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Pro-poor? Inclusion and exclusion in native potato value chains in the central highlands of Peru

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ABSTRACT

Including smallholding farmers in high value markets has emerged as a pro-poor development strategy. Through a case study of a project that intended to incorporate native potato growers in the central Peruvian highlands into corporate potato chip value chains, this study investigates social differentiation among participants and nonparticipants, as well as reasons for households' inclusion or exclusion. Household surveys and semi-structured interviews in one of the communities where the project was implemented provided the data. Results suggest that value chain participants generally have higher economic status and actively exclude lower-resource households in the community. However, non-participation is not necessarily viewed negatively by all non-participating households. Some deliberately choose not to participate to pursue other livelihood strategies or because of risks involved in participating. These findings indicate that participation in value chains is not necessarily beneficial. For such programs to have broad social benefits, policies and other institutional arrangements are needed to minimize risks of participation in such value chains and to provide support for other market outlets.

1. Introduction

Following the Berg Report, which advocated for a downsizing of state-based efforts to promote development (Berg et al., 1981), the World Bank initiated a range of market-based approaches to promote economic development. This was referred to as the structural adjustment period of development because the World Bank often provided support to nations contingent on their making changes to the government structures that were boosting such sectors as agriculture (McMichael, 2008). Even the World Bank has conceded, after three decades, that this market-based approach to development has been ineffective. An independent evaluation commissioned by the World Bank concluded that the structural adjustment policies undermined much of the agricultural social infrastructure that had been built in the 1960s and 1970s and "fell short of producing the desired growth effects" (Independent Evaluation Group, 2007, p. xxiv). Rather than dismiss the market-based approach altogether, a new consensus seems to have emerged among various development professionals around the need to intensify development efforts to better facilitate smallholder access to markets (Markelova et al., 2009; Shepherd, 2007). By focusing specifically on how to integrate poor peasant farmers into markets, these efforts are referred to as "pro-poor" strategies because they are meant to "make markets work for the poor" (Hellin et al., 2009, p. 16; Devaux et al., 2011; Horton, 2008). The implicit assumption is that unless collective and coordinated efforts are made to overcome barriers and exclusions, poor smallholders will not benefit (Markelova et al., 2009).

Value chain development (VCD) is one such strategy designed to provide opportunities for smallholder farmers to access competitive market opportunities which, at least theoretically, pursue development goals through the generation of additional income (Donovan and Poole, 2013). Value chain refers to the series of activities involved in bringing a product from production to consumption (Kaplinsky, 2000). Pro-poor VCD seeks to address the institutional failures of structural adjustment policies through market development as a poverty reduction strategy (Seville et al., 2011). To ensure that value chain opportunities are indeed pro-poor, the private sector, state, and civil society often come together in what are called multi-stakeholder partnerships so that, at least ostensibly, power is diffused from the concentrated control

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of private actors (Bäckstrand, 2006). Through these efforts, pro-poor VCD aims to beneficially integrate smallholders into market opportunities in agrifood chains that would not be accessible without multi-stakeholder collaboration.

As well-meaning as proponents of pro-poor market development may be, it must also be recognized that tension may exist between business, state, and civic development goals as the private sector becomes increasingly engaged in development pursuits (Edward and Tallontire, 2009). In their review of fair trade, a movement that emerged as a response to the marginalizing tendencies of global markets, Tallontire and Nelson (2013) point out that various narratives compete over whether fair trade should orient itself around social justice and smallholder rights or instrumental logic and economic pursuits. Raynolds (2012) highlights the tradeoffs that have occurred as fair trade has been mainstreamed: corporate interests have increasingly become the focus, sometimes at the expense of civic and relational values. Fuchs et al. (2011) similarly identify how concerns over food safety often dominate sustainability rhetoric in lieu of social or environmental dimensions in value chains that are governed privately (including multi-stakeholder partnerships). Despite the contestations that exist between market goals and development objectives within VCD, it still must be understood that these seemingly discrete values are not inherently oppositional (Raynolds, 2012). Nelson and Tallontire (2014), for example, suggest that governance that is inclusive, cross-scalar, and emphasizes smallholder agency can be potentially transformative in its ability to address a broad range of sustainability goals beyond market function and coordination. However, investigating how this is achieved, as well as who is included and excluded during these processes, requires more explicit attention (Bolwig et al., 2010; Tallontire and Nelson, 2013).

In particular, the community dynamics of VCD need further attention in order to account for how these market opportunities converge on local spaces and activate inclusionary and exclusionary processes among smallholders; simply stated, analyses are required to interrogate the pro-poor*ness* of VCD. As Bolwig et al. (2010, p. 178) articulate, “Understanding the implications for poverty of integration or repositioning within value chains thus requires analysis not only of the power relations that exist within the chain itself, but also of power and inequality in the local systems and relationships within which chain actors and their communities are situated.” Several studies have documented the poverty impacts on smallholders that occur when VCD is implemented in local communities, and consistently, it has been found that those smallholders with more natural, financial, human, and social assets are best positioned to participate in value chain opportunities (Barrett et al., 2012; Donovan and Poole, 2013; Escobal and Cavero, 2012; Ferris et al., 2014; Mancini, 2013; Seville et al., 2011). Collectively, these findings may indicate that social dimensions of sustainability, such as reducing inequality, are not typically achieved by current configurations of VCD. Instead, the economic benefits of VCD are typically limited to only a portion of smallholders in communities and, thus, risk intensifying local inequality (Escobal and Cavero, 2012). Although these studies capture the social stratification that often occurs during VCD implementation, a common assumption is that smallholder inclusion in value chains is categorically desirable (Hospes and Clancy, 2011). However, Bolwig et al. (2010) point out that smallholders may actively opt out of participating in value chains, thereby challenging the assumption that exclusion from value chains results only from deficits in assets, a conclusion that may be logically drawn from studies that focus on which smallholders participate in value chains based on asset portfolios. What is needed, therefore, are more robust analyses of the inclusionary and exclusionary dynamics of VCD at the community level to better understand the terms of participation in value chains and the benefits and/or adverse consequences that accrue as a result.

We address these research needs by analyzing efforts by PepsiCo and a Peruvian national supermarket, Plaza Vea, to source potatoes from smallholder potato growers in the Andes of Peru. Using a mixed methods approach, we pursued two objectives for this study: i) identify the livelihood components that predict participation in value chains and ii) determine the reasons why households participate or not. The first objective builds on previous research that has documented which smallholders are included in VCD. Examining another value chain in a similar region of Peru, Escobal and Cavero (2012) found that access to the market opportunity was stratified along the lines of education, size of land tenure, and access to inputs and credit. Through a logistic regression model that examines important livelihood components among smallholders in the Andes, we measure whether stratification occurs along similar lines. While the first objective provides how inclusion and exclusion are influenced by specific livelihood factors, the second objective responds to insights from other studies (e.g. Bolwig et al., 2010; Hospes and Clancy, 2011) that call for more robust analyses of how inclusionary and exclusionary dynamics operate at the community level during VCD implementation. Through semi-structured interviews with Peruvian potato growers who were actively engaged with potato value chains, had participated in the value chains in the past, or who had never participated, we document the processes by which they ended up as either included or excluded in VCD. Together, the quantitative and qualitative data interrogate assumptions that smallholder inclusion in value chains is uniformly desirable and raises questions about the meaning of pro-poor in value chain development.

1.1. Value chain governance and dimensions of inclusion and exclusion

According to Gereffi et al. (2005), value chain analysis (VCA) provides a framework to analyze how production is organized and coordinated across time and space, as activities along the commodity chain become increasingly fragmented. By assessing the relations at different nodes – sites where goods or information are exchanged – a clearer picture emerges of private governance structures, as well as where and how power is applied and exercised. Governance refers to how power is wielded in social relations (Tallontire, 2007). Gereffi (1994) distinguishes between producer-driven value chains and buyer-driven value chains as an indicator of who establishes rules, responsibility, and product specifications. Buyer-driven value chains, common in the agrifood sector, are those in which processing or retailing firms direct the activities that occur within the value chain without having ownership over the upstream nodes (Tallontire et al., 2011). However, producer-driven value chains in the agrifood sector have also been identified when governments and producers are influential in determining price and quality standards (Ransom, 2011). Gereffi et al. (2005) provide further distinction of value chain governance by developing a typology to differentiate the power dynamics that may exist between lead firms and suppliers. Theoretically, the degree of power the buyer has in relation to the supplier decreases as value chains move through each of the five typology categories (hierarchy, captive, relational, modular, market).

Although Gereffi et al. (2005) have advanced analysis regarding relations within global value chains, Gibbon and Ponte (2005) critique their approach, arguing that their typology characterizes coordination within the chain but does not account for the governance of the value chain as a whole. Tallontire (2007) extends this insight, arguing that horizontal governance structures must be considered alongside vertical ones. Vertical governance would constitute the relations that exist within value chains; horizontal