sectors are dominated by factory production and / or large producers. Despite the emphasis on production chains, however, this concept is apparently underdeveloped. Several informants assert that Minag officials have not yet received sufficient training in the methodology behind the production chain approach, and that it has not yet proved as successful as they had hoped it would be (Int. 6).

Finally, it is important to note that decentralization will have a significant impact within Minag. Detailed plans have been drafted regarding the transfer of particular programs and functions to the regional governments. Although some transfers have taken place, overall, the process appears to be stalled in its early stages (Int. 10). The delays are partly due to concern within Minag that regional governments do not have the capacity and expertise necessary to handle their new responsibilities. These are concerns that are common across Ministries and are shared by numerous observers. Other informants assert that the slow progress of transfers is due to vested interests within the central bureaucracy (Int. 15, Int. 3).

Factors limiting Minag's capacity to promote pro-poor development. Minag is the main state actor in the livestock sector, and it is of critical importance for the Pro Poor Livestock Policy Initiative. However, a great number of structural problems impede Minag's ability to focus on the needs of small producers, and, more broadly, its overall institutional capacity to promote the development of the livestock sector.

Two factors limit Minag's attention to the interests of small producers in the Andean regions: the importance of coastal agricultural producers and Minag's institutional centralization within the capital of Lima. Minag focuses primarily on the needs of the dynamic agro-export sector, which is made up of fruit and vegetable producers, among them mango, avocado, and asparagus. These producers are both economically important and politically influential. Small producers in the sierra, in contrast, are poor and badly organized, and hence politically and socially marginalized. The fact that policy design occurs primarily in the central offices of Minag, without

⁵Some Minag functionaries maintained that this decree explicitly prohibits Minag agencies from engaging in the direct provision of services to producers (Int. 13, Int 24). The author, however, did not find any clause in the text of Decree 017 prohibiting Minag entities from service provision.

participation from regional producers further contributes to the ministry's lack of attention to small producers (Int. 10).⁶

Minag's budget gives a rough illustration of its bias against small producers. Conacs, the institution whose operations directly affect some of the poorest of Peru's small producers, the alpaca herders, received only 1% of Minag's resources in 2003. In contrast, Senasa, whose projects are focused primarily (though not entirely) on the needs of the agro-export sector, received 11% of the total budget that year (Minag 2003a: 101).

Turning to Minag's overall institutional capacity, the first impediment is the agency's unwieldy structure, which can be readily appreciated upon a glance at Figure 1. According to one key informant, Minag's structure is gigantic, costly, and fragmented (Int. 10). Coordination between offices and among sub-agencies is insufficient. According to the same informant, each sub-entity can be considered an island, operating its own projects in isolation from the others. Consequently, there is significant fragmentation and duplication of efforts among the sub-entities, leading to inefficiency and hindering attainment of goals. For example, in practice, three separate offices are engaged in general policy formulation. These include one consultative department [*Organo de Asesoramiento*]: the *Oficina General de Planificación Agraria*, and two line-agencies [*Organos de Linea*]: the *Dirección General de Promoción Agraria*, and the *Dirección General de Información Agraria* (Int. 10). The existence of numerous power groups within Minag further hinders possibilities for more effective coordination within the ministry (Int. 10).

Similar problems exist at the regional level. There is significant overlap of functions and lack of coordination between the DRAs and the regional OPD offices, as well as among the different OPD offices. For example, Conacs officials in the Puno office assert that Senasa executed its 1998 camelid vaccination campaign in the region with very little input from or interaction with the former organization, despite its expertise on the camelid sector.⁷ Consequently, Conacs-Puno officials are critical of this vaccination effort, asserting that it was ill-designed and ineffective.

Compounding Minag's organizational and coordination problems is the tendency of donor agencies and multilateral organizations to establish autonomous offices within Minag to manage the projects they fund. This tendency arises from a reasonable desire to ensure effective and proper oversight of funding. However, it creates the possibility of further fragmentation and duplication of efforts. This practice often creates tensions within Minag, since functionaries employed by these donor project offices often receive or are perceived as receiving better remuneration than staff in the rest of the bureaucracy (Int. 10, Int. 14). Further, these donor projects may siphon off the most talented of Minag's functionaries, leaving the Ministry's permanent offices with low-quality human resources (Int. 10). Finally, these projects are funded for finite time-periods, and when they end, the experience acquired may be lost to Minag (Int. 10).

Examples of these donor projects include Incagro, an institution that funds technical innovation projects with funding from the World Bank, ProAlpaca, a special project within Conacs funded by the EU, and Pronamachs, another special project with World Bank funds. Since Incagro competes to a certain degree with Iniea, the OPD that conducts research and technical extension, several informants assert that the former should have been incorporated into the structure of the latter (Int. 9, Int. 10). ProAlpaca, as its staff and funders assert, is technically subordinate to Conacs; however, outside observers maintain that in practice, it is relatively autonomous.

⁶Proponents of decentralization hope that it will help redress this latter problem. However, as noted above, this process has stalled, and regional governments are unprepared to successfully manage the programs and functions that will be transferred to them.

⁷See the discussion on Senasa below for more information about the camelid vaccination campaign.

A second impediment that hinders Minag's efficacy is the tremendous instability of its leadership. Indeed, Minag is perhaps the least stable of all government ministries. During the first four years of Toledo's presidential term, the Minister of Agriculture has changed five times. One observer explained that when political conflicts arise within the government, this position is frequently used as a bargaining chip to mollify discontented sectors (Int. 10). As a result of these dynamics, individuals appointed as Minister of Agriculture frequently lack relevant expertise. Opinions among informants varied regarding the extent to which rotation of functionaries occurs within Minag. Several informants suggested that the instability is mostly confined to the top leadership levels within Minag, and that technical teams are not as vulnerable (Int. 10, Int. 6). Others assert that in at least some of Minag's subdivisions, such as Conacs, much more extensive turnover of functionaries and technical teams has occurred (Int. 14). In general, however, a change in the minister always opens the possibility for disruptive shifts in policy emphasis as well as personnel changes, with the concomitant threat of loss of expertise and experience (Int. 1).⁸

Third, Minag has relatively little influence within the state. For example, Minag has particularly low rapport with the powerful Ministry of Economics and Finances, which controls assignment of financial resources and tax policy, which has a significant impact on the agricultural sector.⁹ Nor does Minag have much influence with the Congress, where agricultural legislation is passed. Deputies who sit on the agriculture commission have their own agricultural advisors and generally do not consult Minag officials (Int. 10). Partly as a result of this lack of communication, Minag occasionally receives legislation from Congress that it cannot implement due to design flaws or contradictions with existing norms and decrees (Int. 10).

With the above issues in mind, the following sections introduce and discuss the Minag entities of greatest relevance to the livestock sector. These are the Dirección Nacional de Crianzas and three OPAs: Conacs, which deals exclusively with camelids; Senasa, the animal and plant sanitation agency; and Iniea, a research and technological extension institute.¹⁰

Dirección Nacional de Crianzas (DNC)

The *Dirección Nacional de Crianzas* is a line-agency of the *Dirección General de Promoción Agraria* within Minag that deals with issues related to livestock. Among the DNC's functions sanctioned in Decree 017 are establishing a network of contacts among Minag entities, regional governments, and other public institutions that provide services to livestock producers, proposing and organizing training activities for the functionaries in charge of coordinating production chains in the *Direcciones Regionales Agrarias*, and supervising and evaluating the provision of specialized services to organized livestock producers in prioritized production chains (*El Peruano* 201537). The DNC has been working actively with Condesan on matters of relevance to the Pro-Poor Livestock Policy Initiative (Int. 26). Its director asserts that Minag must help to strengthen producers associations (Int. 24). Experts assert that the DNC has well qualified staff and technical teams (Int. 1).

However, the DNC's efficacy appears to be restricted by its limited influence within Minag; the *Oficina General de Planificación Agraria* (OGPA) has proven somewhat reluctant to take into account the DNC's policy suggestions. Nolte (2003: 58) makes

⁸Of course, change in leadership can also be positive; new ministers have occasionally removed ineffective or unprofessional project or OPD heads.

⁹The subject of taxation will not be discussed in this report because of its complexity, and the fact that it is generally of lesser relevance for poor producers in the sierra.

¹⁰The special project Marenass (Proyecto Manejo de Recursos Naturales en la Sierra Sur), has also executed initiatives relevant to the livestock sector, but it will not be discussed in this report. For more information, see Minag (2003:40-42) and Nolte (2003: 52, 66).

reference to problems with the DNC's status within Minag as well and offers the following recommendation: "To improve its capacity for action, the elevation of the DNC to the *Dirección General* should be considered, in order to improve access to the *Despacho Ministerial* [the highest level office of Minag], and to guarantee it access to the financial resources needed to maintain an effective and experienced team."¹¹

Consejo Nacional de Camélidos Sudamericanos (Conacs)

Conacs was created in the early 1990s with the primary mandate of protecting Peru's vicuñas, an endangered species of wild camelid with highly valued fiber. In addition to vicuña management and protection programs, Conacs now operates numerous initiatives designed to promote the alpaca sector; these domestic camelids are raised for both their fiber and their meat. These initiatives, as well as Conacs' institutional evolution, will be discussed extensively in Chapter IV in the context of the actors and politics of the alpaca sector. Finally, as noted above, Conacs houses the EU's special project Proalpaca, which operates exclusively in the regions of Apurímac, Huancavelica, and Ayacucho. This project was established in 2004 and is funded by EU PASA Peru (*Programa de Apoyo a la Seguridad Alimentaria*) through 2007. As noted above, Proalpaca functions in practice much like an independent office. Conacs is a critical institution from the point of view of the Pro-Poor Livestock Policy Initiative, given that its mandate entails improving the livelihoods of some of Peru's poorest rural families, the alpaca herders, or *alpaqueros*.

Although the bulk of this report's discussion of Conacs is delayed until Chapter IV, two relevant observations on the relationship between Minag and Conacs will be made here. First, Conacs is marginal within the ministry in terms of its budget. In 2003, for example, Conacs' funds amounted to only 1% of Minag's total budget (Minag 2003a). Further, the EU funds destined exclusively to Proalpaca for its operations in the three designated regions presently make up the vast majority of Conacs' total resources (Int. 14, Int. 13). Conacs' 1% of Minag's budget made it the least endowed of the OPAs in 2003.

Second, Conacs appears to be fairly autonomous in terms of its general status within Minag, partly since it is the only entity that handles issues related to camelids. As such, Conacs may have greater leeway in formulating policies than the *Dirección de Crianzas*. However, Conacs' operations are occasionally slowed down by the need to work with the directive bodies of Minag. For example, Conacs' National Strategy for the Development of Domestic Camelids (*Estrategia Nacional del Desarrollo de los Camelidos Domésticos*), completed in 2004, was still awaiting approval by the OGPA at the time of this writing. In addition, Conacs cannot directly interact with other Ministries, but must instead solicit or channel its communications through the Minag directorate, a bureaucratic requirement that may also introduce delays.¹²

Servicio Nacional de Sanidad Agraria (Senasa)

In contrast to the central offices of Minag and most other Peruvian state agencies, Senasa is considered a highly professional public institution that has been successfully protected from political interference. Although Senasa is responsible to Minag, it is administratively and financially autonomous; staff members are hired based on merit.

¹¹ "Para una mejor capacidad de acción, conviene plantear la elevación de la [Dirección Nacional de Crianzas] a la de Dirección General, de modo de acortar el acceso al Despacho Ministerial, a la vez que para contar con los recursos financieros para la constitución de un equipo solvente y debidamente experimentado."

¹²For example, Conacs requires information from the Ministry of Economics and Finances regarding a proposal to exempt dried alpaca meat from taxation—a measure that would benefit small producers (see Chapter IV)—but significant time has passed since Conacs submitted its request through Minag. Much of the delay likely originates with the MEF. However, there may well be a need for Minag to take more rapid action on matters of importance to Conacs.

Since its formation in 1992, Senasa has had only three directors; the present director, who is considered an excellent *tecnico*, was named in 1995. Technical teams have also remained remarkably stable over the last eight years. This degree of continuity is truly impressive in the Peruvian context, particularly considering the high rate of turnover within Minag.

Senasa's unique status may be due partly to support from the IDB, which initiated a five-year institutional strengthening program with Senasa in 1998. The IDB has promoted continuity within Senasa, expressing its preferences to the government in this regard when appropriate. Although there have been attempts by politicians to insert supporters within Senasa over the years, they have never been successful (Int. 44). Perhaps more importantly, private actors work to defend Senasa as well. The coastal agro-export sector has a strong interest in a capable and professional Senasa, and it has the political influence to defend this interest (Int. 44, Int. 46)

While Senasa's isolation from political interference clearly enhances its potential to successfully promote animal health, the agency is more active around agricultural sanitation issues. This focus again reflects the interests of the economically and politically strong coastal agro-exporters. Fruit fly eradication, for example, has been Senasa's best funded program over the last five years (IDB report). Senasa's animal health initiatives, which include foot and mouth disease eradication and programs to control brucellosis (*brucellosis*) in goats and cows, tuberculosis in cows, and scabies (*sarna*, an external parasite) in camelids and sheep, have been less amply funded. Many of these programs, which received funding from the IDB in the late 1990s, are considered to have achieved their goals and will not receive significant additional investment, whereas maladies afflicting the coastal agro-exports will continue to be prioritized. With this information in mind, Senasa's FMD and scabies programs will be briefly discussed below, given their relevance for this study.

Foot and Mouth Disease Program: One of Senasa's major initiatives in recent years has been control and eradication of foot and mouth disease (FMD), which received financial support from the IDB. In early 2005, the southern region of Peru was approved by the OIE (International Organization of Epizootics) as free of FMD without vaccination; the official certificate was expected to arrive in April. In addition, the northern zone of the country is reportedly FMD-free under vaccination. Senasa and IDB officials have great confidence in their disease monitoring and control system. Senasa operates control points at strategic locations to monitor animal movement across the borders of the FMD free zone, and it maintains a disease reporting and tracing system. Functionaries assert that this system allowed for the rapid control of an FMD outbreak in Lima early this decade (Int. 17, Int. 44); Senasa determined that the disease-carrying animal had entered Peru illegally from Ecuador.

Despite the fact that FMD control operations in Peru probably do work far better than in Bolivia, as an IDB official with experience in both countries asserted (Int. 44, Fairfield 2004), Senasa's capacity to maintain the disease free-zone is probably not as robust as reported. One limiting factor is the fact that Senasa itself does not have the authority to stop or detain individuals at the checkpoints; it must coordinate with law enforcement agencies to control animal movement. When pressed, Senasa officials admit that animals without transit certificates do occasionally get through control posts (Int. 17). These informants note that Senasa has held workshops with the police forces to explain procedures for and the importance of controlling animal movement (Int. 17).

Since there is little future for the export of Peruvian meats other than chicken and pork, and because small producers at any rate would not be able to participate directly in such ventures due to the difficulty of meeting sanitary requirements, Senasa's FMD program is not of great relevance to small producers. Peru's neighbors produce most meats at far lower costs, and greater volumes of cheap imported meat will likely enter Peru as it becomes more integrated with Mercosur.

Scabies Program: Of much greater potential relevance to small producers is Senasa's camelid vaccination program. In 1998, Senasa received funding from the IDB that included resources for an anti-scabies project that had been designed several years before. This external parasite afflicted about 30% of alpacas in the country and inflicted significant economic damage through its negative impact on fiber production (Int. 17). Senasa's program was composed of two components: working closely with specially selected producers on establishing good management practices on 1,500 demonstration units (*unidades demostrativas*) and providing workshops and education for interested producers who were not selected to form demonstration units. Senasa hoped that best management practices established on the selected units would spread among the *alpaquero* population at large by demonstration effect. Through this design, Senasa hoped to achieve sustainable results and avoid dependency (*asistencialismo*) (Int. 46).

In practice, this project design led Senasa to work primarily with relatively large producers (Int. 37). Requirements for selecting producers or groups of 3 or 4 family members to form demonstration units included ownership of 200 or more animals and the ability to finance part of the costs of the anti-scabies products to be used (Int. 46).¹³ Although Senasa and the IDB view the program as a success in that it achieved its targeted objectives, critics note that the initiative did not in practice reach the very poor families that constitute the majority of *alpaqueros* (Int. 37).

While it is interesting that Senasa did allocate resources to the scabies campaign, given the beneficiaries' lack of political influence, the following illustrates the limits of Senasa's attention to the *alpaqueros*. After funds had been assigned to the scabies project, the cost of the medicines fell significantly. Instead of expanding the scope of the project accordingly, the extra funds were instead reallocated to the fruit fly control program (Int. 44). Of the \$4.5 million originally earmarked to the scabies campaign, \$1.5 million was transferred to the fruit fly program. A comparison of resources allocated for the two projects is also informative. The scabies campaign ultimately received \$3.9 million in joint IDB and Peruvian government funds, whereas the fruit fly program over the same time period received \$27.3 million (IDB report).

Instituto Nacional de Investigación y Extensión Agraria (Iniea)

Iniea is a research and extension institute that has programs related to both agriculture and livestock. Livestock projects relevant to small producers include research programs on guinea pig (*cuyes*), sheep, and camelids. Of these, the *cuy* program has the longest and most developed trajectory.

Cuyes are native to the high Andes and have long been an important source of supplemental protein for poor families. They are traditionally kept in the kitchen and fed household food byproducts; women and children are responsible for their care. *Cuy* has also become a popular restaurant item in the *sierra* as well as in Lima, where it commands significant prices on the market (about \$3 per animal) due to high demand (Int. 27, Int. 30). Families have thus been able to benefit from selling their surplus *cuyes* on the internal market. There are also export opportunities for *cuyes*, but these will likely be taken advantage of primarily by large producers with the capital to operate modern, intensive factory farms (*granjas*).¹⁴ Families and small

¹³Within the set of eligible producers, however, Senasa reportedly tried to work with the less well-off (Int. 46). It may also be possible that some of the groups included in the *unidades demostrativas* initiative were composed of poorer families who were able to combine their animals to achieve the 200 animal cut-off, although given that the average family owns only 80 animals, this scenario seems somewhat improbable.

¹⁴There is interest in *cuyes* within the Ministry of Production due to the export potential for this product. Several large producers are currently exporting *cuyes* to Ecuadorian and Peruvian communities in the US. Businessmen from several elite families are reportedly showing great interest in large-scale *cuy* operations.

producers may, however, be able to sell *cuyes* to exporters seeking to increase their volumes (Int. 30).

Iniea's *cuy* program was initiated in the 1960s. Under the direction of Lilia Chauca, Iniea has developed through genetic selection numerous improved breeds of guinea pigs, characterized by their prolific reproduction, fast growth rates, and larger sizes. Balanced feeds and more careful management practices than traditionally employed are required to raise these animals.¹⁵

In addition to genetic selection and management system research, Iniea has engaged in initiatives to distribute improved animals among small producers throughout the *sierra* regions. These have included rotating funds, in which families receive a pair of reproducers and then contribute some number of young *cuyes* back to the fund. Such programs had a particularly important impact in Cajamarca (Int. 27). Iniea has also provided some training and technical extension from its regional centers in the *sierra*. The greatest achievements of these programs have been helping to improve nutrition among poor families and raising the self-esteem and economic position of the women who care for *cuyes* (Int. 27).

Despite its accomplishments, Iniea's research has not been well disseminated (Int. 26), likely due to its funding limitations. Iniea's funds have occasionally been supplemented by support from international organizations; for example, Canada's International Development Research Center (IDRC) funded a research project to evaluate Iniea's *cuy* extension programs, and Spain is currently providing financial resources for an urban *cuy* raising program in Lima (Int. 27).

¹⁵Extensive information on *cuyes* and management systems are available in *Producción de Cuyes* by Chauca (1997).

CHAPTER II: NATIONAL POLITICAL CONTEXT

This chapter discusses political actors and political processes in Peru. As such, it provides background which is essential for understanding the political economy of the livestock sector and evaluating prospects for pro-poor development. Section 1 provides a discussion of party system collapse, the most salient feature of Peruvian politics since the early 1990s, and comments on the capacity of parties to advance a pro-poor development agenda. Section 2 presents an overview of national-level civil society actors relevant to the livestock sector. In general, there are few organized actors with the ability to promote the interests of small producers at the national level. Peru's highly volatile, un-institutionalized political parties are poor vehicles for representation of any popular interests. Moreover, civil society in Peru is quite weak, although there are several organizations of interest to this project that are active at the national level. The chapter concludes with a discussion of decentralization in Section 3. This process may hold the promise of promoting greater participation and accountability in politics if numerous problems in design and execution could be resolved.

Section 1: A Collapsed Party System

Peru provides the paradigmatic example of party system collapse. This phenomenon, which political scientists generally view as deleterious to democracy, has occurred in several Latin American countries over the past two decades and has stimulated much research.¹⁶ In 1990, Alberto Fujimori, a virtually unknown political outsider, won the presidency in Peru amidst a crisis characterized by deep economic recession, hyperinflation, and continuing terrorist attacks by the radical guerrilla movement *Sendero Luminoso*. By the end of his two presidential terms, Peru's traditional parties had all but disappeared. In their place have emerged numerous loosely organized, personalistic and ephemeral political groupings that many argue cannot accurately be termed parties.

Peru's established parties had remained relatively strong until the late 1980s. However, tremendous polarization occurred as the 1990 election approached, in the context of severe economic crisis and guerrilla violence. This polarization left the political center available for Fujimori to occupy. On the left, the *Izquierda Unida* (United Left) coalition and a number of small parties advocated a democratic route to socialism, while on the right, the formerly centrist *Partido Acción Popular* (AP) and the conservative *Partido Popular Cristiano* (PPC) allied behind presidential candidate Vargas Llosa's neoliberal economic platform. Meanwhile, APRA, the governing populist party, was plagued by internal power struggles and the ignominious legacy of outgoing president Alan García (Tanaka 2002a). His heterodox and inconsistent policies had helped to create the economic crisis; he later entered exile to avoid corruption charges. Fujimori's personalistic campaign, his image as a man of the people untarnished by torrid partisan politics, and his promises to avoid harsh economic stabilization measures won the support of the atomized lower classes (Roberts 1995, Weyland 2002). Votes from *apristas* and members of the left helped Fujimori win the second round of the presidential election (Tanaka 2002a).

¹⁶See for example Jason Seawright, forthcoming, "The 'Demand Side' of Party System Collapse: Political Preferences and Votes for Insurgent Parties;" and Kenneth Roberts, 2002, "Social Inequalities Without Class Cleavages in Latin America's Neoliberal Era," *Studies in Comparative International Development* 36 (4): 3-33. For more on Peru, see Levitsky and Cameron 2003, and for the case of Venezuela, Michael Coppedge, "Explaining Democratic Deterioration in Venezuela through Nested Induction," Paper presented at the Annual Meeting of the American Political Science Association, San Francisco, Sept. 2-5 2001.

Fujimori proceeded to launch a concerted attack against both the political class and established democratic institutions, an agenda that proved quite popular with the citizenry and helped to distract attention away from the harsh neoliberal shock he implemented immediately after taking power (campaign promises notwithstanding) (Roberts 1995). In 1992, Fujimori closed Congress, purged the judiciary, and suspended the constitution. In the aftermath of this “self-coup,” Fujimori convened a constituent assembly to draft a new constitution, which was approved in the 1993 national referendum.

These popularly condoned authoritarian initiatives, together with the ultimate success of the economic stabilization measures and the defeat of *Sendero Luminoso* through the opportune capture of its leader, consolidated Fujimori’s power and sealed the demise of the traditional political parties.¹⁷ Fujimori swept the 1995 elections with 64.4% of the vote (Tanaka 2002a). His political movement, *Cambio 90- Nueva Mayoria*, won a majority in Congress with 67 seats. The traditional political parties, which had together obtained more than 90% of the vote in the 1985 presidential elections, now achieved minimal representation (Tanaka 1998: 55).¹⁸ APRA did best, winning only 8 seats.¹⁹

In the aftermath of Fujimori’s attack on the political establishment, organized political parties have been largely replaced by so-called “taxi” or “disposable” parties, which form to support a particular candidate’s bid for power (Freidenberg 2002, Levitsky and Cameron 2003). These highly personalistic parties have little if any organizational structure and are held together by the appeal of the leader they support. Taxi parties are thus usually short-lived and tend to disintegrate in the aftermath of elections, in contrast to more traditional parties, which carry out various activities with their membership on a regular basis (Tanaka 2002b). Accordingly, the list of parties with representatives in the Peruvian congress has changed dramatically from election to election in recent years.

Prominent examples of taxi parties include Fujimori’s various party vehicles and sitting president Toledo’s *Perú Posible*. Fujimori’s first party, *Cambio 90*, developed no permanent infrastructure or membership and established no internal statutes. Fujimori created a second personalistic party for the 1992 constituent assembly, a third for the 1998 municipal elections, and a fourth for his second reelection campaign in 2000. After his scandalous demise in 2000, precipitated by the public airing of tapes showing his top political advisor bribing congressmen and justices, Fujimori’s residual party, *Cambio 90-Nueva Mayoria*, nearly disappeared from the political arena. It won only 5% of the vote in the 2001 legislative elections.²⁰ Toledo’s *Perú Posible* in contrast did establish a party directorate and a few statutes, but its internal organization and coherence were always weak (Tanaka 2002b). Riding on Toledo’s popularity in the 2001 presidential election, *Perú Posible* won 26% of the vote in the legislative elections. However, the party has fragmented in the wake of Toledo’s rapidly declining popularity. Disagreements between the president, his cabinet members, and party representatives in congress became increasingly pronounced during the early years of Toledo’s tenure (Tanaka 2002b).

APRA, the populist party established in 1930, is the only traditional party that has survived the Fujimori years to some degree. APRA maintains a central party

¹⁷ Levitsky and Cameron (2003: 2) analyze the collapse of Peru’s party system as follows: “...the full-scale decomposition of the party system...was ultimately the product of Fujimori’s political success in the wake of the 1992 *autogolpe* [self-coup]. Peruvian politicians drew two lessons from this success: (1) that public opinion would not reward the defense of formal democratic institutions and (2) that parties were not necessary for (and may impede) career advancement. In light of these lessons, scores of politicians abandoned both established parties and the democratic opposition in favor of an “independent” strategy centered on individualized and short-term electoral goals.”

¹⁸ *Acción Popular*, the PPC, and *Izquierda Unida* gained only 4, 3 and 2 seats respectively.

¹⁹ (Political Database of the Americas, Georgetown University: www.georgetown.edu/pdba/Elecdata/Peru/leg95.html)

²⁰ Political Database of the Americas, Georgetown University: www.georgetown.edu/pdba/Elecdata/Peru/leg2001.html

bureaucracy and is more institutionalized than the other political groups.²¹ Like the new parties, however, its political prospects are closely tied to the popularity of its personalistic leader. Garcia enjoyed an unexpected comeback as APRA's presidential candidate in the 2001 election after his return from exile, and the party accordingly won 20% of the vote in the legislative elections. Since then, Garcia has been working to rebuild the party. However, in his absence, it appears that APRA can count on popular support amounting to only around 3% of the vote.

Political scientists tend to agree that party system collapse and a predominance of weak, volatile, and personalistic parties is unhealthy for democracy. Indeed, it is commonly argued that strong, institutionalized parties are a key ingredient for effective democracy.²² Ideally, such parties form links between state and society by providing representation for voter's interests and encouraging participation in politics. Left parties can play an especially important role in stabilizing democracy by articulating and seeking to advance the interests of marginalized groups through the democratic system (Bruhn 1997). Strong, institutionalized parties with well-defined platforms can help guard against the authoritarian tendencies inherent in the excessive personalism and *caudillismo* which have been so common in Latin America (Mainwaring and Scully 1995). Strong parties may also help ensure accountability to the electorate by requiring their leaders to respect party platforms that have been sanctioned by the voters.²³ Further, Levitsky and Cameron (2003: 3) note that strong parties are critical for governability: "By serving as a bridge between executives and legislatures, parties provide a critical mechanism for overcoming gridlock. Without the disciplining function of parties, legislatures may degenerate into chaos or, worse, a marketplace for peddling influence."²⁴

Most important from the point of view of this project is the role that strong, institutionalized parties play in representing voter's interests and serving as a channel for participation in politics. In the case of Peru, parties lack strong ties to any clearly defined electorate or organized interests within civil society. Indeed, over the 1990s, Levitsky and Cameron (2003: 10) assert that "parties were reduced to narrow circles of elites." As such, they cannot serve as effective organizations for representing the interests of popular sectors, beyond advocating generally desirable goals such as containing inflation and creating jobs. Peru, like many other Latin American countries, is consequently experiencing a "crisis of representation." Symptoms of this affliction include declining citizen confidence in politicians and political parties and a related deterioration of support for democratic institutions.

In addition, the weakness of political parties in Peru contributes to instability within public agencies that limits state capacity to promote development. No political party in Peru has enough members to field all of the candidate lists for national elections from within its own ranks. Instead, parties secure the candidates they need by making bargains with independent politicians. For example, would-be candidates are often in need of a party banner under which to run, and smaller political groups may be amenable to joining forces with a larger group. As a consequence of these dynamics, parties incur numerous political obligations that must be fulfilled after

²¹ In the 1990s during Garcia's exile, there were no APRA party offices to be found in Lima; the eight legislative representatives kept the party afloat working out of their congressional offices (Freidenberg 2002).

²² For an overview of arguments asserting that strong parties are in fact detrimental to democracy, see Stokes 2001. Some of these arguments originate from scholars of the Venezuelan system, where the two parties, feeding on state resources, become overly entrenched and failed to provide adequate representation. Others were expressed by political philosophers wary of parties and the influence of special interests.

²³ Stokes (2001), however, argues that evidence from Latin America suggests that both weak parties in volatile systems and strong parties in stable systems have ignored voter mandates by implementing dramatic policy switches.

²⁴ Indeed, Peru's congressional deputies regularly switched their party affiliations in the Fujimori years. They demonstrated little loyalty to the political coalitions that secured their election and proved extremely vulnerable to bribery by Fujimori's advisor Montesinos.

elections. New presidents are therefore under tremendous pressure to award jobs in public agencies to members of their political coalitions and their supporters (Int. 29).

These problems will not be resolved in the near future; strong parties with deep roots in society are unlikely to reemerge in Peru. As Levitsky and Cameron (2003: 20) argue, politicians lack the incentives and capacity to rebuild party organizations. Neoliberalism has brought about extensive social atomization and heterogeneity of economic interests that make it difficult to organize constituencies. Meanwhile, a shift to mass-media oriented campaigns that easily reach atomized voters has reduced politicians' need for traditional party organizations that were once critical for building political support (Tanaka 1998).²⁵

Given the considerations discussed above, Peru's parties have little capacity at present to effectively represent the interests of small rural producers. The various taxi parties and volatile national political alliances by their very nature are ineffective organizations for representing the interests of the rural poor or other popular sectors. First, these parties tend to be controlled by small political groups in Lima (Int. 29) that have little knowledge of or interest in rural issues. Second, their instability and their inability to win majorities in Congress make them ineffective at pursuing any concrete agenda. APRA, the only party with any real organization on the ground level, has historically attracted support from the middle class and popular sectors, but it cannot be said to champion the interests of the rural poor at the national level. The policies it has advocated, in fact, have spanned the political spectrum from left to right (McNulty, forthcoming).²⁶ Leftist parties, in contrast, have maintained much closer links with organized sectors of labor and the peasantry. For example, the Confederación Campesino de Peru and labor unions supported the parties of the left-wing Izquierda Unida coalition throughout the 1970s and 1980s (Crabtree 2002: 151). The various left parties are still active today among these bases; however, they are electorally irrelevant (Int. 29).²⁷

²⁵See also Kenneth M. Roberts, 2002. "Party-Society Linkages and the Transformation of Political Representation in Latin America," *Canadian Journal of Latin American and Caribbean Studies* 27, no. 53: 9-34 and Taylor C. Boas, 2005. "Television and Neopopulism in Latin America: Media Effects in Brazil and Peru." *Latin American Research Review* 40, no. 2: 27-49.

²⁶However, decentralization is introducing new dynamics within the party that could help make it more responsive to its base. Since APRA's regional presidents are accountable to their regional constituencies, not to the central party leaders in Lima, control from the center may be eroding (Int. 15). As decentralization becomes better institutionalized, APRA might pay more attention to issues important to the rural poor. In Cajamarca, for example, the APRA regional government has tended to support popular mobilizations against the Yanacocha mine (Int. 31). That possibility is of course conditional on small producers becoming better organized and more effective at voicing their interests. APRA is strong in the northern coastal and *sierra* regions. It won the largest number of regional presidents (twelve out of 25) of all the parties in 2002, including Cajamarca, Ancash, and Ayacucho. However, the party has little presence in Puno, where many of Peru's poorest rural producers live.

²⁷Although parties do not have stable, institutionalized links to rural voters, politicians may still rely on rural votes to be elected, and they may attempt to appeal to this sector through means other than well-defined political platforms that promote particular interests. Most notably, Fujimori was able to build critical support outside of Lima through his targeted social spending programs (see Section 2), which channeled funds to small, poor municipalities throughout the *sierra* and rural Peru. The efficacy of this tactic was enhanced by political manipulation; the majority of funds were directed to those provinces in which the "marginal political impact of expenditures was likely to be largest," that is, poor regions where previous support for Fujimori had been fairly low (Schady 1999: 2). The support base that Fujimori thus created in Peru's poorest departments helped him to win reelection in 1995 and 2000 (Roberts and Arce 1998). Despite the massive corruption scandal that led to his flight from Peru in 2000, Fujimori remains quite popular in many regions, including Puno, as a legacy of these programs. This illustration aside, several informants emphasized that Lima is by far the most important focus for national electoral campaigns because of its tremendous population density: about 30% of Peru's population lives in Lima (McDevitt 1999). That reality of course acts to limit national politicians' interest in the countryside.

Section 2: National-Level Civil Society Actors Relevant to the Livestock Sector

In Crabtree's (2002: 151) analysis, "the progressive weakening of the rural 'lobby' has been one of the salient features of rural politics over the last 30 years" in Peru, a state of affairs that does not bode well for pro-poor development in the livestock sector. While a number of important rural organizations developed in the immediate aftermath of the 1969 agrarian reform, developments in the 1980s and 1990s acted to greatly weaken their influence. Consequently, there are no strong national associations representing small producers today in Peru. The dramatic changes initiated in the countryside by agrarian reform stimulated organization in the rural sector in the 1970s. Some associations formed to oppose the reforms, while others arose to support them. Most relevant from the point of view of this study were the *Confederación Nacional Agraria* (CNA), created by president Velasco to support his policies, and the more independent *Confederación Campesino del Peru* (CCP), which actively pressured the government to accelerate agrarian reform (Crabtree 2002:151). In addition, the newly formed cooperatives provided organization in the countryside focused on production.

The end of agrarian reform, economic crisis, and *Sendero Luminoso* violence in the 1980s weakened rural organizations and their ability to influence policy. The parcelization of cooperatives, most of which had proved highly unsuccessful economically (Hunefeldt 1997), largely eliminated that form of organization. With their members hard hit by hyperinflation and other manifestations of the economic crisis, the CNA and the CCP experienced a debilitating decline in their mobilizational capacity. In addition, the leftist parties with which the CCP had close ties began to enter into crisis, a development that further limited that association's influence. Meanwhile, guerrilla terrorism undermined rural organizations of all kinds. The deepening economic crisis and the withdrawal of the state from the agricultural sector created ideal conditions for the rise of *Sendero Luminoso*. This extremely radical and violent revolutionary movement arose in highland regions that had been overlooked by agrarian reform. *Sendero Luminoso* targeted and killed leaders of all types of grass-roots organizations in the countryside that did not espouse a violent path to social change, as well as state functionaries and NGO officials involved in rural development initiatives.²⁸ The impact of *Sendero Luminoso* was particularly strong in the southern *sierra* regions of Peru. The havoc *Sendero* wrecked in the countryside was compounded by militarization and widespread violation of human rights by the army. As Crabtree (2002: 152) notes, "In such circumstances, it became impossible, or even irrelevant, to represent the economic interests of peasants or small-scale producers."

Fujimori's policies in the 1990s further weakened rural lobbying groups and producers' associations. First, continued parcelization of cooperatives and economic liberalization increased heterogeneity in the countryside. The ensuing dispersion of crops and growing economic marginalization of peasants and small producers made it more difficult for them to successfully organize (Crabtree 2002: 153). Second, just as state intervention had stimulated organization in the 1970s, accelerated state retreat from the countryside created disincentives for organization in the 1990s. The state was no longer interested in negotiating with sectoral associations, and many agencies with which associations had interacted had been dramatically retrenched or ceased to exist (Crabtree 2002: 153). Preexisting organizations were too weak by this time to effectively protest the policy changes. Third, Fujimori's politically motivated and

²⁸See for example McClintock, Cynthia. 1998, *Revolutionary Movements in Latin America: El Salvador's FMLN and Peru's Shining Path*. Washington, DC: U.S. Institute of Peace Press, and Degregori, Carlos Iván 1989, *Que Difícil es Ser Dios: Ideología y Violencia Política en el Sendero Luminoso*. Lima: El Zorro de Abajo.

manipulated poverty alleviation programs—Foncodes and to a lesser extent Pronaa—further undermined independent grass-roots organizations and local institutions.

The National Fund for Social Compensation and Development (*Fondo Nacional de Compensación Social y Desarrollo*, Foncodes), a community-based, demand-driven, targeted poverty alleviation program, was established in 1991. It began funding small-scale rural development, sanitation, health care, education, and infrastructure projects in earnest in 1993. This agency was established within the Ministry of the President, and thus fell under Fujimori's direct control. Instead of working with local governments and existing grassroots organizations, Foncodes bypassed municipal governments and encouraged new base-level groups to form for the sole purpose of proposing projects (Roberts 1995: 106). This mode of operation allowed Fujimori to build a direct relationship with the rural poor. Targeted spending boosted his popularity in the countryside, helping him win reelection in 1995 and 2000 (Roberts and Arce 1998). However, Foncodes undermined existing grass-roots organizations and acted to further atomize an already fragmented and weakened civil society.

Producers' Associations. As a consequence of the factors discussed above, there are essentially no strong associations that represent the interests of small agriculture and livestock producers at the national level in post-Fujimori Peru. The groups within the agricultural sector that have the most political influence are unquestionably the dynamic agro-exporters of the coastal zones. These producers all have their own sectoral associations,²⁹ which are united through membership in the Association of Agro-Export Producers' Unions of Peru (*Asociación de Gremios de Productores Agroexportadores del Peru*, AGAP). Within the livestock sector, chicken producers and pork raisers are the most influential groups; both are economically successful and primarily involve large-scale operations. Two national-level producers' associations that represent sub-sectors with large numbers of small producers do exist, however. These are the AGALEP, which represents milk producers, and SPAR, which organizes camelid producers. These two associations have emerged only recently as relevant at the national level, although they do hold promise for the future. Both are discussed in greater detail, respectively, in Chapter III and Chapter IV. Finally, national-level peasant organizations have been marginalized. While the CNA and CCP still exist, they are almost irrelevant politically.

One additional organization is worthy of discussion: the National Convention for Peruvian Agriculture (*Convención Nacional del Agro Peruano*, Conveagro). This umbrella association was created in the 1990s at the initiative of one of Fujimori's ministers of agriculture, Absalon Vasquez, to foster discussion on problems within the sector and to build political support for Fujimori (Int. 5). Conveagro became an independent organization in the late 1990s after Vasquez was dismissed. Conveagro members include producers' associations and NGOs. Among these are Fongal-Lima—the most influential of the milk producers associations, SPAR, and both the CNA and CCP, as well as the research institute *Centro Peruano de Estudios Sociales* (Cepes) and several universities. Conveagro represents primarily those sectors of agriculture and livestock that produce for the domestic market. The influential agro-export associations are not members of Conveagro, nor are the associations of poultry and pork producers.

Conveagro has become increasingly active in recent years in response to what it perceives as a grave crisis in the agriculture and livestock sectors that has developed over the past several decades. In January of 2004, Conveagro managed to elaborate a Consensus Platform consisting of a long list of demands, necessarily fairly general in nature, that was universally approved by its member organizations, as well as AGAP and the independent poultry and pork associations. In Feb 2004, Conveagro

²⁹These include associations for producers of grapes, avocados, citrus fruits, tomatoes, mangos, and asparagus, among others.

successfully pressured the government to sign the *Carta Verde*, a reduced list of agreements drawn from the Consensus Platform. Among the twelve basic lines of action included are the following: prioritization of agriculture by the state; recognition of decentralization as the “fundamental axis” (*eje fundamental*) of agrarian policy, with an emphasis on making agriculture viable and reducing rural to urban migration; state support for the organization and consolidation of producers’ associations; protecting domestic producers from international price distortions originating in agricultural subsidies; and expanding access to credit and the services provided by the new *Agrobanco* (GNP 2004).³⁰

In early 2005, Conveagro was heavily involved in opposing those measures of the Free Trade Treaty (FTT) under negotiation with the US government that threatened to most damage domestic agriculture. These included tariff reductions that would expose domestic producers to increased volumes of cheap imports.

Informants’ views of Conveagro and its capacity to influence national policy varied. Some see it as a highly successful organization that is effectively lobbying government policy-makers (Int. 5, Int. 8). For these observers, Conveagro’s activities represent a significant step toward better coordination and organization in the agriculture and livestock sectors. Other informants are much more cautious, or even cynical, in their assessments of Conveagro (Int. 9, Int. 10, Int. 25). One key informant, for example, asserted that Conveagro is in fact extremely weak. He viewed the *Carta Verde* as merely the expression of crisis and asserted that the government has no capacity to enact the vague agreements it contains (Int. 10). Indeed, even Conveagro supporters admit that the Toledo administration has shown no interest in agricultural and livestock beyond the agro-export sector (Int. 21). The author of this report tends to agree with the latter point of view. Given the weakness of many of its member associations, Conveagro should perhaps be seen as more a symptom of existing organizational problems, rather than a cure for them.³¹ Nevertheless, the future of Conveagro remains to be seen.

A side note might be made regarding international cooperation agencies, donors, and financial institutions that fund and manage development projects in Peru. While these organizations do have political influence, overall, cooperation agencies appear to be less powerful than in poorer Latin American countries such as Bolivia, where the government depends to a far greater degree on international aid (Int. 3). The international sector is characterized by significant duplication of efforts and lack of coordination, both among different international organizations and, as previously discussed, between international organizations and state agencies (Int. 10).

Section 3: Decentralization

Decentralization in Peru has generated great enthusiasm and high hopes among academics, civil society, politicians, and ordinary citizens alike. In theory, decentralization holds the potential to improve governance, increase participation, improve accountability, and, ultimately, to bring about a more equitable distribution of resources. From the point of view of the livestock sector, these changes could allow small producers to more effectively voice their demands. As it has been implemented in Peru so far, however, decentralization has born disappointing results.

³⁰Most prominent among the demands in the Consensus Platform left out of the *Carta Verde* were a number of issues related to the tax structure for the agricultural sector. Due to the complexity of tax issues and the fact that these are for the most part of secondary importance for small producers, they are not discussed in this report.

³¹For example, Conveagro does not seem to be doing much to help strengthen links between its member organizations and their respective bases. One informant notes that it has failed to mobilize its base members to participate in the new participation spaces created by decentralization (Int. 15).

If it is to live up to the high expectations, numerous problems will have to be addressed.

Decentralization in Peru arose in the context of the transition back to democracy after the implosion of Fujimori's semi-authoritarian regime in 2001. Remarkably, decentralization enjoyed widespread support among the electorate, civil society organizations, and politicians alike (McNulty 2004). Both Toledo and Garcia, the top two candidates in the 2001 presidential campaign, promised to support decentralization reforms. Soon after his victory, Toledo announced that regional elections would be held in November of 2002. These dynamics compelled congress and the executive to move quickly to forge a legal framework for decentralization.

The constitutional reform that initiated the decentralization process created a state with 25 administrative and political regions based on the geographical boundaries of Peru's preexisting 25 departments. Each regional government consists of an elected president, an elected Regional Council, and a consultative body known as the Regional Coordination Council (*Consejo de Coordinación Regional, CCR*). Each CCR is made up of representatives elected from civil society as well as the region's provincial mayors. The constitutional reform also asserted the need for participation in regional budgeting processes. Guidelines for participatory budgeting (*Presupuesto Participativo*) were established in later laws.

Increasing citizen participation in government was a prominent, though not uncontroversial, goal of decentralization.³² Many experts assert that the reforms, according to the letter of the law, were in fact quite radical in this regard when compared to decentralization in other Latin American countries such as Bolivia (Int. 29). Numerous participatory spaces, as well as mechanisms for revoking authorities, were included in the reforms (Int. 29). The most important of these participatory spaces are the above-mentioned CCRs and the participatory budgets. The framework governing these institutions will be discussed below, followed by an evaluation of their performance to date.

The CCRs are "consultative and coordinating" bodies that meet at least two times per year to discuss the region's annual development plans and its participatory budget. Since the CCRs do not have binding authority, their recommendations need not be taken into account by elected officials. By law, civil society representatives can make up no more than 40% of a CCR's members. At least one third of the civil society representatives must come from the production sectors, which includes agriculture. In fact, the law explicitly includes agricultural organizations in a list of example organizations allowed to participate in the CCRs. Civil society representatives are elected for two-year terms by civil society delegates, who must belong to organizations that are legally registered in the region and have formally existed for at least three years. In addition to the CCRs, the decentralization laws establish analogous institutions at the local level (*Consejos de Coordinación Locales, CCLs*).³³

Participatory budgeting according to law is obligatory. Members of any legally registered civil society organization can participate in regional participatory budgeting; there are no restrictions on the age of the organization. Regional Council members and CCR members can also participate. Participatory budgeting at the regional level proceeds through a number of stages that include presentation of the previous year's budget by regional functionaries, discussion of investment priorities, and finally, drafting of technical proposals for approval by the Ministry of Economics and Finances (McNulty 2004: 14).

³²See McNulty 2004 and McNulty (forthcoming) for an analysis of political parties' reluctance to endow civil society with too much power *vis a vis* elected officials.

³³Information in this paragraph is drawn from McNulty 2004.

In addition to the CCRs and participatory budgeting, various sectoral consultation and coordination forums are being held at the regional level (Int. 15, Int. 19). Such forums have been convened in the education, health, and agricultural sectors (Int. 15). In the case of agriculture, coordination forums are convoked by the Dirección Regional Agraria (DRA). Leaders of all the OPD and special project offices in the region are obliged to participate; producers and their associations may participate upon invitation by the DRA (Int. 19).

Decentralization thus created three new institutional realms in which small producers can in theory voice their demands and advance their interests. However, in practice, numerous obstacles hinder participation and limit the overall effectiveness of these institutions. In McNulty's (2004: 15) evaluation, "the mechanisms designed to strengthen democracy and increase participation at the regional level have, overall, met with limited success." Among the factors that have led to this disappointing outcome are problems with the legal framework, incomplete implementation of the laws, lack of resources, and under-representation of traditionally marginalized groups.

Problems with the legal framework governing the participation spaces are various. First, it is not always clear in practice how the new institutions are supposed to work, due to a lack of specificity regarding their functions (McNulty 2004). For example, both the CCRs and the participatory budgets were given jurisdiction over similar regional budgeting issues. In practice, the participatory budgets have emerged as the most important space for discussing allocation of resources (Int. 15), an outcome that is probably due in part to the fact that the CCRs do not have binding authority. Second, the legal framework is often extremely complicated and thus difficult to properly implement. This statement is particularly true of the laws that regulate participatory budgeting (McNulty 2004). A third problem is specific to local participation spaces. The participation mechanisms in general were designed with urban settings in mind, which makes them ill-adapted for small rural localities in various aspects. One informant asserts that greater flexibility in the laws is needed to correct this problem (Int. 31). These design-related flaws arose in part because the entire process of decentralization was extremely rushed, with little time for debate and careful revision of legislation (McNulty 2004). All of these flaws act to undermine the effectiveness of the CCRs, CCLs, and participatory budgeting.

A perhaps more serious problem is the fact that in several cases, the participatory institutions have not been fully implemented in the regions. This is the case in Puno, one of the key regions for the FAO initiative. Here, the regional president has not yet held a participatory budget forum, justifying this breach of the law by claiming that Puno is too unstable for the process to proceed (see Chapter IV, Section 2). There appears to be insufficient legal recourse to force the regional president to comply with the legal obligation to hold annual participatory budgeting. This instance calls to attention the importance of political will of authorities in the effective functioning of the participation institutions, a fact that is true of the local spaces as well, where the attitude and expectations of mayors can greatly influence the role of the CCLs and participatory budgets (Int. 31).

Lack of resources is a fundamental problem that undermines one of the key purposes of the participation spaces: citizen participation in the allocation of resources. Lack of resources most seriously impacts the participatory budgets, at both the regional and local levels. Transfers from the central government to the regions and municipalities are quite small overall. Moreover, of the regional governments' total annual funds, only a small percentage is available for investment, which requires participatory budgeting. Most of the resources are absorbed by operational costs (*gastos corrientes*), which are not subject to participatory budgeting. Lack of resources undermines the participation institutions in a second way as well: there are insufficient funds and resources to give officials the training they need to ensure smooth functioning of the CCRs, and especially participatory budgeting. Regional officials by and large do not have the technical expertise necessary to design project

proposals that will meet with the required approval of the Ministry of Economics and Finances, which maintains strict standards for the participatory budgets. McNulty (2004: 18) asserts that to remedy this problem, "A comprehensive, nation-wide training program is needed, yet no agency has the resources to undertake it."

An additional problem is the fact that the participation spaces suffer from under-representation of marginalized groups, precisely those sectors of society decentralization would ideally empower. In reality, grass-roots organizations representing poor and geographically isolated constituencies are rarely represented on the CCRs, for example. In 2002, not a single organization from 38% of Peru's provinces registered to participate in the CCRs (McNulty 2004: 20). In Puno, only 2 out of 13 provinces registered organizations to participate in the CCR. Cajamarca did somewhat better; 6 out of 13 provinces registered organizations. In general, the participation spaces are reproducing the exclusions traditionally present in Peruvian society (Int. 15).

These problems of representation are hardly surprising, given that marginalized groups face high barriers to participation, including transportation costs, high opportunity costs for time spent in and traveling to meetings, and lack of organizational resources. Moreover, ordinary citizens tend to have little information about the decentralization process in general, let alone details regarding the steps they need to take in order to participate in the CCRs and budgeting processes. In the case of the CCRs, the requirement that an organization must have existed for three years amounts to an added barrier to participation in the context of a weak civil society.

All of the above problems are of course relevant to the case of small livestock producers. A few additional issues regarding participation by this sector should be mentioned. First, although by law, 33% of CCR civil society representatives must come from the "production" sectors, in practice, the definition of "production" sectors is rather vague and open to interpretation. As such, this rule does not automatically help to boost participation from the agriculture and livestock sectors. Second, there is no leadership within the agriculture and livestock sectors mobilizing producers to organize and participate in the CCRs and participatory budgets. Conveagro, the logical protagonist in this matter, was too occupied in early 2005 with opposing the FTT at the national level to pay much attention to decentralization and the upcoming elections to the CCRs (Int. 15).

In the absence of effective participation by grass-roots organizations, experts assert that the new participatory institutions are largely occupied by members of a semi-professional class with experience in politics or public administration. These individuals serve as brokers who intermediate between the state and civil society, channeling resources down to a disorganized base. This system involves a kind of unstable clientelism in which relationships between brokers and beneficiaries must be constantly renewed (Int. 29).

It is also worth stressing that powerful interest groups are absent from the participatory institutions. Examples relevant to this study include the alpaca fiber-processing industries in Arequipa and the Yanacocha mine in Cajamarca, which has been the target of much protest. These entities have other means of advancing their interests. Although the participatory institutions were not meant to accommodate such powerful groups, their absence means that these new institutions cannot function to negotiate and coordinate among all of the relevant interests in the region. The most important decisions regarding allocation of resources will thus be made in other arenas where the popular sectors have only a weak, if any, voice.

One final problem with the decentralization process must be mentioned that bears on possibilities for sustainable development: there are too many regions. Informants assert that Peru should have somewhere between six and nine regions, far fewer than the 25 that were created out of convenience from the existing departments in the rush to decentralize (Int. 29, Int. 15, Int. 31, Int. 3). Development planning must take

place on a broader scale than that of the current regions. Poorer regions such as Puno are not economically viable in isolation from their neighbors. Puno's livestock economy, for example, is closely linked to Arequipa; alpaca fiber produced in Puno is processed and marketed by industries located in Arequipa.³⁴

³⁴There is recognition at the national level that there are too many regions, and significant financial incentives have been provided for regions to combine into larger political administrative units. These incentives involve far greater resource transfers from the central government, including automatic shares of tax revenue. In response to these incentives, there has been talk of creating macro-regions in the north and south of Peru. The southern macro-region would ostensibly include Arequipa, Cuzco, Puno, and Tacna. However, some experts do not expect that this consolidation will be realized. Regional governments are interested in solidifying their new powers and will not want to voluntarily cede their autonomy to a new macro-regional government (Int. 29).

CHAPTER III: THE DAIRY SECTOR

The dairy sector is of potential interest for the Pro-Poor Livestock Policy Initiative because it incorporates a large number of small producers. Farmers with five or fewer cows account for fully 65% of all milk producers in Peru (Minag 2004b: 7).³⁵ Further, 97% of all producers have fewer than 20 animals; these small and medium-sized producers own 78% of Peru's milk cows. In addition to its importance for small producers, there is significant potential for growth in the dairy sector, both for milk and cheese.

This chapter provides an overview of the sector, the actors involved, and the major issues affecting prospects for small producers and development of the sector as a whole. Although some possible lines of state action are noted below, for the most part, there does not seem to be a clear and compelling role for the state in promoting pro-poor development in the dairy sector, given current political and economic conditions.

Section 1: Sectoral Background

In 2003, the dairy sector accounted for about 4% of the total value of agricultural and livestock production.³⁶ Demand for milk products has outstripped national supply; in 2000, for example, Peru imported \$47,827 thousand dollars of milk. A reduction in powdered milk imports between 1995 and 2001 of almost 50% has helped to stimulate domestic production of fresh milk in Peru. From 2001 to 2002, production increased by 5%, and since 1993, production has grown at an average annual rate of 4.8%. Minag notes that there is room for substantial growth in the dairy sector, given that milk consumption in Peru over the last decade has been only about half of the minimum of 120 liters per person per year recommended by the FAO. Indeed, Peru has one of the lowest levels of both milk production per capita and milk consumption per capita in South America.³⁷

Peru's main milk producing regions are Arequipa (22% of fresh milk production), Cajamarca (12%), and Lima (14%). The majority (70%) of growth in the milk sector over the last decade has taken place in these three regions (Minag 2004b: 3). The three main processing industries, the Peruvian company Gloria, the multinational Nestle, and the Chilean owned Laive, have a strong presence in these regions. In Cajamarca, for example, Nestle and Gloria together collect 300 thousand liters of milk per day (Nolte 2003). Outside of Arequipa, Cajamarca, and Lima, where these processing industries do not have collection routes, milk producers supply small cheese factories or sell raw milk directly to consumers.

Small milk producers in Cajamarca and Arequipa were hit hard by liberalization in the 1990s. Producer prices declined by almost 50% in real terms from 1990 to 1997 (Crabtree 2002: 146). And despite growth in the dairy sector in recent years, producer prices have remained low. The processing industries determine prices based on factors including milk quality (acidity, fat and solid content), the producers' distance from collection centers, and the volume available. In 2003, the average national price for milk was 0.85 soles per liter (Minag 2004b: 4).³⁸

³⁵The original text states that "65% of milk producers own five animals," which the author assumes is a typological error.

³⁶In 2000, milk made up 8.5% of the livestock sector (Minag).

³⁷Sources: www.minag.gob.pe/pecuario.shtml, Minag 2004a, Minag 2004b.

³⁸Prices for raw milk vary from about 0.49 soles per liter in remote locations to 0.91 soles per liter closer to processing plants.

The cheese sector holds particular promise for providing opportunities for small producers. Though presently small, the cheese sector is growing, and experts sense a potential to develop both domestic and external markets for specialty cheeses produced in Peru's numerous distinctive microclimates (Int. 1). Further, small cheese factories pay good prices for milk (higher than what the processing industries offer), and they return the whey to the producers, which amounts to substantial additional income (Int. 1).³⁹ Consequently, Nolte expects cheese factories to become a noteworthy competitor with the milk processing industries in the future. The main factors currently limiting development of the cheese sector include the lack of sanitation in small-scale cheese production,⁴⁰ the informal status of these factories, which prevents them from selling their goods to supermarkets, the small volumes of production, and the lack of distribution networks for their products (Int. 1, Int. 8). Numerous NGOs and international organizations, including the FAO, are presently involved in projects to promote cheese production. In various cases, these efforts have led to significant improvements in cheese quality as well as formalization of small cheese plants in terms of their legal standing with municipal governments, health authorities, and the tax agency (Int. 1).

Section 2: Actors, Interest, and Policies

The main actors in the milk sector are the processing industries and producers' associations, with the balance of power firmly on the side of the industries. Regional associations of small producers are particularly weak, whereas the new national level producers association appears to have at least a moderate degree of influence.

Processing Industries

Gloria is the biggest of the three processing industries; it controls about 70% of the dairy market (Int. 22). It also operates one of the largest evaporated milk plants in the world and exports this product to emerging markets in the Caribbean, Central America, and Africa (Int. 22). In addition, Gloria imports powdered milk from Bolivia (Int. 1), where it also has a significant presence (Fairfield 2004). Gloria collects a total of about 1,200,000 liter of milk per day primarily from Arequipa, Lima, and Cajamarca, but also Trujillo, Chiclayo, and more recently, Junin (Int. 22).

Nestle and Laive are of similar size. Nestle collects approximately 240,000 liters per day primarily from Cajamarca, as well as Trujillo. The company has also recently begun collection in Lima. Laive collects about 200,000 liters per day principally in Arequipa. Like Nestle, it is now entering Lima as well (Int. 22).

Nestle is known for its focus on milk quality. It pays its producers based on the temperature, fat, protein, and solid content of their milk upon collection. The company also provides some technical assistance to its producers, although producers must pay for these services (Int. 1). Nestle has continually expanded its collection routes within Cajamarca and Arequipa, but is apparently not interested in moving into other regions (Int. 1). The company has also participated in a wide range of development projects with the state and NGOs, making it a potentially useful partner for the Pro-Poor Livestock Initiative.⁴¹

³⁹Whey can be used as a livestock feed, for example. Nolte estimates that a liter of whey is worth about 0.10 soles.

⁴⁰Unpasteurized or improperly handled cheese may transmit brucellosis and other diseases to consumers.

⁴¹It should be noted, however, that due to time and resource constraints, representatives from the milk industry were not interviewed for this project.

Gloria does not have the same focus on quality as Nestle, partly due to its lower technical capacity, and it provides essentially no technical services to its producers (Int. 1, Int. 22). The prices it pays for raw milk are slightly higher than Nestle's.⁴² However, Gloria's producer prices have remained essentially constant over the past six years, despite the fact that consumer prices have been increasing (Int. 22). In contrast to Nestle, Gloria has shown a potential interest in expanding collection to other regions (Int. 1).

Small Producers and Producers' Associations

In the past, Peru had strong regional milk producers' associations, united at the national level by the organization *Fondo Nacional para la Ganaderia Lechera* (Fongal). However, this organization all but ceased to exist at the national level; its inscription in the public registry had lapsed for many years. The regional Fongal chapters continued to exist and operate, but they too have been greatly weakened.⁴³

Informants agree that the regional Fongales now have very little influence, although it is worth noting that there is variation in strength among them. Fongal-Lima, for example, is relatively strong. Fongal-Cajamarca, in contrast, is particularly weak; it suffers from mismanagement problems and infighting (Int. 22). It is worth noting that Fongal-Cajamarca does not participate in that region's CCR.

In 2004, a new milk producers' association, the *Asociación de Ganaderos Lecheros de Peru* (AGALEP) was created in an effort to remedy the organizational vacuum at the national level. AGALEP seems to have emerged largely at the initiative of Fongal-Lima; indeed, the two organizations share the same president. AGALEP is too new for an evaluation of its efforts; however, its president asserts that its work is progressing well. AGALEP participates in Conveagro, and through this forum it is attempting to push the government to maintain protections for the internal market. It is also working with MINAG and the Agricultural Committee of the Peruvian congress to formally create a National Council on Milk (*Consejo Nacional de la Leche*). This council would promote development of the dairy sector by promoting coordination between producers, the processing industries, and the government. It will be modeled on similar institutions that operate in the US, Canada and European countries (Int. 22).

Small Producers' Interests and State Policies

The main complaint of small milk producers for years has been the price they receive for milk. Gloria's producer prices, for example, have remained essentially constant over the past six years, despite the fact that consumer prices have been increasing (Int. 22).⁴⁴ And Nestle is frequently accused of falsely claiming that milk quality is poor as an excuse to pay low prices, although the veracity of such complaints has never been proven (Int. 1). These accusations aside, it is indeed the case that the vast majority of the profits in the milk sector— 75%— accrue to the processing industries (Nolte 2003: 68).

A second issue of importance for small producers is the need for more small-scale collection centers to help bring their milk to the processing industries. There is also a need for small processing plants and collections centers in regions where the major

⁴²However, Gloria's prices vary by season, whereas Nestle's are stable year round (Int. 1).

⁴³Crabtree (2002: 154) presents a contrasting point of view. He asserts that the Fongales were one of the more successful agricultural producers' associations during the 1990s, and that they managed to mitigate some of the more devastating impacts of trade liberalization.

⁴⁴Producers worry about Gloria's ability to abuse its position of dominance in the market (Int. 22).

industries do not operate. Such infrastructure would stimulate small producers and would help supply municipalities with milk for distribution in the nutrition assistance program *Vaso de Leche* (see below) (Int. 22, Int. 26).

A possible if improbable role for the state in addressing price problems, as suggested by one informant, is the establishment of centers in milk regions that could independently evaluate milk quality. Given the strong move away from public sector provision of technical services, this idea does not appear to be feasible. There might be more potential for establishing such a solution at the regional level. However, securing milk quality evaluation centers supported by the regional governments, as well as more small collection facilities, would require much more effective organization and capacity for political lobbying than small milk producers currently possess.⁴⁵

Overall, the state is highly unlikely to undertake any action that might bring about a shift in profits shares in the milk sector in favor of small producers. The neoliberal framework that prevails in Peru as well as small producers' lack of political influence (both nationally and regionally) preclude state involvement in milk pricing disputes. As Nolte (2003: 68) observes, "The state has been increasingly weak in terms of regulating and creating conditions for equity in the market, especially in the milk sector."⁴⁶ As such, the producers' associations will have to resolve price disputes with the industries on their own. Fongal-Lima may take the lead in such initiatives. It has produced a study on milk prices and is currently lobbying Gloria to reevaluate its producer prices (Int. 22).

Significant public involvement in the cheese sector seems equally unlikely at present. As previously noted, the state has moved away from providing the kind of services that might help to improve sanitary conditions in cheese production. Small producers would certainly benefit from state efforts to promote the cheese sector, for example, through publicity campaigns or initiatives to create and regulate quality standards and brands of origin. Such activities are within the realm of the state's current activities. For example, a major public initiative was launched in 2004 to promote consumption of *pisco*, Peru's national drink. However, this campaign appears to have been driven largely by the economically strong and politically influential *pisco* producers. Prospects may be poor for a similar campaign in favor of the cheese sector, which lacks strong private sector actors.

Shared Interests and State Policies

Though prospects for improving the situation of small producers within the milk sector appear slim at present, both producers and the industries have a shared interest in promoting domestic milk production, and there have been interesting efforts to advance this agenda at the national level. These efforts have focused on opposition to the Free Trade Treaty (FTT) with the US government and on pressuring the state to buy domestically produced milk to supply its nation-wide nutritional assistance programs (Int. 22).

Free Trade Treaties. The dairy sector faces serious potential threats if free trade with the US and Peru's neighbors in Mercosur becomes the norm. Ultimately, imported milk from Mercosur countries may present the greater threat, given the much lower production costs in Argentina and Uruguay. However, there was ample concern over the free trade treaty under negotiation with the US, due to the increased competition

⁴⁵Another measure that would benefit small producers in the dairy sector would be encouraging Nestle and Gloria to expand their milk collecting operations. Again, it is not clear what role the state could play in this matter, although this possibility was not explored during the author's interviews.

⁴⁶"El Estado ha tenido una creciente debilidad frente a la normatividad y demás condiciones que velan por la equidad en las relaciones del mercado interno, especialmente en el tema de la leche."

it would initiate with Peruvian milk and cheese. Similar concerns regarding increased competition were shared by the other agricultural sectors represented in Conveagro.

As of early 2005, Peru's milk sector was protected by a 25% tariff on imported milk products and an additional system of variable surcharges (the *franja de precios*) that fluctuated between a minimum and maximum rate in accordance with the international price of powdered milk. The lower the powdered milk price, the higher the additional tariff, in order to protect Peruvian producers from international dumping. In March of 2004, for example, the total tariff on milk products reached 40%. Agreements with the WTO permitted tariff protections of up to 68% (Minag 2004b: 5). As a consequence of these tariff policies, milk imports had decreased during the early years of the 21st century. However, a free trade treaty with the US would spell the end of the variable surcharges and a reduction of tariffs on milk imports. Indeed, the US intransigently demanded these conditions, all the while refusing to negotiate its own policy of subsidizing milk production (Int. 22).

Milk sector representatives hoped that Peru's negotiating team would secure a deal with the US to define fixed quotas for the import of milk products. One informant asserted that milk and cheese imports from the US in their present volumes did not threaten Peru's milk sector, but a significant increase in the future would cause problems (Int. 22). He appeared confident that such a system of quotas would be achieved in the negotiations, although this outcome was far from certain at the time of this writing.

In conclusion, there is a clear role for the central government to play in protecting the shared interests of milk and other domestically-oriented agricultural producers: maintaining reasonable protections from subsidized US products for the internal market. Whether or not the government will oblige depends largely on the organizational strength and strategic prowess of Conveagro, as well as the magnitude of international pressures. At the time of this writing, the free trade treaty with the US seemed likely to move forward. Toledo had invested significant resources in vigorously promoting the initiative (Int. 5).⁴⁷ The consequences of Peru's entry into Mercosur, another of Toledo's accomplishments, however, had not yet been determined. The initial agreement did not include specifics on tariff barriers and protections. These issues will doubtless come up for discussion in the future.

Public Nutrition Programs. Two state social assistance programs, *Vaso de Leche* (Glass of Milk), and *Desayuno Escolar* (School Breakfast), purchase milk from the processing industries, and in some cases directly from small producers for distribution to poor children. *Vaso de Leche* is now run by the municipalities, and *Desayuno Escolar* is managed by the *Programa Nacional de Asistencia Alimentaria* (Pronaa), a subsidized food program for the poor which depends on the Women's Ministry (Ministerio de la Mujer) but has been decentralized to the regions. *Desayuno Escolar* provides milk as a nutritional supplement to school-aged children up to 14 years old (Nolte 2003: 43). These programs are an important additional source of demand for nationally produced milk.⁴⁸

In the past, however, much of what these social programs actually purchased and distributed was not fresh milk, but "*productos enriquecidos lacteos*," milk substitutes produced from imported goods: powdered milk, soy, and other grains (Int. 22). The milk substitute business started up in the mid-1990s primarily to supply the state social programs. The state responded favorably to their offerings because these substitutes are cheaper than fresh milk (Int. 22). However, despite the fact that they contain the same percentages of protein, fat, and nutrients, dairy advocates maintain

⁴⁷One informant felt that Toledo viewed such free trade treaties as an important part of his legacy (Int. 22).

⁴⁸Many municipal governments purchase milk locally for their *Vaso de Leche* programs (Nolte 2003). Nolte (2003: 43) and Crabtree note that *Vaso de Leche* and Pronaa have tended to pay higher than market prices for milk.

that the substitutes are nutritionally inferior to fresh milk because the amino acid spectra are quite different (Int. 22).

The milk industries and producers coincided in their opposition to the use of milk substitutes by the social programs, and their lobbying efforts have secured some concrete achievements. Together, Gloria and Fongal-Lima demanded that the state purchase only domestically produced fresh milk. Local Mother's Committees, which are involved in administering some of the social programs (*Desayuno Escolares*), proved important grass-roots allies for the milk sector. They reportedly pressured public officials to move from substitutes to fresh milk, based on nutritional considerations (Int. 22). These efforts were rewarded with the passage of Law 27470 in 2001 and Law 27767 in 2002, which require the social programs to use nationally produced milk. Substitute products are still permitted when necessary, but they must be nationally produced as well (Int. 26). As a result of these efforts, Gloria has increased its supply of milk to the social programs (Int. 22).

Passage of the two laws, however, has not entirely resolved the problems. The social programs are reportedly still purchasing substitutes, and Fongal-Lima is currently pushing for the laws to be enforced in favor of fresh milk (Int. 22). The milk substitute producers appear to have significant political and economic influence. They are powerful actors with diversified economic interests who have established special facilities to process their products, and they are likely to energetically fight the milk sector's threat to its market.

In conclusion, pro-poor development in the milk sector depends largely on strengthening producer's associations at both the regional and national levels.⁴⁹ It is these organizations that must push the industries to improve producers' prices and, in alliance with the milk industries, lobby the state to pay more attention to the internal market and abide by its legal promise to purchase domestic milk for the food-assistance programs. On each of these agenda items, there are strong countervailing interest groups that will have to be fought.

⁴⁹The author is not advocating a return to gremial or collective models of the past. Informants note that that these models are in decline and are not popular among small producers themselves (Int. 1). Associations today may need to focus more around issues of successful production and business promotion. The important point is that they need to develop the capacity to lobby local and national governments to implement policies that are critical to their production needs.

CHAPTER IV: THE ALPACA SECTOR

Alpaca herders are among the poorest of Peru's small rural producers. Accordingly, this chapter discusses the alpaca fiber and meat sectors, with an emphasis on the politics of the fiber sector. Despite decades of exploitation and marginalization of small alpaca herders, recent developments in the fiber sector have opened up new if tenuous possibilities for improving their welfare.

This chapter proceeds as follows. Section 1 provides background on the camelid sector in Peru, including the vicuña sector. Although the politics of the vicuña fiber sector are interesting and worthy of attention, the sector is quite small, and space constraints unfortunately preclude a detailed discussion thereof. Section 2 discusses the alpaca fiber sector in depth. After considering the problems facing small producers and the historical configuration of power within the sector, the major actors and their interests are analyzed. Also discussed are various initiatives spearheaded by Conacs, with participation by other actors, to promote coordination in the sector and to advance the interests of small herders. A complementary overview of the difficult political situation in Puno, a key region for any pro-poor development initiative focused on the alpaca sector, can be found in Appendix B. Finally, Section 3 explores the potential of various alpaca meat sector initiatives to benefit small herders.

Section 1: Sectoral Background

The camelid sector in Peru is made up of alpacas, vicuñas, and llamas. Alpacas are the most numerous species; the country has an estimated 3 million alpacas and one million llamas.⁵⁰ Vicuñas are an endangered species of wild camelid whose numbers have been recovering over the past decade due to state protection.

Economics

The majority of the economic value derived from the camelid sector is to be found in fiber. Alpaca fiber is particularly important. About 90% of alpaca fiber is exported in the form of tops (brushed fiber, or *topes*), yarn, and to a lesser degree, finished textile goods. Semi-processed fiber (tops) represented 67% of fiber exports and yarn (*hilados*) 29% in 2001.⁵¹ China, Italy and Japan are the main importers of Peruvian alpaca fiber. Production volumes in 2001 amounted to about 3394 tons of alpaca fiber, a quantity that has been more or less stagnant since 1996; yearly production has fluctuated slightly around an average of 3,369 tons. Llama fiber, given the current state of technology, is of lower quality than alpaca fiber and is produced in much smaller quantities. Vicuña fiber is one of the finest in the world and has been legally tradable on the international market since 1994. Capture and sheering of the animals is supervised by the state to ensure that the fiber originates from live animals. About three tons of vicuña fiber were produced in 2000.

Alpaca fiber prices have been highly volatile throughout the history of the fiber industry, due to the limited volume of fiber available, changes in demand on the world market, and speculation. As alpaca fiber becomes popular with the international fashion industry, demand grows and fiber prices increase. As the fiber industries sell down their accumulated stock, demand outstrips supply, and prices

⁵⁰www.minag.gob.pe/pecuario.shtml These figures are probably too low; Peru has not conducted an agricultural census since 1994. In fact, the fiber industries estimate that there are around 5 million alpacas in Peru.

⁵¹www.minag.gob.pe/pecuario.shtml

continue to increase. The high prices then encourage designers to use alternative fibers such as mohair, cashmere and fine wool, and alpaca fiber prices plummet accordingly. Fiber prices thus vary cyclically, with a period of four to five years (Int. 13, Safley 2001: 112). Speculation by the industries and intermediaries who purchase raw fiber exacerbates these fluctuations. Industries and intermediaries purchase fiber from alpaca herders when prices are low and wait to sell until international prices begin to peak.

Alpacas and llamas are also used for meat. In 2001, 8271 tons of alpaca meat and 3209 tons of llama meat were produced.⁵² In terms of value, however, camelid meat is marginal, constituting only 1.4% of the meat sector. Camelid meat is largely traded in informal markets. As in Bolivia, there are strong prejudices against camelid meat that are intimately linked to racism against the indigenous populations that have traditionally consumed them (Fairfield 2004). Most alpaca meat is consumed as *charqui*, which is dried and salted. Animal hides, meanwhile, largely go to waste, despite potential but undeveloped markets for leather.

The Alpaqueros

Alpaca herders, known as *alpaqueros*, are found primarily in the southern regions of Puno, Ayacucho, Huancavelica, Arequipa and Cuzco. Puno has 60-80% of Peru's alpacas and is home to the largest population of *alpaqueros* (Int. 13, Int. 37).

The alpaca sector is dominated by small producers, although there is significant socioeconomic variation among herders. An average *alpaquero* family owns 80 animals; families with fewer than 100 animals represent 80 to 90% of all producers (Int. 37). However, a small proportion of families own 400 or more animals and have much greater economic opportunities. *Alpaqueros* with fewer than 100 animals are engaged in subsistence production. A herd size of less than 100 animals is considered too small to maintain good genetic quality, unless reproducers are regularly exchanged with other herds. In some very poor regions, families may own as few as 20 animals. Further, there exists an even more marginalized population known as *pastores* (shepherds or pastors) who do not own their own animals, but instead care for an absent owner's herds. *Pastores* are to be found in the most remote and elevated areas of Puno. They are marginalized both economically and socially; the villages they serve do not consider the *pastores* to be members of their community, nor do they admit the existence of the *pastores* to organizations or NGOs that work with the villages. As such, there are no estimates to date of how many *pastores* exist. The *pastores* embody the exploitation of the poorest of the *alpaqueros* by the poor (Int. 41).

Unquestionably, the vast majority of *alpaqueros* live in extreme poverty. Estimates of income for a typical family with about 80 animals range from \$345 to \$800 per year (Int. 37, Int. 43, Int. 34). On the low end, a Conacs representative estimates income from fiber at a mere \$122 per year, with a total annual income of only \$345 from all sources, including fiber, meat, and sale of live animals (Int. 37 3/5). Some studies, however, have concluded that small alpaca herders receive about half of their income from fiber and about half from meat (Toro et al 2001: 23, Int. 13, Int. 4). The following section focuses on fiber production problems experienced by *alpaqueros*; issues surrounding alpaca meat production will be discussed separately in Section 3.

⁵²www.minag.gob.pe/pecuario.shtml It is not clear if these figures include estimates of the volume of meat traded on informal markets.

Section 2: Alpaca Fiber Sector

Producers' Problems

Small alpaca herders face numerous problems that limit their economic possibilities in the fiber sector. Most important among these are animal health issues and poor management practices that reduce fiber quality. First, alpacas suffer from scabies (*sarna*), an external parasite that damages their fiber. Vaccines and best management practices are available to control scabies; however, animal health services for the most part have not reached small producers. Second, high levels of interbreeding are found within herds. This problem is particularly marked in herds of 100 or fewer animals. Alpacas also crossbreed with llamas, bearing offspring of lower fiber quality. Moreover, large numbers of high quality *alpacas* have been exported both legally, and in larger numbers, illegally, over the past several decades.⁵³ As a consequence, Peru's genetic stock has deteriorated. There are few alpacas of high genetic quality left in the country, and alpaca fiber has grown continually coarser, reducing its value on the international market.

The deterioration of fiber quality due to the disease and management problems discussed above has contributed to the primary difficulty that faces *alpaqueros* today: low prices for fiber. Over the past decade, fiber prices have declined as the international fashion market has increasingly favored ever finer, lighter fibers.⁵⁴ However, as will be discussed below, low prices for fiber do not reflect market trends and declining fiber quality alone. A complicated fiber-collection system, made up of an oligopsony of three processing industries and an extensive network of intermediaries, has contributed to the low producers' prices since the 1960s.

The Historical Configuration of Power in the Fiber Sector

Throughout the history of the fiber sector, three companies have dominated the processing industry: Michell and Co, Grupo Inca (Incatops and Incalpaca), and Productos del Sur (Prosur). These companies were founded and are still owned by elite families living in Arequipa. Michell and Co was founded in 1946 by Englishman Frank Michell. It remains the largest fiber company today, controlling 55% of fiber exports.⁵⁵ Prosur also has a long trajectory in the fiber business; it was founded in 1954 and now controls 23% of fiber exports. Grupo Inca, also formed in the 1950s, is the smallest of the three companies (11% of exports). In contrast to Michell, which processes high volumes of fiber, Inca has specialized in top quality fiber and production of finished products for market (Int. 13 3/10).⁵⁶ Grupo Inca's strategy has been so successful that it has been able to diversify into other economic activities, which include an ostrich farm in Arequipa. Michell has also diversified; in the 1980s, it expanded into insurance, finance, and natural resources (Safley 2001: 123). These three companies are powerful Peruvian transnationals with their own networks of international brokers and stores abroad that purchase their products (Int. 7, Int. 4).

Agrarian reform in the late 1960s broke up Peru's expansive haciendas and seized large alpaca herds from their owners. Various types of collective land ownership and alpaca co-ops were formed thereafter. In the 1980s and 1990s, most of these collectives were dissolved in favor of land parcelization and individual ownership,

⁵³Conacs-Puno estimates that 30,000 animals are smuggled into Chile for export each year (Int. 37).

⁵⁴Under Fujimori, prices for fiber ranged from 25 to 30 soles per pound, whereas of this writing, a pound of fiber sold for a mere 4.5 to 5 soles (Int. 37). This drop may reflect various market factors, but the long-term trend has been a decrease in fiber prices.

⁵⁵www.minag.gob.pe/pecuario.shtml

⁵⁶Inca exported about \$3.6 million worth of alpaca clothing in 2004 (Int. 13).

though a handful of more successful collectives, such as Rural Alianza, remain in operation. The overarching consequence of these dramatic changes in land tenure was the creation of numerous small, dispersed alpaca herders.

The geographic dispersion and isolation of these small herders created a major problem for both the fiber industry and the producers: how to amass the raw fiber and bring it to Arequipa for processing. A complicated network of intermediaries evolved to address this problem. Small intermediaries travel in remote regions collecting fiber through a combination of cash payments and barter of basic goods to which *alpaqueros* may not otherwise have access. These intermediaries then sell the raw fiber either to larger intermediaries, who eventually sell to the processing companies, or to commission agents directly employed by the industries.⁵⁷ This system of fiber collection, which has operated for 40 to 50 years, was reinforced in the 1980s during the height of *Sendero Luminoso's* terrorist activities in the countryside (Int. 34). Only the small and medium intermediaries were willing and able to travel within these regions to collect fiber. During this time, *Sendero* activists killed several representatives of the fiber industries, including managers of an alpaca-breeding center in the highlands (along with many more civilians, development workers, and civil society leaders).⁵⁸

Although the intermediaries have served an important function, experts assert that they are the source of fundamental problems in the fiber chain. The intermediaries capture much of the value of the fiber themselves, leaving small producers with poor prices. Intermediaries have a much stronger bargaining position than small producers, due to information asymmetries regarding fiber prices and the isolated producers' dependence on their services. Providing basic goods as a partial payment for fiber also helps to suppress prices (Safley 2001). Speculation by larger intermediaries might create price distortions that hurt producers as well.

Moreover, it is frequently alleged that there are close ties between mid-level managers (*mandos medios*) in the processing industries and the intermediaries that lead to additional price distortions and help perpetuate an economically inefficient collection system. Various intermediaries and mid-level managers are linked either by blood ties or through relationships of *compadrazgo*. They may receive mutual economic benefits from business dealings in which intermediaries sell fiber to the industries at inflated prices. The mid-level managers involved may benefit in several ways: either because they are direct relations of the intermediaries, or otherwise take a cut in the latter's profits, or because the industry managers know they can count on the intermediaries for loans or other assistance in the future. The mid-level managers thus have strong incentives to maintain the position of the intermediaries in the fiber chain.⁵⁹ Experts assert that the existence of such ties between intermediaries and the industries undermines the development of a smoothly-functioning free market in alpaca fiber.

It is also important to note that the three oligopsonic processing companies are constantly accused by *alpaqueros*, NGOs, and outside observers of collaborating to fix fiber prices (Int. 4, Int. 20, Safley 2001). Given the wide variety of informants and experts who put forth this thesis, it is quite probable that companies have indeed attempted to engage in price fixing; however, it is less likely that mechanisms exist to enforce price agreements. The finest, most desirable fiber constitutes such a small percentage of the market that each company has incentives to buy as much of it as

⁵⁷See Safley (2001: 104-5) for more details on intermediaries and the collection process.

⁵⁸These deaths and other acts of violence, in the words of Safley (2001: 208), "served notice to the men of Arequipa's alpaca industry: Do not travel to the highlands unless you are prepared to die."

⁵⁹The extent of such ties between industry managers and intermediaries is not known and probably varies from industry to industry. In terms of the intermediaries, it may be the smaller of these that are linked to the managers, rather than the large intermediaries that operate on more transparent formal contracts

possible, at higher prices if necessary. The perception that the industries set prices may be more a reflection of their economic and political power within the sector *vis à vis* the poor producers, as well as their historic lack of concern for the well-being of the latter, rather than any true capacity to artificially depress fiber prices. At any rate, the industries have certainly captured the majority of the profits generated in the alpaca fiber sector throughout its history. The industries have traditionally purchased high volumes of raw fiber when prices are low, building up their stock and waiting to sell until international prices are high; during such boom periods, they have not paid higher prices to producers (Safley 2001: 113).

Indeed, the industries have a longstanding and widespread reputation for a lack of social responsibility and underinvestment in the fiber sector.⁶⁰ Whether or not the industries are at fault for not concerning themselves more with the basic welfare of small herders, it seems that they do bear a significant portion of the blame for the deterioration of fiber quality, due to their lack of investment in the producers and their prior lack of concern for fiber quality. For decades, fiber was purchased in bulk by weight, unsorted, and without any price differentiation for quality. Industry employees separated coarser fiber from fine fiber after purchase. This system provided no incentives for herders to pay attention to fiber quality and genetic management. Instead, producers as well as intermediaries commonly adulterated fiber with dirt or other additives to artificially increase its weight. The majority of fiber today is still purchased in bulk by weight.⁶¹

Given the above problems, several Peruvian governments have attempted to intervene in the fiber sector in order to correct distortions, increase producer prices, and thereby to improve the situation of the poor herders. In 1975, the military government established Alpaca Peru EPS, a state owned fiber-purchasing company. It managed to become the most important buyer for a time; however, it was liquidated in the early 1980s (Safley 2001: 115). Fujimori, despite his generally neoliberal orientation, authorized the state to resume the purchase of fiber in 1997 through the UOPE (*Unidad Operativa de Proyectos Especiales*). This initiative was one element of Fujimori's neopopulist reelection campaign. Neither of these efforts successfully remedied the problems within the sector. Both Alpaca Peru and UOPE helped to increase fiber prices, but their operations amounted to unsustainable subsidies for producers. UOPE was particularly unsuccessful since it ultimately sold its fiber to the three processing industries—at lower prices than it had purchased from the producers.

The state has also attempted to work with the processing industries on another problem that has held back the fiber sector: the lack of a uniform standard for classifying fiber quality. Each industry has its own classification system, which makes it difficult for producers to gain value-added by sorting fiber before selling to the industries. Some informants thus hold that this system enhances the negotiating position of the industries in relation to the producers (Int. 7). One informant noted that a concerted government effort under Fujimori to promote a uniform standard failed due to lack of interest on the part of the industries (Int. 4).

Numerous efforts by NGOs to work with *alpaqueros* in the past decades have also failed to have any real impact on the herders' income. One highly respected such NGO, Desco, all but abandoned its efforts to work in the fiber sector in the mid 90s, citing the industries' bad attitude toward the producers and their control over the market as insurmountable obstacles (Int. 4). Desco accordingly shifted its focus from alpaca fiber to alpaca meat production in the 1990s.⁶²

⁶⁰This perception of the industries is shared by many NGOs, international cooperation agencies, and producers, as well as state functionaries.

⁶¹The Inca group now purchases only fine fiber, but Michell and ProSur still buy most of their fiber in bulk (Int. 13.2.9).

⁶²Desco does currently operates a few alpaca projects in Huancavelica.

The history of attempts to improve the plight of small alpaca herders is thus discouraging. In recent decades, large amounts of money have been invested in the alpaca sector. Casual estimates put the sum at between 70 and 100 million dollars, including state and private efforts (Int. 13, Int. 21). Yet the results have been nil; fiber prices remain low, producers are still poorly organized, and standards of living have not improved.

However, recent changes in the sector provide grounds for very cautious optimism. Over the last decade, the industries have become extremely concerned with fiber quality, due to the increasing importance of fineness for value on the international market since the 1990s and the advances that have been made in other top quality fibers such as cashmere, South African mohair and Australian wool (Int. 13). Industry leaders are aware that if alpaca fiber quality does not improve, they will have no business in the future. This awareness, in combination with new leadership and changes in strategy within both Conacs and Spar—the national organization representing *alpaqueros*—have created a modest window of opportunity for progress to be made in improving the situation of small herders. The present state of affairs, the actors in the alpaca fiber sector, and their interests are the subject of the following sections.

Modern-Day Actors and Interests

The main actors in the alpaca sector—the industries, *alpaquero* associations, and the state—at least in theory share three key interests. The first of these is liberalizing the fiber commercialization system by loosening the intermediaries' hold on fiber collection. The intermediaries act to both lower producers prices and to increase the industries' costs by jacking up fiber prices and controlling the supply. There are however some important caveats related to the industries' interests in this matter that are discussed below. Second, all actors have an interest, albeit to different degrees, in promoting efficient organization of small producers. If small producers were better organized and able to offer larger quantities of fiber to the industry at fewer points of sale, the industries would in theory have to expend fewer resources in acquiring their raw materials. From the point of view of small *alpaqueros*, better organization would improve their negotiating power relative to the industries and would open up new economic possibilities. Further, both Conacs and Spar would benefit from having a more organized small producer constituency with which to work. Finally, investing to improve fiber quality is in the interest of every actor involved in the sector. The only problematic issue on this front is from whence the funds can and should come.

Were these three shared interests to be realized, the livelihoods of small alpaca herders would no doubt improve. Producers' prices would increase, and *alpaqueros* would be in a better position to lobby the state and the industries in favor of their interests. This section analyzes prospects for realizing these goal and the specific positions of each of the main actors on the key issues facing the sector.

The Industries

Two factors have contributed to a somewhat greater openness on the part of the industries to working with the state and producers in the alpaca sector. First, as noted above, the industries have become acutely aware of the need to improve fiber quality. That objective necessitates genetic improvement programs that will eventually have to involve *alpaqueros* at large, as well as technical extension for small producers. Second, a new generation has assumed leadership within the industries. In the case of Michell and ProSur, these are grandchildren of the founders; the Inca group is now hiring managers from outside the ownership family. Conacs

representatives note that these younger leaders and new managers have a more modern and open attitude toward producers and the state (Int. 13).

Positive steps taken by the industries include the formation of a semi-independent non-profit organization, the *Instituto Peruano de Alpacas y Camelidos* (IPAC), that is participating in forums organized by Conacs to promote coordination and articulation of the alpaca fiber chain. IPAC has also participated in Conacs' initiatives to liberalize the raw fiber marketing system, in addition to pursuing various projects of its own (see below). The formation of IPAC has contributed to greater communication between the state and the industries, which pleases both parties (Int. 32, Int. 13).

However, the industries are not clearly committed to policies that would improve the situation of small producers. First, the new industry leadership does not appear to have brought significant change to the businesses' stance regarding the welfare of small *alpaqueros*. Representatives assert that the industries' bad reputation, of which they are acutely aware, is unfounded (Int. 32). They maintain that the industries cannot be held solely responsible for the welfare of the *alpaqueros*. In their view, families with fewer than 100 animals will never be able to live from the sale of alpaca fiber alone, and it is the responsibility of other actors to promote diversified rural development to improve these families' plight (Int. 32). The industries do provide some support to *alpaquero* associations from which they buy, but it appears to be minimal (Int. 35, Int. 37).

Second, the industries are willing to pay higher fiber prices only as quality improves (Int. 33, Int. 32).⁶³ Accordingly, they have resisted raw fiber marketing schemes designed to raise producer prices by circumventing intermediaries, despite their (at least informal) commitment to such initiatives. The industries insist that fiber prices are not artificially low; they are set by the international market and reflect poor fiber quality.

Nor do the industries seem committed to serious investment in the sector, despite the fact that it is imperative to their very survival as profit seeking enterprises. Their representatives assert that the industries do not have sufficient funds to carry out genetic improvement research and technical extension on their own (Int. 32), although each does have its own alpaca-breeding center in the countryside. The industries want the state to invest on their behalf, through the national budget or by seeking external funding (Int. 32, Int. 33).

Even industry investment in IPAC appears to be minimal. In contrast to the plush, luxurious offices of Michell, IPAC's facilities are quite modest and its staff small. Its office, which shares a floor with other operations, is located on a side street by the Michell complex, with an unmarked entryway. Were IPAC the policy front of the industries as the latter assert (Int. 32), it would certainly have a higher profile.

Finally, links between the industries and the intermediaries are still strong. Both industry managers and intermediaries who are involved are reportedly able to put significant pressure on the industries to maintain the present system of fiber collection and commercialization, despite the fact that the industries would seem to have a strong economic interest in making that system more open and efficient. In the case of Michell, this problem is also related to the fact that the company's strategy is based on processing large volumes of fiber. Consequently, it is more reliant on the intermediaries to provide it with sufficient quantities of fiber.

⁶³The industries, primarily Inca, do presently pay somewhat higher prices for top quality fiber.

Instituto Peruano de Alpacas y Camelidos (IPAC)

The *Instituto Peruano de Alpacas y Camelidos* (IPAC) was founded in 2001 as a joint initiative between the industries, the government Commission for the Promotion of Exports (*Comisión para la Promoción de Exportaciones*, PROMPEX), and the Ministry of Production (Int. 13 2/9). It is now a private non-profit institution that receives funding primarily from the industries.

IPAC is involved in a number of projects at different stages of operation. One of its most important activities is collaboration with Conacs to establish fiber collection centers and public auctions designed to liberalize the fiber market. IPAC also hosts the *Centro de Innovación Tecnológica Industria Textil Camélidos del Perú* (CITE Textile) in coordination with the Ministry of Production, which designates technological innovation centers that service production chains of national interest. Through CITE Textile, IPAC wants to provide services and technical support in animal management, fiber classification, processing, and textile manufacturing and artisanry. However, as yet, these projects exist on paper only. IPAC is seeking funds for these planned activities from the private sector and international cooperation sources, since the industries have not invested sufficient resources to make CITE operational. IPAC has obtained funds from the IDB for another project, Cluster Alpaca, which is intended to stimulate artisan production of alpaca fiber garments, and thereby stimulate demand for fiber and generate more value added within Peru. In addition, IPAC has carried out several analyses of the fiber market and production chain for the industries.

IPAC is itself an actor in the alpaca sector, with its own interests of institutional survival and growth. It is actively seeking international recognition and external resources. Almost all informants (public functionaries, producers, and outside observers) note that its interests are closely tied to those of the industries, despite IPAC's efforts to sell itself as an institution that represents both industry and producers. The organization's location in the Michell factory complex, and its representatives' reluctance to disclose the names of member producers' associations, attest to this fact.⁶⁴

From the point of view of this project, IPAC's strengths include its willingness to collaborate with Conacs and its ability to serve as a communication channel between the state and the industries. Its weaknesses, however, include insufficient funding, lack of participation from *alpaqueros*, little presence in the sector beyond national policy circles and glossy brochures, a bureaucratic operational style, and hence a limited capacity to execute projects of consequence to *alpaqueros* and artisans on the ground. Without greater financial support from the industries or loans from international entities, IPAC's future seems restricted.

Producers Associations

In general, *alpaquero* associations are quite weak and lack both political and economic influence. Producers are widely dispersed, and most existing associations have not been able to significantly advance their members' interests. These statements are particularly true of *alpaquero* associations in Puno (see Appendix A for more information). Importantly, however, there is also a national level producers' association, the *Sociedad Peruana de Criadores de Alpacas Registrados* (SPAR), which holds some promise for organizing *alpaqueros* throughout the country.

⁶⁴IPAC representatives would not provide the author with the names of the producers' associations that it asserts are "invited" members. Ceccoalp, a cooperative fiber business in Puno, attests to its membership in IPAC; however, it technically is not a producers' association. All other producers' groups and observers questioned by the author asserted that IPAC operates without participation from the *alpaqueros*.

SPAR began as an organization of producers and merchants (*comerciantes*) involved in the export of live alpacas. Until recently, the organization was fraught with accusations of corruption, including the illegal export of alpacas for the benefit of the leaders. Consequently, many *alpaqueros* today still perceive SPAR as representing primarily merchants who have benefited from the trade in live animals (Int. 26).

However, a new, young, and motivated leadership assumed control of SPAR in 2004 and has since taken steps to become an organization that truly represents the small alpaca herders. The individuals accused of involvement in corruption have left the organization. SPAR is now receiving technical assistance from the Dutch agency for international cooperation and has developed a strategic plan to pursue its goals. Consultants who have worked with SPAR assert that it does indeed have the requisite will to organize *alpaqueros* (Int. 20).

These changes within SPAR are encouraging in regard to its prospects for representing the interests of *alpaqueros*, particularly at the national level, where SPAR has significant presence. It has been working closely with Conacs to promote coordination in the sector and to establish a more efficient and producer-friendly fiber marketing system. SPAR is also an active participant in Conveagro, and in 2005, its delegate served as the vice president of Conveagro's directive board. Observers assert that SPAR also has good working relations with fiber industry representatives (Int. 20).

SPAR does suffer from a number of limitations, however. The change in leadership and orientation is very recent. SPAR does not have its own base level organizations, and its ties to existing *alpaquero* associations are weak. SPAR asserts that it has 15,000 member (*asociados directos inscritos*), which represents only about 8% of *alpaquero* families (around 180,000 total in Peru). To their credit, SPAR leaders are well aware of and openly acknowledge these problems (Int. 21). Most worrisome is the fact that SPAR does not have sufficient funds to execute its strategic plans, which include efforts to link the association down to *alpaqueros* at the base level. It should also be noted that according to one informed observer, SPAR leaders are on such friendly terms with industry representatives that they sometimes neglect to pressure them in favor of producers' interests (Int. 20).

Consejo Nacional de Camélidos Sudamericanos (Conacs)

Conacs, an OPD of Minag, operates at both the national and the regional levels. At the national level, its headquarters are executing several interesting initiatives with the alpaca sector. At the regional level, particularly in Puno, Conacs is said to be the only organization, public or private, that has the capacity to and does in fact reach small *alpaqueros*.

Conacs Lima (National Headquarters). Like SPAR, Conacs has undergone changes in staff and orientation that have given it the potential to become a much more respected and effective public agency. Before 2000, Conacs had a poor reputation and accomplished little for alpaca producers. Former president Alfonso Martinez, for example, has been accused of taking advantage of his position for personal economic gain. He was removed in 2000 when Paneagua took over as president after Fujimori fled the country.⁶⁵ In January 2004, Wilder Trejos assumed direction of Conacs after a shake-up within Minag perpetrated by a change of the minister. Trejos is a camelid specialist with over 30 years of experience who had previously headed Conacs' Domestic Camelids program, and he has brought a solid team of professionals to the agency. Informants commend Trejos' leadership and the capacity of Conacs' new technical team (Int. 37).

⁶⁵ Martinez is now being investigated for malfeasance (*La Republica* June 30, 2004).

Since 2004, Conacs has received technical support from the Dutch agency for international cooperation (SNV Netherlands) in devising strategic plans and training staff to be able to carry out the new roles envisioned for the institution. In the past, Conacs' regional offices provided technical extension services to *alpaqueros* in the countryside. However, Conacs has shifted to a role of promoting coordination in the alpaca sector and articulating the production chain, in line with Minag's directive that none of its agencies should directly provide services, since with decentralization, service provision is now the responsibility of either regional governments or private actors. Conacs representatives still see their end goal as improving the welfare of the *alpaqueros*. But in order to promote articulation within the fiber chain, they have assumed a neutral stance with all actors in the sector, attempting in particular to build good working relations with the industries, rather than treating them as antagonists, as informants assert Conacs had done in the past (Int. 13). In this manner, Conacs is attempting to quell polarization in the sector between the industries (which are demanding finer fiber) and the producers (who clamor for higher fiber prices).

In April 2004, Conacs, along with SPAR, IPAC and the Ministry of Production, convoked a national forum known as the *Comisión Nacional del Alpaca* (Conalpaca) to bring together actors in the sector and promote strategic planning. Conacs wishes Conalpaca to function in a manner similar to the Pisco Commission, which has spearheaded a highly successful campaign to promote consumption of the Peruvian beverage pisco sour. However, Conalpaca has yet to be formally recognized by the government.⁶⁶

In 2004, Conalpaca held a series of workshops with participation from a large number of entities involved in the alpaca sector, including representatives from all relevant public agencies, producers, industries, and academics. The end product of these workshops was the National Strategy for the Development of Domestic Camels (*Estrategia Nacional del Desarrollo de los Camelidos Domesticos*).⁶⁷ The significance of this document is unclear, given the recent proliferation of national dialogs and participatory forums in Peru and the ensuing consensus documents that often do not constitute substantive achievements or attain political influence. Like the Carta Verde, most of the National Strategy document's objectives are quite general. It does attempt to assign leadership responsibility for the various recommended lines of action to specific participants; however, the Arequipa fiber industries, apart from IPAC, are not mentioned (Conacs 2004a). At the least, the National Strategy document can be seen as a production first step in convening representatives from all interests within the sector, who had never before worked together, and agreeing on very basic shared objectives.

Conacs' most interesting initiative from the point of view of this study is the National System for Collection and Commercialization of Alpaca Fiber (*Sistema Nacional de Acopio y Remate de Fibra*). This joint initiative between Conacs, SPAR, IPAC, and to a lesser degree, the Ministry of Production, is intended to improve efficiency of fiber commercialization by establishing fiber collection centers throughout alpaca regions that will amass fiber in bulk and then sell directly to the industries or other interested buyers through public auctions or other mechanisms. The desire of SPAR and Conacs is to help break the hold of the intermediaries, liberalize commercialization, and ultimately increase producer prices. Conacs envisions that these collection centers will eventually provide a range of services to *alpaqueros* as well. Given its importance, this initiative is discussed in more detail in a subsequent section.

Despite Conacs' significant potential, there are several problems that may interfere with its ability to promote coordination in the alpaca sector and improve the position

⁶⁶A supreme decree is required to make Conalpaca official.

⁶⁷The document's publication by Minag was pending at the time of this writing.

of small producers. These include an insufficient budget, the threat of political interference due to the instability within Minag, and a limited capacity to enforce agreements and act as a regulatory agency.

First, Conacs reportedly operates on a budget of approximately \$1.6 million (Int. 13).⁶⁸ It is the author's understanding that this budget funds all of the regional Conacs offices as well as the activities of the central office in Lima. By comparison, Proalpaca, which operates in only three regions of the country, manages a budget that is two to three times larger than that of Conacs (Int. 14 2/9).⁶⁹ National Conacs representatives also worry that the decentralization process underway may lead to a fragmentation of financial resources among the regions, leaving the national office with insufficient resources to implement the initiatives that are underway (Int. 13 2/23). However, it is more likely that the regional Conacs offices will bear the brunt of funding shortages.⁷⁰

Second, politically motivated replacement of Conacs' leadership and technical team is a continual worry given the frequent turnover of officials within Minag and the coming 2006 presidential election. Under Toledo alone, there have been 5 Ministers of Agriculture.⁷¹ The most recent replacement of leadership as of this writing occurred on February 25, 2005. In the weeks following this development, Conacs officials were not worried about the possibility of changes within their agency; the new minister reportedly was not disposed to interfere with Conacs' leadership or initiatives (Int. 37).⁷² Informants note that the change of government in 2006 may pose greater risks to the institution, since the new president will have obligations to supporters that will require new political appointments in the ministries. Should there be attempts to replace Conacs officials with political appointees in the future, SPAR would attempt to protect the present leadership; however, it is quite questionable as to whether or not SPAR would have the political clout to affect such a decision. IPAC and other Conalpaca participants might support Conacs as well, with the same caveats regarding their influence.⁷³

Finally, Conacs has a limited capacity to shape policy and enforce agreements in the alpaca sector. Conacs is a weak actor in relation to the industries. For example, it does not have the ability to hold the industries to their commitment to participate in the National System for Collection and Commercialization of Alpaca Fiber when it comes time for them to buy fiber from the collection centers. Conacs is aware that it cannot force the industries to follow its dictates, and it has wisely focused on gradual progress and open communication. However, Conacs' lack of authority as a regulatory institution is an impediment to pro-poor development in the alpaca sector.

Conacs Puno. Conacs' Puno office is endowed with a small staff of about 14 and a communal office. Its scant resources include a single vehicle for trips into the

⁶⁸About one million soles (\$0.3 million) are currently destined to ProAlpaca as the state's counterpart for that program. When ProAlpaca ends, that sum will likely be dropped from Conacs' national budget (Int. 13).

⁶⁹The project has four or five million dollars to operate over the remaining three years (Int. 13).

⁷⁰As decentralization advances, regional governments are slated to take over (at least in theory) most of the functions of Conacs' regional offices. The latter may either close down or relocate some of their staff to the *Direcciones Regionales Agrarias* (Int. 13).

⁷¹One of these individuals served twice as Minister at different times under Toledo.

⁷²Trejos had reportedly met with the new minister informally and had received reassurances. More formal meetings with the new minister were pending at the time of this writing.

⁷³Informants within Conacs seem optimistic about the agency's ability to withstand political interference in coming years (Int. 13). They hope their technical expertise and good reputation will help protect them. In addition, an initiative is underway that may help to shield the presidency of the institution from arbitrary replacement. Conacs is proposing that a Directive Council composed of representatives from each of the key groups within the camelid sector be given the authority to suggest candidates for the Conacs presidency to the Minister of Agriculture and to recommend revocation of the president should the need arise (Int. 13). Whether or not this initiative is successful, however, the instability within Minag should remain a great source of concern for those who are interested in professionalization of Conacs. Informants within SPAR and the Dutch international cooperation agency agree that political interference with Conacs is indeed of significant concern.

countryside and outdated computer equipment.⁷⁴ Nevertheless, producers interviewed in Puno for this project assert that Conacs is essentially the only public institution that reaches small *alpaqueros*. In fact, despite Minag's directive against its agencies directly providing services, Conacs-Puno still extends some technical support to *alpaqueros*, such as consulting on animal management practices. When questioned about this apparent discrepancy, Conacs-Puno representatives assert that Minag's statutes do not explicitly prohibit them from engaging in these activities. Further, they note the pressing need to bring services to small *alpaqueros*, given that no other institution exists, whether public or private, that could attend to this sector (Int. 37).

Overall, Conacs-Puno highly condones the new national Conacs leadership, its technical team, and its policy initiatives. However, there is another apparent disagreement between the national and regional offices in addition to the difference of opinion regarding the mandate of Conacs-Puno. While the national headquarters envisions diminished regional offices in the future as decentralization proceeds, Conacs-Puno asserts its need for increased resources, given that this region is home to the great majority of the country's *alpaqueros*. Conacs-Puno would like to see changes in the formula by which regional resources are allocated to accommodate the greater demands on offices in regions with larger numbers of camelid herders (Int. 37).⁷⁵

Sistema Nacional de Acopio y Remate de Fibra (SNARF)

As noted above, the National System for Collection and Commercialization of Fiber grew out of a joint initiative between Conacs, SPAR, IPAC, and the Ministry of Production to reduce reliance on intermediaries and liberalize the raw fiber market. SNARF is still in the early stages of development; the first experiences took place in 2002 and 2003. It has been co-financed by Conacs, IPAC, SPAR, and the Dutch international cooperation agency (Int. 13).

In practice, the SNARF seems to embody a set of fairly loose recommendations for collection and sale of raw fiber intended to improve the position of *alpaqueros* in the production chain. For example, Conacs has developed quality and classification standards in conjunction with IPAC that newly formed collection centers can adopt in an effort to provide buyers with fiber of more trusted quality. Meanwhile, each region forms its own Committee for Collection and Commercialization of Fiber representing the major actors involved, including producers, the regional government, and NGOs, among others. The Regional Committees may decide to follow Conacs' recommendations, or they may instead devise their own solutions to the fiber collection and marketing problems. Given the flexibility involved, each regional experience has been distinct. In Junin, collection centers decided to negotiate sales directly with the industries (primarily Prosur); in Puno, several public auctions were held to market the raw fiber collected by eleven newly established centers.

In the important case of Puno, several difficulties have hindered the success of SNARF initiatives. During one of the recent experiences, IPAC failed to adequately coordinate with the Regional Committee and fell through on some of its commitments. For example, IPAC had promised to send experienced fiber classifiers from Arequipa to training sessions for workers in the collection centers, but the experts did not arrive on the arranged dates (Int. 40). IPAC has, however, reaffirmed its promise to collaborate in future fiber classification training initiatives. Second, the industries have not participated in the SNARF to the extent expected; they have sent few agents to purchase from the collection centers. One underlying problem is that the industries are not yet confident that the fiber offered in collection centers is of the

⁷⁴The author was unable to learn Conacs-Puno's budget, despite inquiries in both that and the central Conacs office.

⁷⁵Importantly, Conacs-Puno agrees that the national office must be retained and strengthened.

quality purported (Int. 13).⁷⁶ Moreover, as discussed previously, the industries are reluctant to pay prices higher than what they have paid under the traditional marketing system, unless the fiber is of extraordinary quality. And finally, the links between industry managers and intermediaries make the former reluctant to participate in a new marketing system partially designed to circumvent intermediaries. The absence of the industries from the SNARF when it comes time to purchase fiber has generated further distrust toward them among producers in Puno.

Overall, the SNARF does hold the potential to improve producers' prices, although significant problems clearly remain to be resolved. The new collection centers have received somewhat higher prices for fiber sold in their auctions (Int. 13, Int. 14 2/9, Int. 40).⁷⁷ However, some of this increase may be due to speculation by intermediaries, who reportedly paid artificially high prices—higher than the industries were willing to offer—in order to maintain their role as exclusive suppliers to the industries (Int. 13, Int. 32). It must also be kept in mind that the collection centers have managed to market less than 5% of Peru's raw fiber. As such, the SNARF is far from breaking the hold of the intermediaries and supplanting traditional marketing systems.

Section 3: Alpaca Meat Sector

As previously noted, alpaca (as well as llama) meat is an important source of income for small producers. Around half of an average *alpaquero* family's income may come from the sale of meat, both fresh and salted (*charqui*). As such, there have been various efforts in the past to improve the situation of *alpaquero* families by focusing on development of the meat sector. Conacs is presently working in this area as well.

The main problems that limit market potential for alpaca meat involve sanitation issues on the supply side and strong prejudices on the demand side. Small producers slaughter their animals when and where necessary, in the total absence of hygienic standards. Most meat is traded on informal markets. Significant quantities of alpaca meat travel from the highlands to markets as far as Lima, but there is no cold chain in transport. Further, alpacas suffer from *sarcocystosis*, an internal parasite that creates cysts in the flesh. Though not harmful to humans, *sarcocystosis* damages the appearance of fresh meat and is often confused with cysticercosis, which is a human health threat.

The absence of sanitation and refrigeration in production and transport and the presence of *sarcocystosis* reinforce popular images of alpaca meat as dirty and unhealthy. These perceptions, combined with prejudices against alpaca meat consumption that are closely tied to pervasive racism in Peruvian society against indigenous people, make for serious difficulties in expanding demand for this product. Indeed, much of the alpaca meat sold in Lima is disguised as some other form of meat. Immigrants to the city from the highlands who are accustomed to eating alpaca meat often conceal their consumption from the public.

Previous interventions in the meat sector

Most prominent among NGO efforts to promote development in the alpaca meat sector was Desco's joint project with the Spanish agency for international cooperation (AECI). Desco, an NGO with a history of involvement in the alpaca sector, shifted its

⁷⁶Fiber is classified into four categories in the centers by the quality of the animal from which it originated, baby alpaca being the highest quality.

⁷⁷One informant estimates that nationally, fiber prices increased by 20% (Int. 13).

attention from fiber to meat in the late 1990s after concluding that there were too many structural obstacles to improving the situation of small producers in the fiber chain. Desco received enthusiastic support from AECI to construct a state of the art slaughterhouse and meat processing plant in Arequipa. Meat that was too infected by sarcocystosis to be sold as fresh cuts would be processed into secondary products in the adjoining plant. Desco's goal was to stimulate the meat sector by improving hygienic conditions and increasing supply volumes.

Both Desco and AECI had assumed that the limiting factor in the meat sector was supply, not demand—an assumption that was later recognized to be erroneous. The Arequipa project did manage to increase alpaca meat supply, but the plant and slaughterhouse were in practice heavily subsidized by AECI. Desco attempted to promote alpaca meat among a number of buyers. Most receptive were hospitals, which were convinced to purchase the meat based on its excellent nutritional characteristics of very high protein and low cholesterol, along with restaurants involved in the tourism industry. It is noteworthy that numerous restaurants in Arequipa, Puno, and other regions of Peru today offer long lists of alpaca meat dishes on their menus. However, Desco's efforts to move beyond these two relatively small markets proved unsuccessful. Spain ended its support for the operation, and the installations ceased to operate.

Current initiatives involving the meat sector

Despite Desco's unsuccessful experience, efforts to promote production and consumption of alpaca meat continue, though they have a lower profile than efforts focused on the fiber sector. These include research projects on sarcocystosis as well as initiatives by Conacs to promote fresh meat and to stimulate the dried meat sector.

Sarcocystosis research. The FAO-Lima is currently funding a research project on sarcocystosis at the Universidad Cayetano Heredia. This project was initiated in 2003 and will continue through the end of 2005. Senasa representatives assert that their agency would be ready to initiate a campaign as soon as a vaccine were discovered. However, progress on this front appears to be slow. Controlling sarcocystosis could significantly improve prospects for marketing fresh meat.

Fresh Meat Initiatives. Conacs has been proceeding cautiously with plans to promote alpaca meat. In contrast to the Desco experience, Conacs has begun by conducting research on the potential market for alpaca meat. The agency commissioned a market study of Lima, completed in December 2004, which concluded that the greatest potential exists among upper income sectors to whom the meat could be marketed as a health product (Perez Ruiz et al 2005). Accordingly, the potential market will be small. Further, the price at which participants in the study were willing to purchase alpaca meat was low, falling below current production costs. Moreover, the study essentially overlooked the critical dimension of prejudice against alpaca meat.⁷⁸ The majority of housewives who participated in the study did not inform family members that they were consuming alpaca meat, and those that did tended to encounter resistance. As such, obstacles to promoting the meat even in the niche upper-income market will be greater than anticipated. Further, the state probably has a limited capacity at best to promote meat consumption. Lack of resources and the absence of strong private interests in the sector to date probably preclude an effective joint public-private campaign of the sort that proved so successful for promoting the beverage pisco sour.

⁷⁸It should be noted that the quality of the market study in general is quite poor; it seems to suffer from numerous methodological problems.

A potential international market for alpaca meat exists as well, but informants both within and outside the state seemed to agree that export is a far and distant goal (Int. 12, Int. 4). Sanitary conditions are still inadequate, and restrictions imposed by developed countries on meat imports are strict. One informant noted that even the modern ostrich farms, which are equipped with slaughterhouses certified by Senasa, have not yet been authorized by foreign countries for meat export. One factor does favor the eventual export of camelid meat, however: the southern region of the country, which includes Arequipa and Puno, has been certified as free of FMD.

Small producers and fresh meat. There are several factors that limit the prospects for expansion of the fresh meat sector to benefit small producers. First, the meat that has real market potential comes from animals of no more than two years of age, which are more tender and do not yet show obvious signs of sarcocystosis. Poor, small producers will be reluctant to sacrifice young animals, particularly considering that camelids bear only one offspring per year. Second, specialized larger producers may be most likely to benefit from the development of niche markets in Lima, as they will be better positioned to take advantage of these opportunities. Further, niche markets may be small enough and sufficiently exigent in quality standards that they simply will not provide economic opportunities for the majority of small *alpaqueros* (Int. 13).

Finally and most importantly, a key informant argues that meat is a significant income source for small producers only because of the price distortions in the alpaca fiber sector. In his opinion, if raw fiber prices reflected their true market value, meat would represent only a small proportion of the *alpaqueros'* total income (Int. 13). Fiber has far better economic prospects and a greater potential to benefit small producers *en mass*; therefore, he argues that efforts to benefit small producers should focus on the fiber sector. The essence of the criticism is that alpaca fiber is too valuable a resource for the animals to be promoted as meat; cashmere goats and other fine fiber producing animals are not widely consumed for that very reason (Int. 13). Consumption of llama meat, by contrast, is more rational, given that their fiber is generally of lower value.⁷⁹

Overall, then, there are good reasons for promotion of fresh alpaca meat to take second priority to promotion of the fiber sector. Meat should not be ignored, however, since small producers need to be able to benefit from their animals in a variety of different ways. In particular, if genetic selection programs to improve fiber quality were to be widely implemented in the future, producing meat from young animals of inferior fiber quality could in fact be complimentary to fiber production (Int. 5).

Charqui. In contrast to fresh meat, stimulation of the *charqui* sector holds more potential to benefit small producers. *Charqui* is not aesthetically damaged by the presence of *sarcocystosis*. Sanitary issues are somewhat less pressing as well, given that the salting process kills organisms that could cause disease in fresh meat. Older, less robust animals that would be undesirable for fresh meat can be turned into *charqui*. Further, *charqui* production is not technically demanding; it is carried out by artisans throughout the *alpaquero* regions of Peru. For these reasons, a large percentage of small producers would stand to gain from *charqui* market expansion.

Although most *charqui* is marketed informally, the state purchases a small but significant⁸⁰ amount through Pronaa, the national food assistance program. In addition

⁷⁹Llamas do have fiber of high quality, but it must be separated from coarser bristles. Some efforts are underway in Bolivia to make processing of llama fiber feasible, but they are in the early stages (Fairfield 2004). Peru's proportion of llamas to alpacas is small enough that there are few incentives to develop llama fiber processing techniques.

⁸⁰Informants provided contradictory information on the percentage of the market represented by the state's purchase. Two Conacs officials asserted that the amount purchased by Pronaa is very small compared to total national consumption of *charqui* (Int. 13, Int. 37), while a third expert in Conacs asserted that the majority of *charqui* consumed, fully 70%, is channeled through Pronaa (Int. 45). The author was unable to determine if this latter expert was referring to only the

to all of the nutritional advantages of fresh alpaca meat, *charqui* has the desirable property that it is non-perishable, which makes it an ideal product for Pronaa to purchase and distribute in bulk to families living below the poverty line.

Conacs' efforts to stimulate the *charqui* market have focused on two areas: pressuring Pronaa to purchase larger volumes of *charqui*, and lobbying for the exemption of *charqui* from the value added tax (IGV). The former efforts have not proven fruitful and probably do not hold much potential for success. Pronaa's purchase of meat has held roughly constant in recent years: 1,349 tons in 2003 and 1382 tons in 2004. In response to a formal request by Conacs in 2003 that Pronaa increase its *charqui* purchases, Pronaa replied that its main objective is to acquire as much animal protein for distribution as possible with its given budget, and that fish products have the price advantage over *charqui*. Accordingly, fish products make up 80% of Pronaa's animal protein purchases. Conacs argues that the state would receive a double social benefit by purchasing more *charqui*: it would help poor producers in the highlands as well as poor consumers in other regions. Fish products, in contrast, are produced by large industries. As of this writing, Conacs apparently had not achieved any progress with this argument (Int. 45 3/10, Conacs 2004b).

Prospects for exempting *charqui* from the value-added tax may be more promising, although the overall impact on the sector will be small. Presently, although Pronaa is a state entity, it purchases *charqui* at a price that includes the 19% value-added tax, which is then turned over to the tax collection agency. The tax increases the price Pronaa must pay for *charqui*, thus limiting the volume it can purchase. Conacs, in collaboration with SPAR, has proposed that *charqui* be exempted from this sales tax and that the funds currently provided to Pronaa that end up as tax revenue be destined instead to the purchase of additional *charqui*. That additional money would then end up in the hands of the producers.

Conacs presented a number of justifications for this initiative in a report sent to Minag in 2004. First were a variety of justifications based on small producers' need for economic assistance. Conacs noted the difficult climactic conditions in recent years that had led to high animal mortality, and the generally elevated levels of poverty. Conacs also argued that Pronaa purchases *charqui* at prices lower than the real production cost, once labor and indirect costs are taken into account. Second, and probably more convincingly from the point of view of the Ministry of Economics and Finance and Sunat, Conacs pointed out that *charqui* is processed by artisans; there are no large industries making significant profits that should be taxed. Further, the tax revenue collected from Pronaa's purchase of *charqui* is negligible: it amounted to only 0.0068% of tax revenue for the previous year. Conacs estimates that if this money (about \$0.3 million) were instead invested in additional *charqui* purchases, it would increase the annual income of 80% of *alpaquero* families by about 5% (Conacs 2004b).

An additional point should be made that was not included in the Conacs report: taxing a good produced exclusively by poor people does not make sense from the point of view of equity. The World Bank (2004), for example, recognizes that "un-taxing" the poor should be an important item on the agenda of Latin American countries, given the extreme levels of inequality within their societies.

The *charqui* exemption initiative seems to be moving forward, but slowly. Conacs submitted its proposal to Minag in July of 2004, and Minag subsequently included *charqui* on a list of other agricultural and livestock products for which it is seeking tax exemptions. This list was delivered to the MEF in December of 2004. Conacs has apparently received no updates on the status of its proposal since that time, and it has recently sent a request to Minag asking it to solicit an update from the MEF. Securing approval from the MEF appears to be the most critical stage of the process;

formal market or to both the formal and informal markets in *charqui*. Conacs 2004b also suggests that Pronaa is in fact a major consumer of *charqui*.

should the MEF agree to exempt charqui, it seems that the initiative will easily become law (Int. 45).

CHAPTER V: STRATEGIC ENTRY POINTS

This section first summarizes some recommended pro-poor public policies and then presents some strategies that may ultimately help to advance these policies and more generally to improve opportunities for small producers to benefit from expansion within the livestock sector. The suggested agenda includes strengthening small producers' associations, providing assistance for small fiber processing operations, promoting institutionalization and professionalization of state agencies, providing or pressuring the state to better fund agencies relevant to the livestock sector, providing or pressuring Conacs to allocate more funding to its Puno office, fostering coordination among actors involved in development efforts, and providing various form of support for decentralization. The prospects for success of each course of action are discussed, taking into account political feasibility.

Recommended Public Policies

Four public policies mentioned in the previous chapters on the dairy and camelid sectors should be emphasized here: securing protection from subsidized imported dairy products in the free trade treaties for the milk sector, promoting direct marketing of alpaca fiber from producers to the industries, implementing standards for quality grading of fiber, and exempting *charqui* from the value-added tax. These four policies are all well defined and fall within the realm of options available to a neoliberal, decentralizing state,⁸¹ although some important caveats exist regarding political feasibility.

As discussed in Chapter III, the free trade treaty under negotiation with the US while research for this report was being conducted has the potential to harm the Peruvian dairy sector by flooding the market with cheap imported milk. To prevent such a scenario, it would be reasonable for the Peruvian government to demand a clause in the treaty preventing the US from selling its dairy products at prices below those charged for imports from other countries, or, as suggested by milk producers, fixed quotas for the import of US milk products. As previously noted, the US has been intransigent on the issue of its own subsidies for milk producers and its insistence on eliminating Peru's variable tariffs, and the Peruvian government, for its part, has been intent upon finalizing the treaty. As such, prospects for securing an anti-dumping clause may not be good. One expert, however, suggests that Peruvian producers could gain political leverage on this matter by asking the international organization Oxfam to carry out a campaign on their behalf similar to the one it conducted regarding West African cotton production.⁸² Although the odds of success for such an initiative are not great, prices are such an important factor in production decisions that this policy alternative should be stressed. A healthy and expanding Peruvian dairy sector is obviously critical for promoting pro-poor development for small milk producers.

Turning to the camelid sector, the state is presently engaged in the second public policy—promoting direct marketing of alpaca fiber from producers to the industries—through Conacs' National System for Collection and Commercialization of Alpaca Fiber initiative. As discussed in detail in Chapter IV, 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

⁸¹Many policy suggestions offered by informants, in contrast, were very general or vague and / or did not seem to involve a clear and critical role for the central state.

⁸²David Leonard, private communication 2005.

difficult to change. The main obstacles to faster progress on this front are the continued strength of ties between the industries and the intermediaries on the one hand, and on the other hand, Conac's weakness relative to the industries and its lack of authority as a regulatory institution.

The third public policy worth stressing here, and closely related to the policy noted above, is the possibility of promoting uniform standards for grading the quality of alpaca fiber, a highly legitimate activity for the state even in the most neoliberal of policy environments. 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 attractive because each industry uses its own classification system.⁸³ A uniform standard would also provide incentives for producers to improve quality. From a regional or even international perspective, it would not be difficult for Peru to set standards for grading since the country is a major producer of alpaca fiber.⁸⁴ And at least in theory, a national standard would be in the interest of the three main fiber-processing industries and could be advanced by the state as a cooperative project. However, there are two main limitations on the feasibility of promulgating standards for grading fiber. First, there is lingering resistance from the industries, which appear to value their autonomy in classifying fiber as each sees fit. Second, as noted above, Conacs does not have the power to force the industries to comply with regulations.

Finally, exempting *charqui* from the value-added tax and using the money saved by Pronaa to purchase additional amounts of dried alpaca meat for its nutritional assistance program would lead to small improvements in welfare for *alpaqueros*. Although the impact of such a policy would be limited, it should be easy to secure, since the case for the tax exemption is strong and the resources that would be lost to the tax agency are minimal. Conacs is active on this front, although the Ministry of Economy and Finance has been slow to respond.

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 by providing financial support and / or technical assistance for producers' associations. Such forms of support should be considered in particular for SPAR and the regional Fongales, given SPAR's interest in organizing poor *alpaqueros* and the large number of small producers in the milk sector which the Fongales ostensibly represent.

The SNV's work with SPAR provides a model to be emulated in terms of technical assistance for producers' association; it has helped SPAR's central office design strategic plans and define organizational priorities. The SNV's efforts have not been sufficient, however. SPAR needs additional support to help it gain influence within the camelid sector.

First, SPAR, lacks the financial resources it needs to implement its plans, particularly its organizational initiatives (Int. 20). The weakness of SPAR's links to regional and local *alpaquero* organizations is one of its greatest current limitations and must be overcome if SPAR is to become a more powerful actor. Second, SPAR could benefit greatly from technical assistance at the regional level. In the case of Puno, such assistance may be contingent on SPAR's success in recruiting a more dedicated and

⁸³Moreover, the industries at present do not trust that fiber offered by producers is of the quality advertised. As discussed in Chapter IV, Conacs and the other actors involved in the *Sistema Nacional de Acopio y Remate de Fibra* are working to resolve these problems.

⁸⁴Bolivia could be involved in deliberations as well.

competent regional leadership; such efforts were underway at the time research for this project was conducted. Overall, much work is needed in Puno to strengthen *alpaquero* organizations, encourage cooperation and coordination among them, and to improve their relationships with SPAR, the only association with the potential for effective action at the national level.

There are no anticipated political impediments that would hinder donor efforts to strengthen organizations representing small producers; the greatest limitations will likely be the financial resources available for such initiatives. Strengthening producers' associations is a goal consistent with the stated policies of the current Toledo administration and enshrined in the *Carta Verde*. Further, Minag's statutes, as detailed in Decree 017, list strengthening producers' associations as a key institutional object. Conacs has a clear interest in strengthening SPAR, and Minag's *Dirección de Crianzas* has demonstrated interest in working more closely with producers' associations. As such, there are allies within the state that would support the lines of action detailed above.

Providing assistance for small fiber-processing industries

Encouraging the emergence and consolidation of small fiber-processing industries would help to open up the alpaca fiber market, creating more opportunities for *alpaqueros* to sell their fiber, and in the long term, reducing their dependency on the three major processing companies in Arequipa. Promotion of small fiber-processing operations would also 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, these steps could lead to improvement in welfare for the *alpaqueros*, who are some of Peru's poorest rural producers. As such, international institutions and donors should consider providing technical training and loans for small entrepreneurs interested in fiber processing.

Again, this line of action should be quite feasible. There should be no opposition from the Arequipa companies, since small fiber-processing industries will not directly compete with them. The Arequipa industries produce high quality yarn, fabric, and garments destined largely for international markets, whereas emerging small industries will produce lower-quality materials for use by domestic artisans.⁸⁵

However, several factors could limit the success of the strategy proposed here. First, few entrepreneurs or producers' associations have demonstrated interest in undertaking fiber-processing; Cecoalp in Puno is one of the few groups actively considering such a step, though it lacks the capital to do so. Second, managerial skills and other human resources needed for such ventures may be rather scarce, particularly in Puno. Efforts to promote small fiber-processing industries will therefore have to be undertaken with a long time-horizon in mind.

Promoting institutionalization and professionalization of state agencies

This report has identified instability and politically motivated turnover of ministers and other functionaries within public agencies such as Minag as a key limitation to the effectiveness of the state and its capacity to promote development in the agriculture and livestock sectors. In accord with this report's emphasis on possibilities for pro-

⁸⁵The Arequipa industries are also interested in providing yarn and fabric to artisan clothing makers. In fact, IPAC, which represents the interests of the Arequipa industries, is promoting some initiatives designed to stimulate artisan garment production. However, in the short and medium term, small independent processing industries will not represent any threat to the Arequipa companies' interests. Moreover, the Arequipa industries have expressed their interest in the overall development of the fiber sector in Peru, given the crisis it currently faces in terms of its declining position on the world market.

poor development in the camelid sector, Conacs should be at the center of efforts to promote institutionalization and professionalization.

If Conacs is to succeed in articulating the alpaca fiber sector, promoting coordination among the actors involved, and ultimately improving the position of small *alpaqueros*, its leadership and personnel must be protected from politically motivated replacement. As Conacs becomes increasingly effective and respected within the camelid sector (as has been the recent trend) and attains a higher profile, it may grow harder for politicians and political appointees to replace its functionaries, due to possible backlash from other actors in the sector, such as SPAR and IPAC. However, in a country such as Peru, where politicians have strong incentives to award their followers jobs in the public sector, increased professionalism and effectiveness of an agency such as Conacs may not provide a guarantee against political interference. Vigilance by international actors will also be necessary. The FAO, the donor community, and international lending institutions could help protect Conacs by strongly stating their desire for it to remain an independent and professional institution. Should Conacs' leadership and professional staff be threatened in the aftermath of the 2006 elections, international actors should use all means of pressure available to prevent replacement of its leadership and technical staff.

In addition to promoting stability within Conacs, additional professional development programs and technical consulting services should be made available for its staff as an investment in human capital. The SNV's work in this realm has been exemplary and appears to be achieving excellent results. However, little funding is available for this program, and its current agreement with Conacs will end in 2006.⁸⁶

Another possible though probably less feasible line of action would be to encourage Conacs to seek IDB (or other international) financing for institutional strengthening programs. The IDB frequently provides loans to state institutions in Peru for this purpose; it has carried out institutionalization projects with institutions as diverse as Senasa, the Congress, and the Presidency of the Ministerial Council (Int. 44, Int. 11). However, the IDB responds to the government's priorities; it does not promote its own agenda (Int. 44). As such, Conacs and Minag would have to convince the Ministry of Economics and Finances and the government that an IDB institutionalization program would be a worthy use of resources and external debt. There is little chance for such a strategy to succeed under the current administration; future prospects will depend on the priorities of the next administration.

Efforts must of course also be directed toward professionalization and institutionalization of Minag, since turnover of the minister is one of the key sources of instability within the ministry and the many agencies and offices responsible to it. Further, other offices within Minag could also benefit from technical assistance. The German agency for international cooperation (GTZ) provides some such consulting services. Although some of its programs with Minag have ended, it is still involved with the Agricultural Planning Office. However, the GTZ is more active on issues related to the coastal regions rather than the sierra (Int. 10).

Another more general measure that could be taken is promotion of a *ley de carrera pública* to establish a professional civil service with merit-based procedures for hiring public functionaries. Such legislation could help promote stability of functionaries and raise the qualifications of public employees. Such a law was reportedly under consideration while research for this report was being conducted, although it was not expected to pass. Feasibility of such a law will have to be reevaluated when the next administration takes power. Given the structure of politics in Peru, however, passage of such a law will be difficult to secure.

⁸⁶It may be the case that the SNV's project with Conacs will be sufficient for the central offices' needs, as long as Conacs does not lose the staff members who have received training.

In conclusion, an important caveat must be reiterated regarding international efforts to promote institutionalization and professionalization of state agencies: politicians in Peru have strong incentives to place their supporters in public agencies. Peru shares this characteristic with neighboring Bolivia, and institutionalization efforts undertaken by the World Bank, the IDB and European cooperation agencies have largely failed in that country (Fairfield 2004). The dynamics of job patronage in Bolivia are distinct from those in Peru; patronage politics in Bolivia may produce even stronger pressures. As such, the Bolivian experience may be only partially relevant for Peru. In fact, the IDB's institutionalization projects with Senasa have been far more effective than its similar projects with Senasag, the Bolivian equivalent. That experience may provide some hope for future efforts, but the logic of job patronage must be taken into account when designing and initiating institutionalization programs.⁸⁷

Providing or pressuring the state to better fund agencies relevant to the livestock sector

Key public institutions active in the livestock sector need greater financial resources if they are to more effectively promote pro-poor development. These state entities include Conacs, Iniea (its *cuy* programs in particular), and Minag's *Dirección de Crianzas*. 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.

Unless substantial external funding is available, securing more financial resources for these state agencies will be a difficult objective. The feasibility of pressuring for greater resource allocation to these agencies will depend significantly on the interests and priorities of Peru's next presidential administration. Since Minag is unlikely to allocate additional resources to Conacs, the *Dirección de Crianzas*, and Iniea at the expense of its other departments, projects and agencies, a larger total budget for the ministry of agriculture would be necessary. However, Minag has been of little priority for the Toledo administration. Further, there are no organized interests that are influential enough to pressure the government to allocate more resources to institutions active with small producers in the camelid and *cuy* sectors.

Providing or pressuring Conacs to allocate more funding to its Puno office

The recommendation to better fund Conacs-Puno goes against the current consensus within Conacs' central office, and is contrary to the opinions of key Conacs and SNV informants. As such, it is presented for the sake of generating discussion and perhaps a reevaluation of present thinking regarding the role of Conacs' regional offices.

It is the author's impression that Conacs' Puno office has developed a significant and important, if necessarily limited, capacity to reach and assist *alpaqueros* that no other state agency—regional or central—or private organization—whether universities, businesses, or NGOs—can replicate for the foreseeable future. The Conacs-Puno office appears to be an important reference point for producers' associations, collective fiber enterprises, and even the regional government's camelid project offices.

Although Minag informants assert that service provision by a central state agency goes against current regulations and decentralization laws, it seems a folly to prohibit Conacs-Puno from providing technical assistance to *alpaqueros*, when no other actors

⁸⁷For example, the Bolivian case suggests that timing is critical. Projects initiated immediately after a new administration takes power may be more likely to succeed than those initiated mid-term. The latter may have time to take hold before a new administration enters and attempts to replace functionaries.

would presently be able to fill that vacuum. The Puno regional government has no capacity to take over Conacs' activities. And building those capacities, while essential, will be a challenging and long-term endeavor.

Downsizing the already small Conacs-Puno team and relocating its members to within the *Dirección Regional Agraria*, a strategy under consideration by Conacs central office, also seems highly inadvisable. That line of action would merely diminish Conacs-Puno's already limited resources and could conceivably create barriers to access for *alpaqueros*. This observation is based on the fact that institutional instability hinders effective coordination between producers and the state.⁸⁸

Given these concerns, the most appropriate line of action would be to *increase* Conacs-Puno's resources while simultaneously promoting greater coordination and interaction with regional government projects and the *Dirección Regional Agraria*. Any downsizing or reorganization of Conacs-Puno, as well as any transfer of its capacities, should be postponed until other institutions and actors can demonstrate their ability to effectively take over Conacs-Puno's present responsibilities.

It may also be advisable to increase the profile of the Conacs-Arequipa office, since the most powerful actors in the fiber sector—the industries—are located in this region. Industry representatives expressed frustration regarding Conacs' frequent invitations to attend meetings and discussion tables that would require them to fly to Lima (Int. 33). In the words of one informant, having a strong Conacs' presence in Arequipa is "elemental" (Int. 33). To some extent, these complaints may reflect the industry's lack of interest in actively engaging with Conacs. However, maintaining a stronger Arequipa office could help to keep the industries more informed of Conacs' initiatives and could stimulate enhanced interaction between the two.

As far as other regional offices are concerned, Conacs' strategic plans for downsizing and transfer of functions to regional governments may make more sense. Again, the advisability of such plans seems contingent on the capacity of the regional governments, NGOs, and other private actors in the region in question to service producers' needs.

Fostering 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. Given the many different interests and agendas of the international actors involved, there may be little that can be done to reduce the existing problems. However, at the least, these problems should not be exacerbated. Rather than creating semi-independent project offices, it is recommended that donors and the FAO work closely with existing state institutions and coordinate efforts with international actors already involved with similar projects.

International institutions engaged in projects of relevance for the Pro-Poor Livestock Policy Initiative include the World Bank, the SNV, the GTZ, EU-Pasa, and to some extent the IDB. The SNV and the GTZ are relevant because of their valuable work with Conacs, SPAR and Minag. The EU-Pasa has funded PROALPACA, which will operate in two of the FAO prioritized regions, Huancavelica, and Ayacucho, until 2007. PROALPACA staff has acquired valuable experience on the ground in these regions that should not be lost. The IDB is presently less active with institutions related to the livestock sector, although it has provided significant funding for Senasa projects.

⁸⁸See Fairfield 2004 for a relevant analysis of the Bolivian case.

Most importantly, the World Bank has recently approved funds to support a new Andean rural development initiative, the *Proyecto Desarrollo Rural de la Sierra* (PDRS), that will be coordinated out of the Presidency of the Ministerial Council (*Presidencia del Consejo de Ministros*, PCM). Similar to the FAO initiative, this project's goal is to reduce poverty in Peru's rural highland regions through integrated development projects, which will include initiatives directed toward *alpaqueros* and small milk producers. The PDRS will focus on the poorest sectors of society and will strive to work closely with grass-roots organizations and regional governments (Int. 11). The 2002 background study also calls attention to the need to strengthen central and sub-national institutions and to promote participatory processes (World Bank 2002). Moreover, the PDRS will operate in three regions that have been prioritized for the Pro-Poor Livestock Policy Initiative: Cajamarca, Ayacucho, and Puno. As such, it could be a critical ally for the FAO. The PDRS will operate with 20 to 30 million dollars over a ten-year period. The project currently has \$1.1 million in donations from Japan, and a smaller funding counterpart has been allocated by the Peruvian government (Int. 11).

Given the compatibility of the PDRS goals with the FAO livestock initiative, prospects for coordination are good. The project's General Coordinator asserts the importance of attention to public policy and of coordinating both public and private projects and initiatives underway in the sierra. Most importantly, he expressed his interest in coordinating with the FAO when the author informed him of the Pro-Poor Livestock Initiative (Int. 11).

Support for decentralization

If decentralization is to increase participation of socio-economically marginalized groups in decision making, improve prospects for equitable and efficient resource allocation, and, ultimately, promote sustainable development, flaws in the legal framework and other problems that have arisen in practice must be corrected, as discussed in Chapter II. The FAO and other international actors could help by calling attention to these issues, among them the need to form macro-regions, 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 CCRs. The agenda should also include the following: providing technical assistance to regional governments, especially for functionaries involved in running the participatory budgets and designing the project proposals; providing support to help build the capacity of government institutions at the regional level, particularly in Puno where they are quite weak; and disseminating information to grass-roots organizations and producers' associations on how to participate in the CCRs and participatory budget processes. While similar actions need to be taken at the local level, this report recommends prioritization of the regional level, since planning at the regional and national levels is most critical to prospects for sustainable development in the livestock sector. Last but not least, central state agencies must be strengthened, with emphasis on their capacity to provide support to the new decentralized agencies (Leonard 1982).

A large number of domestic NGOs are already active around the issues of decentralization and participation. Examples of reputable organizations include *Grupo Propuesta Ciudadana* and *Participa Peru's Vigila Peru* project, a network of partners that monitor decentralization. They are working to disperse information to the citizenry on decentralization and the new opportunities for participation. Another important NGO is *Servicios Educativos Rurales* (SER), a development organization which monitors transparency and participation in regional and local governments. SER has offices in Ayacucho, Cajamarca and Puno, key regions for the FAO initiative. This NGO has collaborated with *Participa Peru's Vigila Peru* project. The Swiss agency for international cooperation has also been active on decentralization issues, in

cooperation with the *Red de Alcaldes Rurales* (Remurpe), a network of rural mayors that works to spread information regarding best practices for governance and has attempted to advance initiatives and reforms regarding the legal framework of decentralization from its office in Lima. Finally, the Centro Peruano de Estudios Sociales (Cepes) has shown interest in but lack of funds for conducting workshops with Conveagro and its member associations on regional budgets, the state of the agricultural and livestock sectors, and participation opportunities to influence decision-making at the sub-national level (Int. 15).⁸⁹

⁸⁹According to one informant, the IDB has provided funds for the strengthening of regional governments (Int. 15). Limited time prevented verification of and follow-up research on that program.

APPENDIX A: ALPAQUERO ASSOCIATIONS IN PUNO

Puno has several hundred *alpaquero* associations that exist at least in name, but only a handful of these are of consequence (Int. 37 3/2). The latter include SPAR, the *Asociación de Criadores de Alpacas* (Acricar), the *Consejo Regional de Criadores de Alpacas y Llamas* (Corepall), and to a lesser degree, the *Asociación Regional de Criadores de Alpacas de Puno* (Arcap).

Conacs representatives in Puno assert that SPAR is the only organization that can be considered broadly representative of *alpaqueros*. Good estimates of the percentage of *alpaquero* families in Puno who are affiliated with SPAR were not available, but informants asserted that the organization's membership is growing.⁹⁰ Various cooperatives and smaller *alpaquero* associations are members of SPAR, but SPAR does not have its own base associations in Puno.

SPAR has experienced several problems on the ground in Puno. First, its current regional leader has reportedly done a poor job during his tenure (Int. 37, Int. 42 3/3). Elections for a new regional SPAR representative were to be held at the end of March 2005. At the time of this writing, Conacs and national SPAR representatives were hoping to find more capable individuals, especially women, to run as candidates for leadership positions in Spar Puno (Int. 37, Int. 21). Second, one informant in Puno who works with producers expressed a residual distrust of SPAR, stemming from past accusations of corruption and political manipulation against the organization (Int. 36). As such, further work will be needed for SPAR to overcome this past reputation.

The remaining three regional *alpaquero* associations listed above are all reportedly quite weak in terms of membership and influence (Int. 37). Corepall, Acricar and Arcap reportedly all compete with SPAR and among each other to represent *alpaqueros* in Puno (Int. 37 3/5).⁹¹ Corepall is the larger of the three regional associations. However, according to informants, it is closely associated with regional president Jimenez's party. Observers maintain that Jimenez has used Corepall to build political support for his government (Int. 37, Int. 43). To the extent that this is the case, Corepall's effectiveness at advancing the interests of alpaca herders may be diminished.

In addition to the *alpaquero* associations, various collective alpaca enterprises exist in Puno. These entities demonstrate both the potential and the limitations for associative fiber production. The most noteworthy are the *Central de Cooperativas de Servicios Especiales Alpaqueras de Puno Ltda.* (Cecoalp) and *Rural Alianza*.

Cecoalp is a cooperative enterprise (*centro cooperativa autogestional*) with 17 years of experience that buys and classifies fiber from about 1,500 families in *alpaquero* associations, cooperatives and communities. Cecoalp pays the industries in Arequipa, primarily Grupo Inca, to process its fiber into tops and yarns (*topes y hilados*), which Cecoalp then sells to buyers in both Bolivia and Peru.⁹² Cecoalp is also beginning to make some garments (*prendas, tejidos a mano*) with artisans in Juliaca. Cecoalp reports that it has a good market for its products. On the negative side, however, observers note that the enterprise has had management problems and occasionally poor leadership. Cecoalp is seeking external financing to allow purchase of its own processing machinery, so as to avoid reliance on the industries and capture more

⁹⁰Conacs and SPAR representatives in the national office thought that SPAR had about 1,000 members in Puno, out of about 40,000 *alpaquero* families. This figure seems too small, however. Conacs-Puno informants, on the other hand, asserted that SPAR represents 80% of *alpaquero* families in Puno, which is probably a large overestimate.

⁹¹The relationship between Corepall and Spar is unclear. A Corepall representative asserted that their organization is in some way affiliated with SPAR (Int. 38 3/2). However, Conacs asserts that Corepall is not a member of Spar, but rather is a separate entity that competes with Spar to represent *alpaqueros*, although it is far weaker than Spar (Int. 37).

⁹²The author understands the buyers to be primarily small boutiques and artisans. Cecoalp reports that Grupo Inca does not directly buy fiber from them because their quality standards are very demanding (Int. 36).

value added. It also needs funds to train more fiber classifiers and to expand its volume of production. Cechoalp would also like to open a center for alpaca breeding and genetic improvement, from which to distribute improved animals to *alpaquero* communities from which it buys fiber (Int. 36).⁹³

Rural Alianza is a worker owned business (*empresa de propiedad social*) that employs 200 workers and manages 40,000 animals (Int. 42). It received land during Velasco's agrarian reform and has been in operation ever since, more than 30 years. Rural Alianza sells unclassified fiber to the industries in Arequipa and other buyers; its animals have a reputation for their high genetic quality. Rural Alianza also sells reproducers to *alpaquero* communities that are interested in improving their herds. Rural Alianza has achieved its success by investing income from the export of live alpacas (Int. 37). The business is able to maintain its own team of vets to attend its animals. Rural Alianza is also a member of SPAR.

Cechoalp and particularly Rural Alianza can be considered successful production associations; however, they seem to be unique as such. Although various association and community representatives have met with Cechoalp and Rural Alianza and demonstrated their interest in these models of organization, these experiences do not yet seem to have been replicated by other *alpaqueros*.

⁹³Cechoalp is receiving some assistance from the Italian government (Int. 36).

APPENDIX B: THE REGIONAL POLITICAL CONTEXT: PUNO

Given that the majority of *alpaqueros* live in Puno, any initiative designed to improve their standard of living must take into account the difficult political context in this region. Puno has a reputation as one of the regions in Peru with the most political problems, including an unpopular and corrupt regional president and a potential for violent social conflict at the local level. Both political parties and civil society are weak, and decentralization has been no panacea for improving government and spurring development.

Political Parties

Political parties in Puno are quite unstable and unrepresentative. As is the case at the national level, the traditional political parties that collapsed in the 1990s have not been replaced by stable new political configurations.⁹⁴ The political landscape is instead characterized by a frequently changing kaleidoscope of national parties, as well as regional parties and “movements” formed to serve the interests of a few ambitious leaders. In addition to regional parties, which include MARQA (*Movimiento por la Reivindicacion Quechua y Aymara*), the PDR (*Partido Poder Democratico*), and the FUP (*Frente Unido Progresista*) among many others,⁹⁵ local political movements are formed during campaign seasons for the sole purpose of electing a particular individual as mayor.⁹⁶

None of these political groups enjoys broad popular support. David Jimenez, who formed MARQA in 2002 through an alliance of several leftist parties and some elements of Fujimorismo (Int. 31),⁹⁷ won the regional presidency with a mere 26.5% of the vote, compared to 23.6% and 15.9% for the next two contenders (candidates from the PDR and the FUP respectively).⁹⁸ However, MARQA did very poorly in the provincial and district elections, winning only four out of a total of 108 district mayorships and no provincial mayorships at all. Even in the province of Puno, the seat of the regional government, MARQA was not among the top five vote winners for provincial and district mayors (Diez Hurtado 2003:21). These statistics clearly demonstrate the limits of MARQA’s popular support and representative capacity.

Moreover, the sheer number of registered political groups creates potential problems for governability. The large number of candidates for provincial and district mayors—between seven and 22 for the provincial positions in 2002—fragments the vote and makes it difficult for any mayor to be elected with anything approaching majority support (Diez Hurtado 2003: 20). In four of Puno’s principal provinces (Puno, San Roman, Azangaro and Chucuito), for example, the provincial mayors were elected with only 14 to 23% of the votes cast (Diez Hurtado 2003: 21). The absence of popular mandates at the local level is one factor that informants identify as contributing to the unrest that has ravaged several districts in recent years (see below).

⁹⁴Whereas APRA remains an important party in many departments, it is quite weak in Puno.

⁹⁵More than 18 different political groups won provincial mayorships in 2002; of these parties, 11 were national and the rest were regional in scope (Diez Hurtado 2003: 54).

⁹⁶“The formula appears simple: a relatively popular individual is convinced by a group of supporters that s/he can be mayor, then, through personal and family networks, s/he builds a movement, creates and inscribes lists, and participates in the elections,” (Diez Hurtado 2003: 51). “La formula parece ser simple: un individuo relativamente popular es convencido por un grupo de allegados de que puede ser alcalde, entonces, apartir de sus redes personales y su familia construye un movimiento, arma e inscribe sus lista... y se presenta en las elecciones.”

⁹⁷Int. 31 notes that MARQA in reality can be considered neither indigenous nor a movement. Rather, it is a political alliance forged to gain power for its leaders.

⁹⁸The PDR, created in 1997, is also composed of politicians formerly connected to the left. Statistics source: <http://www.onpe.gob.pe/resultados2002/index.html>

Civil Society

Compounding the problem of weak and unrepresentative parties, civil society at the regional level in Puno is extremely weak. As is the case throughout Peru, this condition can be traced to the experience of *Fujimorismo* in the 1990s with its logic of fragmenting and circumventing civil society organizations, and to the debilitating impact of *Sendero Luminoso* in the 1980s, which was active in the northern provinces of Puno. In the 1970s and 1980s, Puno did have strong peasant associations and confederations involved in agrarian reform issues. However, they have been greatly weakened, partly due to the end of agrarian reform and the decline of the traditional left parties to which they had links. The peasant confederations now have little political influence, a condition that is shared by the *alpaquero* associations discussed in Appendix A (Int. 41, Int. 43).⁹⁹ Although Corepall does have links to MARQA, informants suggested that this *alpaquero* association is more a tool of President Jimenez rather than an organization that serves to channel the interests of its members into the political sphere. And as discussed previously, SPAR has much more presence at the national level than it does at the regional level in Puno.

A wide range of NGOs are active around development issues in Puno, but they cannot be considered relevant political actors. Most NGOs understandably avoid involvement with politics, which is almost universally viewed as corrupt and inefficient.¹⁰⁰ Moreover, the regional branch of the *Mesa de Lucha contra la Pobreza*, which ostensibly coordinates the efforts of NGOs and other development actors and promotes integrated development plans, is on poor terms with the regional government, partly because the leaders of the *Mesa* and President Jimenez had been affiliated with rival political parties in the past (Int. 43). President Jimenez has refused to collaborate with the *Mesa*, asserting that it has no representative mandate (Int. 43). As such, the *Mesa* has no capacity to promote or enact the plans it develops. In general, informants held poor opinions of the *Mesa*. Comments ranged from assertions that it had no agenda for Puno to dismissals of the organization as totally irrelevant (Int. 43, Int. 36, Int. 38).

Alpaquero Associations in Puno

Puno has several hundred *alpaquero* associations that exist at least in name, but only a handful of these are of consequence (Int. 37 3/2). The latter include SPAR, the *Asociación de Criadores de Alpacas* (Acricar), the *Consejo Regional de Criadores de Alpacas y Llamas* (Corepall), and to a lesser degree, the *Asociación Regional de Criadores de Alpacas de Puno* (Arcap).

Conacs representatives in Puno assert that SPAR is the only organization that can be considered broadly representative of *alpaqueros*. Good estimates of the percentage of *alpaquero* families in Puno who are affiliated with SPAR were not available, but informants asserted that the organization's membership is growing.¹⁰¹ Various

⁹⁹However, Diez Hurtado (2003: 45), who also maintains that the peasant confederations have been weakened, nonetheless asserts that they "serve as an effective medium for social and political mobilization, a political trampoline that permits a few representatives to transcend the gremial ambiance and catapult into the municipal-districtal space." "El movimiento campesino se muestra como un medio efectivo de movilización social y política, un trampolín político que permite a algunos representantes trascender el ámbito gremial y catapultarse por lo menos hasta el espacio municipal-districtal."

¹⁰⁰SER (Servicios Educativos Rurales) Puno is one exception; this NGO is attempting to engage with the regional government to a certain degree in an effort to press it to comply with its decentralization obligations, which include participatory budgeting (Int. 43).

¹⁰¹Conacs and SPAR representatives in the national office thought that SPAR had about 1,000 members in Puno, out of about 40,000 *alpaquero* families. This figure seems too small, however. Conacs-Puno informants, on the other hand, asserted that SPAR represents 80% of *alpaquero* families in Puno, which is probably a large overestimate.

cooperatives and smaller *alpaquero* associations are members of SPAR, but SPAR does not have its own base associations in Puno.

SPAR has experienced several problems on the ground in Puno. First, its current regional leader has reportedly done a poor job during his tenure (Int. 37, Int. 42 3/3). Elections for a new regional SPAR representative were to be held at the end of March 2005. At the time of this writing, Conacs and national SPAR representatives were hoping to find more capable individuals, especially women, to run as candidates for leadership positions in Spar Puno (Int. 37, Int. 21). Second, one informant in Puno who works with producers expressed a residual distrust of SPAR, stemming from past accusations of corruption and political manipulation against the organization (Int. 36). As such, further work will be needed for SPAR to overcome this past reputation.

The remaining three regional *alpaquero* associations listed above are all reportedly quite weak in terms of membership and influence (Int. 37). Corepall, Acricar and Arcap reportedly all compete with SPAR and among each other to represent *alpaqueros* in Puno (Int. 37 3/5).¹⁰² Corepall is the larger of the three regional associations. However, according to informants, it is closely associated with regional president Jimenez's party. Observers maintain that Jimenez has used Corepall to build political support for his government (Int. 37, Int. 43). To the extent that this is the case, Corepall's effectiveness at advancing the interests of alpaca herders may be diminished.

In addition to the *alpaquero* associations, various collective alpaca enterprises exist in Puno. These entities demonstrate both the potential and the limitations for associative fiber production. The most noteworthy are the *Central de Cooperativas de Servicios Especiales Alpaqueras de Puno Ltda.* (Cecoalp) and *Rural Alianza*.

Cecoalp is a cooperative enterprise (*centro cooperativa autogestional*) with 17 years of experience that buys and classifies fiber from about 1,500 families in *alpaquero* associations, cooperatives and communities. Cecoalp pays the industries in Arequipa, primarily Grupo Inca, to process its fiber into tops and yarns (*topes y hilados*), which Cecoalp then sells to buyers in both Bolivia and Peru.¹⁰³ Cecoalp is also beginning to make some garments (*prendas, tejidos a mano*) with artisans in Juliaca. Cecoalp reports that it has a good market for its products. On the negative side, however, observers note that the enterprise has had management problems and occasionally poor leadership. Cecoalp is seeking external financing to allow purchase of its own processing machinery, so as to avoid reliance on the industries and capture more value added. It also needs funds to train more fiber classifiers and to expand its volume of production. Cecoalp would also like to open a center for alpaca breeding and genetic improvement, from which to distribute improved animals to *alpaquero* communities from which it buys fiber (Int. 36).¹⁰⁴

Rural Alianza is a worker owned business (*empresa de propiedad social*) that employs 200 workers and manages 40,000 animals (Int. 42). It received land during Velasco's agrarian reform and has been in operation ever since, more than 30 years. Rural Alianza sells unclassified fiber to the industries in Arequipa and other buyers; its animals have a reputation for their high genetic quality. Rural Alianza also sells reproducers to *alpaquero* communities that are interested in improving their herds. Rural Alianza has achieved its success by investing income from the export of live alpacas (Int. 37). The business is able to maintain its own team of vets to attend its animals. Rural Alianza is also a member of SPAR.

¹⁰²The relationship between Corepall and Spar is unclear. A Corepall representative asserted that their organization is in some way affiliated with SPAR (Int. 38 3/2). However, Conacs asserts that Corepall is not a member of Spar, but rather is a separate entity that competes with Spar to represent *alpaqueros*, although it is far weaker than Spar (Int. 37).

¹⁰³The author understands the buyers to be primarily small boutiques and artisans. Cecoalp reports that Grupo Inca does not directly buy fiber from them because their quality standards are very demanding (Int. 36).

¹⁰⁴Cecoalp is receiving some assistance from the Italian government (Int. 36).

Cecoalp and particularly Rural Alianza can be considered successful production associations; however, they seem to be unique as such. Although various association and community representatives have met with Cecoalp and Rural Alianza and demonstrated their interest in these models of organization, these experiences do not yet seem to have been replicated by other *alpaqueros*.

Decentralization, Participation, and Investment

Although citizens had high hopes for decentralization, the institutional changes it has brought about have not led to significant improvements in terms of participation or transparency in Puno, at least at the regional level. In addition, regional investment in agriculture and livestock remains low, partly due to incomplete implementation of the new institutional framework, and partly due to lack of resources.

Participation spaces at the regional level have not functioned well. The CCR does meet regularly,¹⁰⁵ and several organizations that represent the interests of small producers are members of the body. These include Cecoalp and the *Coordinadora de Organizaciones Campesinas e Instituciones Agrarias del Peru*. However, informants generally asserted that little is accomplished in this forum. A Cecoalp representative for example maintained that the CCR in practice does not generate useful policies or development strategies and is primarily “*una instancia de manejo político*.” *Alpaquero* associations have not participated in the CCR. Corepall for example is excluded from this space because it has not existed as a registered organization for a sufficient length of time (three years is the requirement). SPAR Puno and the other *alpaquero* associations are absent from the CCR, partly, the author suspects, due to their own organizational weaknesses. National SPAR representatives, however, assert that the association chose not to participate in Puno’s CCR due to its highly politicized nature, as well as widespread government corruption (Int. 21).¹⁰⁶

In contrast to the CCR, the regional government has never held a participatory budget hearing, despite the fact that it is legally obliged to do so by the decentralization legal framework (Int. 43). President Jimenez has justified his neglect of participatory budgeting by pointing to the high levels of social conflict in the region, an argument along the lines that Puno is in a state of emergency that prevents the normal functioning of certain aspects of government (Int. 43). Most observers view such arguments as transparent excuses for Puno’s authoritarian regional president to sidestep participatory mechanisms.

Jimenez’s resistance to participation aside, the regional government in fact has few funds that could be allocated through participatory budgeting. The regional government’s budget in 2004 was approximately \$143.7 million. Of that amount, 79% financed fixed costs (*gastos corrientes*), 14% was destined to provisional costs (*gastos provisionales*, which includes pensions for public functionaries), and only 7%—about \$10 million—was available for investment (*gastos de capital*) (Sistema Vigila Peru 2004: 7). Of the \$10 million, around 16% was earmarked for existing projects approved in previous years, leaving only about \$8.2 million for new investments that could be allocated through participatory budgeting (Int. 43).

Meanwhile, investment in the agriculture and livestock sectors remains remarkably low, particularly for a region such as Puno where these activities are so critical to the majority of the population. In 2004, only 3% of the regional government’s investment funds, about \$302,000, went to agriculture and livestock. And of the money allocated

¹⁰⁵The CCR met twice in 2004 according to Sistema Vigila Peru (2004: 18). However, the “*actas*” have not yet been released / drafted, so there is no public information available on the agenda.

¹⁰⁶SPAR does participate in CCRs in Ayacucho, Arequipa, Cuzco or Junin (Int. 21).

by the central government institutions to be spent that year in Puno for investment, only 8%, \$969,000, was destined to agriculture and livestock (Sistema Vigila Peru 2004: 8-9). In total, then, investment in these sectors by the regional government and the central government institutions in 2004 was only about \$1.3 million. Resources destined to the camelid sector are of course also small. The three programs funded by Pecsá received a total of \$286,000 in 2004, while camelid projects run by Pradera received \$199,000 (Gobierno Regional Puno 2004a). Funding for the Pradera projects decreased to an anticipated \$112,000 for 2005, whereas Pecsá funding increased to an expected \$458,000 (Gobierno Regional Puno 2004b).

Table: Regional Government Funding for Camelid Projects in Puno.

Pecsá (Puno Regional Government):	2004 Budget:	Projected 2005 Budget
Innovación y Transferencia Tecnológica de Camelidos Sudamericanos Domesticos	565,606 soles	1,000,000 soles
Desarrollo Integral de la Alpaca	198,290 soles	526,169 soles
Asistencia Técnica en Manejo de Camelidos	190,000 soles	--*
Pecsá Total:	953,896 soles	1,526,169 soles
Pradera (Central Government):	2004 Budget:	Projected 2005 Budget
Asistencia Técnica y Capacitación en el Procesamiento de Chalona y Charqui en las Provincias de Azangaro y Huancane	333,660 soles	374,260 soles
Asistencia Técnica y Capacitación en la Clasificación de Fibra de Alpaca en las Provincias de Azangaro, Huancane Putina y Moho	330,000 soles	--*
Pradera Total:	663,660 soles	374,260 soles

*These projects were not listed in the 2005 Puno regional budget.
Sources: Gobierno Regional Puno 2004a, 2004b.

Regional and Local Governments in Crisis

Government at both the regional and local levels in Puno is weak, lacking in effective leadership, and often fraught by crises. Puno's regional government, in the words of one analyst, functions as simply one more mayorship within the province of Puno; it has little reach or authority beyond the capital (Int. 29). Moreover, Jimenez's government has been rocked by allegations of corruption involving the misuse of emergency relief funds for children impacted by freezing spells (*friajes*). This scandal, combined with Jimenez's authoritarian style and generally ineffectual government, has made him extremely unpopular. Yet given the absence of effective mechanisms to demand accountability, the weakness of civil society, and the lack of any strong leaders at the regional level who could challenge him, Jimenez is likely to finish out his term (Int. 43).

Meanwhile, Puno's prospects for social, political and economic development have stagnated, giving way to generalized discontent. Residents of Puno are extremely disillusioned, not only with President Jimenez, but with politicians, political parties, and decentralization in general. Decentralization generated high hopes, but its inability to solve the region's many problems during its first several years of implementation has created great disappointment. Informants assert that essentially no political actor in Puno has a real agenda for regional development or the ability to bring about much-needed coordination at the regional level (Int. 43, Int. 31). In the

absence of real progress on these fronts, drug trafficking continues to grow in Puno. The region's location adjacent to Bolivia facilitates this illegal commerce. And while the livestock and agricultural sectors stagnate, coca growing in the northeastern lowland region of Puno attracts *campesinos* with its prospects of far greater earnings.

These problems have contributed to a series of intense localized political crises that have arisen throughout Puno since 2004. The crises are characterized by popular protest incited by accusations against mayors of authoritarianism and corruption—a term which popularly refers to a wide range of offenses, from poor governance, to resistance to citizen participation, to mismanagement of funds and outright corruption (Int. 31). The worst instance of these conflicts occurred in April 2004 in the province of Ilave, where after days of demonstrations, a crowd of protesters assassinated the mayor. Informants agree that local power groups—for example, political opponents of the mayor—are manipulating popular discontent to produce these potentially violent protests (Int. 31, Int. 43, Int. 41). One informant asserts that these local crises have become “institutionalized” in Puno (Int. 43). The promise of special attention from the regional as well as the central government, and the possibility of receiving external resources from the latter, as ultimately occurred in Ilave (Int. 43), may motivate discontented groups in other districts to follow similar protest strategies against unpopular mayors.

Some informants view the local participation spaces created by decentralization as mechanisms that could help to reduce the conflict between mayors, their political opponents, and the citizens. Experiences of local level participation in Puno seem to vary greatly across municipalities, both between and within rural and urban districts.¹⁰⁷ Informants note that the success of CCLs, for example, depends significantly on the attitude of the presiding mayor (Int. 41). Participatory budgeting also takes place at the local level, although once again, the resources available are quite limited. In general, the growth of demands at the local level is outstripping increases in the transfer of resources to the municipalities (Int. 43), and this problem does not bode well for resolving local conflicts. Further, the complexity and inconsistencies of the *Ley de Municipalidades* that set forth the new institutional structure at the local level create problems that contribute to the conflicts (Int. 43, Int. 31). For example, many of the mechanisms of accountability established are extremely difficult to enact in practice; they involve too many complicated bureaucratic procedures (Int. 31). Further, mayors were given so much power that there is intense competition for the office (Int. 43).

So far, Puno's municipal conflicts remain highly localized. There appears to be no relationship between conflicts occurring in different districts, and the crises have not reached up to the regional level. Yet they are clearly a cause for great concern, particularly given the experience of Ilave. Informants worry that discontent with the status quo in Puno may reach such extremes that small radical groups may be able to incite further violence. There have even been speculations that former members of *Sendero Luminoso* were involved in the Ilave incident (Int. 41), although no clear, generally accepted understanding of those events has yet emerged. Over the last three years, prisoners accused of involvement with *Sendero Luminoso* in fact have been released and have returned to northern Puno, where the movement had been strong in the 1980s. Opinions regarding the significance of their return vary. One informant attests that several ex-*Senderistas* have risen to positions of leadership in districts in the north in recent years and have assumed a radical discourse. His worry is not that these ex-*Senderistas* will advocate the policies of systematic violence from the past, but that their radical discourse could stimulate violence in the context of widespread social discontent. Another informant downplays the potential threat from these former prisoners, asserting that many of them were probably falsely accused,

¹⁰⁷One informant asserts that there has been more participation in rural municipalities than in urban ones (Int. 43).

and that *Sendero* will not reemerge as a political force in Puno, given its solid defeat in the 1990s (Int. 43). At any rate, informants do agree that the potential for violent conflict will remain in Puno unless progress can be made at making politics more effectual and capable of responding to citizens' basic needs.

CONCLUSION

The issues discussed in this section do not bode well for the Pro-Poor Livestock Initiative as it relates to Puno. Many of Puno's problems, such as lack of state capacity at the regional level, a shortage of resources, and a weak civil society are common throughout the Andean regions. However, Puno represents a worst-case scenario, with its weak regional government and its penchant for conflict at the local level. It is also important to recognize the fact that the long history of involvement by NGOs promoting rural development in Puno has not achieved results of any significance from a region-wide perspective.¹⁰⁸ If there is to be true development in the alpaca sector, there must be more effective participation in decision-making and better coordination of efforts at the regional level. Yet the problems discussed in this section constitute serious structural impediments to those prerequisites.

¹⁰⁸To a certain extent, the EU's decision not to implement Proalpaca in Puno should also be taken as a warning regarding the difficulties of operating a development initiative in this region.

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Int. 9.) 2/7/05. Consultant.

Int. 10.) 2/7/05. International cooperation agency consultant.

Int. 11.) 2/8/05. PCM official.

Int. 12.) 2/9/05. International cooperation agency professional.

Int. 13.) 2/9/05, 2/23/05, 3/10/05. Conacs official.

Int. 14.) 2/9/05. Conacs official.

Int. 15.) 2/10/05. NGO professional.

Int. 16.) 2/10/05. MEF official.

Int. 17.) 2/10/05. Two Senasa officials.

Int. 18.) 2/11/05. NGO professional.

Int. 19.) 2/11/05. Consultant, MINAG.

Int. 20.) 2/14/05. International cooperation agency consultor.

Int. 21.) 2/15/05. Producers' association official (SPAR).

Int. 22.) 2/15/05; Personal communication 6/1/05. Consultant.

Int. 23.) 2/16/05. International cooperation agency official.

Int. 24.) 2/16/05. MINAG official.

- Int. 25.) 2/17/05. Academic.
- Int. 26.) 2/17/05. Consultant.
- Int. 27.) 2/18/05. INIEA official.
- Int. 28.) 2/21/05. Consultant, MINAG.
- Int. 29.) 2/22/05. Academic.
- Int. 30.) 2/22/05. Consultant, Ministry of Production.
- Int. 31.) 2/24/05. NGO professional.
- Int. 32.) 3/1/05. Fiber industry representative.
- Int. 33.) 3/1/05. Fiber industry representative.
- Int. 34.) 3/1/05. IPAC representative.
- Int. 35.) 3/2/05. Camelid producers' association representative.
- Int. 36.) 3/2/05. Cecoalp representative.
- Int. 37.) 3/2/05, 3/5/05. Conacs-Puno official.
- Int. 38.) 3/2/05. Camelid producers' association representative.
- Int. 39.) 3/2/05. Pecsca official.
- Int. 40.) 3/2/05. Conacs-Puno official.
- Int. 41.) 3/2/05. NGO professional.
- Int. 42.) 3/3/05. Rural Alianza representative.
- Int. 43.) 3/3/05. NGO professional.
- Int. 44.) 3/8/05. IDB official.
- Int. 45.) 3/10/05. Conacs official.
- Int. 46.) 3/14/05. Senasa official.