

Increasing the competitiveness of small producers in Ayacucho

# The product chain approach

Peru



Product Chains

connected with

Economic Development

**In Ayacucho, one of the poorest regions of Peru, SNV is assisting the Regional Agrarian Directorate (DRA) to strengthen their capacity to implement a new government policy aimed at encouraging rural agricultural development. Under this policy, the DRA is responsible for identifying promising product chains, and for designing novel interventions to bring together and support the actors involved at local and regional levels. SNV is working with 30 technical staff of the DRA throughout Ayacucho to help them in their new role in facilitating the creation of equitable product chains in order to stimulate economic development of the region.**

### **The Ayacucho region**

The Ayacucho region of Peru is still recovering from the violent conflict of the 1990s, when many people were caught between the Sendero Luminoso (Shining Path) guerrilla movement and government forces. More than 69,000 people died and much of the productive infrastructure was destroyed. Today, the inhabitants live scattered in thousands of remote mountain villages, many of them inaccessible by road. There are no important market centres, and commercial exchanges are dominated by a few traders or agents who operate along the major transportation routes. Within the sierra it is difficult to establish regional or inter-regional markets, as trade is restricted to the river basins. Exchange by barter is still common in many communities, resulting in the undervaluation of products of the family-based production system.

Ayacucho is one of the poorest regions of Peru. The region contributes only 0.8% of national GDP, tax revenues are minimal, and so are investments. Agricultural productivity is low, due to poor management of natural resources, water and soils, and the limited access to modern farm technology. There have

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been few incentives to modernise the agricultural sector, improve access to markets or to develop existing production systems. Agriculture and livestock offer the best opportunities for the development of the region, in view of the increasing demand for beef and dairy products, various fruits, and alpaca and vicuña wool. Some chains, involving the production, processing and sale of dairy products and avocado, are already reasonably well developed at the local level.

Agricultural policies are generally weak, and there is no long-term strategy to improve productivity or to generate added value. In 2002, however, the government adopted a policy of decentralisation, in which a variety of responsibilities were devolved to the regional level. Among these, the Ministry of Agriculture is now responsible for encouraging agricultural development in the various regions, and for promoting the organisation of product chains.

### Product chains with equity

The term 'product chain with equity' refers to all the processes and actors involved in the different stages in the product cycle, from production to consumption, including various intermediate stages such as processing, packing, marketing and trade, and the provision of related services including transport, finance, training, information, etc.

In this approach a development agency, in this case the DRA, concentrates on a few promising products that offer significant economic opportunities for the majority of actors in a region. Within each chain, the agency identifies the actors involved, their economic and social relationships, and the opportunities available, as well as bottlenecks that may affect the competitiveness of the product along the chain. In addition, the most important stakeholders and actors are identified, especially those who can catalyse changes and increase equity in the chain. Based on an understanding of this simplified representation of reality, the development agency is able to design interventions to improve competitiveness and equity within the chain.

### The Regional Agrarian Directorate (DRA)

In Ayacucho, the Regional Agrarian Directorate (DRA) is a regional agency of the Directorate of Economic Development, which reports to the Ministry of Agriculture. Until recently the ministry could be characterised as a 'big government' institution that provided all kind of services, funds and agricultural inputs to farmers. In 2001,



*The local trade in 'cachipas' (fresh cheese) in Condorccocho, Ayacucho.*

however, in the framework of state modernisation, the ministry started a process of change, in order to adopt a more modest but no less important role as catalyst in organising and developing product chains.

Within the DRA, the Department of Agrarian Promotion (DPA) is responsible for promoting the product chain approach, and for strengthening existing chains by facilitating alliances, partnerships and agreements among the various actors involved – producers, merchants, processors, farm input suppliers and other service providers – in the public and private sectors. The staff of the DPA include 30 technicians who work in field offices in the 12 provinces of Ayacucho.

In introducing the new approach the DRA Ayacucho faced a number of constraints. Among the staff of the DPA the implications of the new policy, particularly the new roles they would have to play, generated confusion and even resistance. They were unfamiliar with the approach, and unclear about how the emphasis on competitiveness could be applied in the context of local markets involving large numbers of small producers. The staff lacked the expertise necessary to assess the potential of existing chains, and mechanisms to ensure that all stakeholders would be involved in the process of strengthening the chains. The DRA therefore requested SNV's assistance in addressing these constraints.

## SNV support

In 2003 SNV and the DRA introduced the local product chains with equity approach to a team of DPA staff members. The approach was adjusted in the process of developing a framework for collective action and mutual learning together with SNV's partners working in other regions of Peru. During 2004, SNV advisers worked with the staff of the DPA to design interventions that would help to strengthen the product chains. The process involved participatory workshops for technical staff, field office personnel throughout the region, and the staff of local and regional government programmes.

SNV's support to the DRA included advice on how the product chain approach can be applied to serve the interests of small producers. In a series of workshops, the steps in the process were outlined as follows:

- identifying potential product chains through a participatory process involving local stakeholders;
- diagnosing the status of the most promising chains (dairy products, avocados, native potatoes, purple maize, etc.), including identifying the problems faced by the various stakeholders, and opportunities for improving coordination;
- designing interventions that will encourage collaboration, partnerships and synergy among stakeholders; and
- setting up mechanisms for monitoring progress in the implementation of plans, and the success of agreements and alliances.

## Avocados and milk

Within two years the performance of the DPA has improved at several levels. The staff now have a clear understanding of their role in promoting the approach, and are able to design interventions that will encourage collaboration in a number of product chains. The participatory workshops facilitated by SNV have helped to improve the trust and mutual understanding among all the actors involved.

### Comments of DPA staff at a monitoring workshop, June 2004

'Now we know that it is important not only to 'organise' participatory workshops, but also to generate the conditions that will ensure that they are effective.'

'Previously, coordination was only for the sake of organisation of events ... now we have learned that it means collaborating in processes, living up to and monitoring agreements, understanding positions, uniting efforts ... it is a different way of working, more horizontal, more flexible, but more complex.'

'The efficiency of the interventions can not be translated into the number of chains we are able to report, but in terms of the capacities we are able to develop in the actors involved, and in the alliances we are helping to create.'



*A trader transporting milk from Manallasacc to Ayacucho.*



*Women of Ayacucho*

So far, the DPA has focused on strengthening two product chains, avocados and milk production, with encouraging results.

In the case of avocados, the DPA, with the support of the government and the private sector, has assisted in setting up a partnership between local growers and an avocado exporter. The producers have benefited in many ways – they are more aware of product quality requirements and better able to respond to new commercial opportunities. Now that they are in a better position to negotiate with merchants, the avocado growers have formed their own organisation to market their produce. They now offer different varieties, more consistent quality, and a guaranteed volume of output, for which merchants are prepared to pay higher prices. As a result, producers have doubled their output of avocados in the last three years. The commercial partnership is benefiting some 250 small producers and their families, and provides temporary employment for 126 workers.

In the case of milk, the DPA, the Ayacucho regional government and some municipalities are now developing a regional plan for the dairy sector, which will also contribute to the regional policy to promote livestock development. At their own initiative, the milk producers have formed an alliance, and have organised events to promote the sector, to introduce technological innovation and to seek commercial partnerships. As a result of one of these events, the alliance has been appointed to supply 'Vaso de Leche' (glass of milk), a national programme to improve nutrition among schoolchildren.

This intervention has resulted in the formation of four local enterprises, which are now supplying 1200 litres of milk per day for social programmes, providing incomes for more than 200 small producers and their families. As the region's milk producers are now able to supply more milk of higher quality, new actors are becoming involved and strengthening the chain. So far, these include supermarket suppliers in Lima, dairy product companies seeking new sources of fresh milk, farm input suppliers and other service providers.

### **Consolidating the approach**

The actors involved directly or indirectly in the product chains – local producers, merchants and service providers – now recognise the roles, competencies and capacities of the regional and national agencies of the Ministry of Agriculture. Based on the encouraging initial results, the DPA intends to replicate the process with field personnel throughout the region, and is planning to launch joint initiatives with colleagues in neighbouring regions to develop inter-regional product chains. Around 40% of DPA field offices have organised participatory workshops in their areas, and about 60% of the staff are involved in activities with local product chains. In the future, the DPA intends to introduce a monitoring system to ensure that the lessons of this experience are used to improve the work of promoting, facilitating and supporting the chains.

The DPA now wishes to bring together a number of agencies to develop a strategy for consolidating the approach in the future. The DPA is now functioning as a platform for the coordination of activities at the local and regional levels. Together with regional and local governments, for example, the DPA is involved in several inter-sectoral programmes, including a fruit fly eradication campaign. Based on the experience in Ayacucho, the Ministry of Agriculture now intends to introduce the product chain approach in other regions of Peru.

The collaboration between SNV and the DPA Ayacucho will continue in 2005, focusing on developing the capacities of the DPA to identify opportunities for new ventures based on commercial alliances, partnerships or local agreements, and to strengthen local producer organisations and other coordination platforms.

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Staff of the DPA in a training session.

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### Resources

SNV Peru: [www.snv.org.pe](http://www.snv.org.pe)

Comisión de la Verdad y Reconciliación (CVR, Truth and Reconciliation Commission): [www.cverdad.org.pe](http://www.cverdad.org.pe)

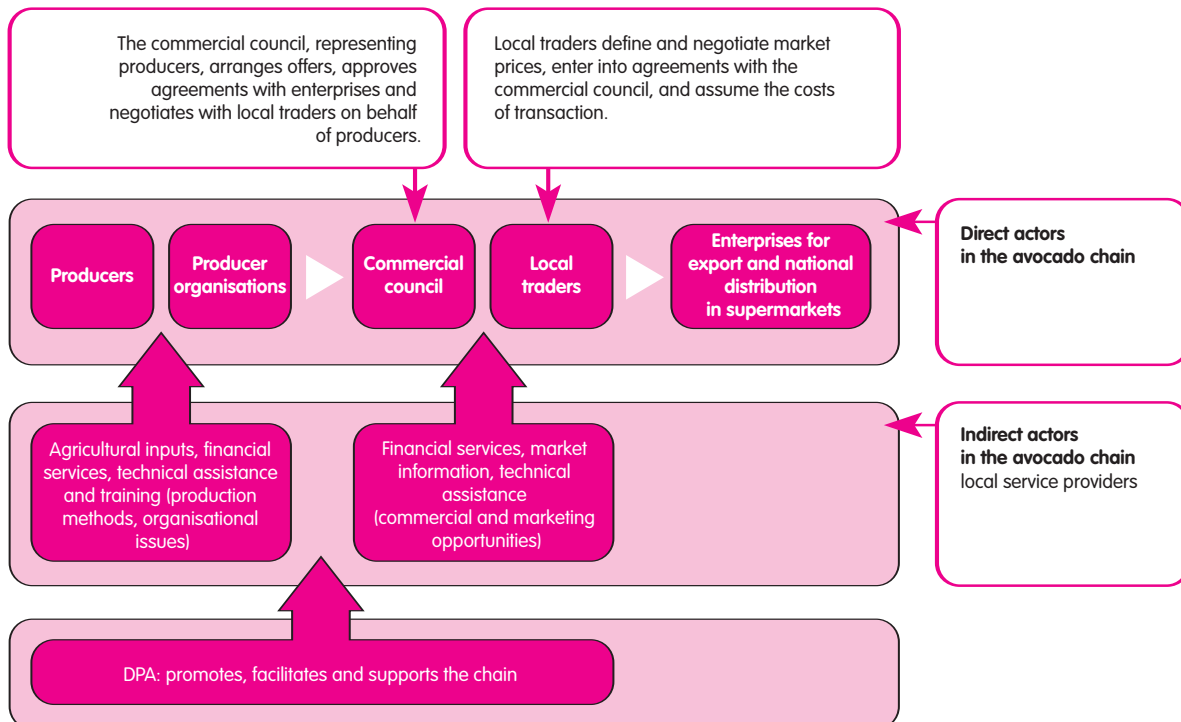
Ruralter: [www.ruralter.org](http://www.ruralter.org)

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## The avocado chain in Ayacucho



SNV is dedicated to a society where all people enjoy the freedom to pursue their own sustainable development. Our advisors contribute to this by strengthening the capacity of local organisations.

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