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Public procurement for school breakfasts in the Bolivian Altiplan: Governance structures enabling smallholder inclusion

Geovana Mercado [a,*], Carsten Nico Hjortsø [b], Paul Rye Kledal [c]

[a] Universidad Mayor de San Andrés, Faculty of Agronomy, Av. Landaeta esq. Héroes del Acre N° 1850, La Paz, Bolivia
[b] University of Copenhagen, Department of Food and Resource Economics, Rolighedsvej 25, 1958 Frederiksberg C, Denmark
[c] Institute of Global Food and Farming, Rymarksvej 89, 2900 Hellerup, Denmark

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ABSTRACT

Public food procurement offers the prospect for an alternative development path toward market inclusion, upgraded skills, and raised income for smallholder farmers. In Bolivia, the current public administration favors smallholder participation by regulating a preference of up to 40% for smallholders and local producers as opposed to other types of suppliers. However, smallholders' provision to local public institutions remains limited. To analyze the reasons for this, three municipalities with different approaches to smallholder procurement were investigated in a multiple-case study. Using transaction cost theory, our findings show that high transaction costs and pure market coordination act as strong barriers to smallholders' active participation. We found that hybrid governance structures, based on different types of relationship-oriented coordination and market exchange enable the inclusion of smallholders via: a) direct and active support from decision-makers, b) gate openers at the municipalities, and c) community embeddedness that supports trust-building and reduces uncertainty. Thus, our study contributes to opening up the 'black box' of hybrids in transaction cost theory by illustrating how social capital influences the mechanisms through which resources are distributed – a dimension inadequately considered in the traditional transaction cost theory approach.

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1. Introduction

The participation of smallholders in markets has been identified as a key factor for increasing smallholders' income and welfare (Barrett, 2008; Bernard and Spielman, 2009; Fafchamps and Vargas, 2005). In developing countries, however, smallholders are often at a disadvantage and face serious limitations when seeking to gain access to markets. Lack of information, weak contractual enforcement, high transport and communication costs, and poor access to credit are among the factors that restrict their participation (Dorward et al., 2005; Key et al., 2000; Poulton et al., 2010). Other barriers are limited technical skills, training to improve production, insufficient scale for effective product marketing, and lack of bargaining power to win a fair share of the value generated in the market chain (Devaux et al., 2009; Kruijssen et al., 2009).

In recent years there has been growing interest in the use of public procurement as a policy tool for influencing behavior in the private and public sectors (Morgan and Sonnino, 2008; Sonnino et al., 2014), which includes, for example, promoting rural livelihoods. Public procurement nevertheless remains a politically sensitive issue because it involves significant amounts of public spending (Schapper et al., 2006). Existing research links the use of public procurement to the development of green or sustainable supply (Preuss, 2009; Thomson and Jackson, 2007; Walker and Brammer, 2009; Warner and Ryall, 2001): promotion and support of small businesses (Loader, 2013): and promotion of prioritized domestic industry sectors (Weiss and Thurbon, 2006). Morgan and Sonnino (2008) identify how various actors have used public food procurement strategies for school meal programs to favor local suppliers, mostly in European countries and the USA. In a study on public procurement for home-grown school meal programs, Sumberg and Sabates-Wheeler (2011) propose that the explicit objectives for this kind of public funding should be to create

* Corresponding author.
E-mail addresses: geosita@hotmail.com (G. Mercado), cnh@ifro.ku.dk (C.N. Hjortsø), paul@igff.dk (P.R. Kledal).

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predictable demand and provide access to information, technology, credit, training, and long-term guidance and support. Such measures would strategically help stimulate the transfer of direct and indirect benefits to targeted groups, as well to the local population via multiplier and spill-over effects (Sumberg and Sabates-Wheeler, 2011). In a similar vein, Blanc and Kledal (2012) and Kledal et al. (2012) argue for the importance of establishing a supportive resource environment. This helps smallholders in developing countries overcome the high market entry transaction costs they often endure, thereby avoiding market failure despite demand.

In Bolivia, lobbying by smallholder organizations has led to the modification of public procurement laws and regulations to target smallholder access more directly. The current regulations favor smallholder participation in public procurement, granting smallholders up to 40% preference relative to other suppliers in the bidding process. The national procurement budget for food products reached Bs 1.32[1] million in 2011, equivalent to 7% of the total public procurement of equipment and materials and 0.8% of the general national budget, an increase from 0.5% in 2007 (Valdivia, 2013).

Within public food procurement, Bolivian municipalities are responsible for school breakfast programs, a potential market for rural smallholders. Every year, these municipalities launch a open call in accordance with the laws and regulations governing public procurement.[2] The law prescribes that school breakfasts should be based on local rural products and that preference should be given to smallholder suppliers. However, Valdivia (2013) shows that smallholders are actually supplying just 3.2% of food for school breakfasts. Despite clear commitment by the Bolivian state and an increasing municipal annual budget allocation[3] for this program, poor smallholders have had very limited inclusion into more formalized market structures via public procurement. The aim of this study is to enhance our understanding of the reasons for this implementation gap.

The influence of transaction costs is a major theme in the analysis of smallholder market participation (Barrett, 2008). In fact, many authors affirm that transaction costs constitute an unsurmountable barrier for market access and one reason why smallholders are poorly incorporated into the market (Dorward et al., 2003; Holloway et al., 2000; Ortmann and King, 2007). Specific features of agricultural production such as seasonality, weather conditions, location and human and asset specificity, make agricultural products especially sensitive to opportunism. As a result, smallholders are often disadvantaged when dealing with trading partners (Allen and Lueck, 2005). These risks increase when considering smallholders' limited knowledge of food safety procedures, quality certification, processing, and delivery (Delgado et al., 2008; Rich and Narrod, 2010). Other additional factors are lack of managerial experience, low access to price information and difficulties in determining consumer demands (Bachev, 2004).

In this respect, transaction costs theory is useful to explain smallholders' actions and their consequences when engaging in different types of markets. Moreover, transaction cost theory explains the emergence of different governance structures, where actors organize in economic activities to secure their investments against risks and uncertainty (Williamson, 1979).

However, the transaction cost approach has been critiqued on several grounds for providing an incomplete account of the context or motivations that surround the transaction (Granovetter, 1985; Martinez and Dacin, 1999). This shortcoming offers an undersocialized view of organization and market activity that ignores the social system of norms and informal relationships embedded in every exchange and in, multiple transactions (Martinez and Dacin, 1999). An important feature here is the role of social capital, which refers to the degree of social connectivity among actors, as well as the shared values and behavioral norms that allow and encourage cooperation (Fukuyama, 2001). Social capital can foster an environment of trust that reduces the need to organize special transaction arrangements and safeguards against opportunism. Intra-organizational trust can emerge through bonding among actors (Davidsson and Honig, 2003). Social capital can be a useful resource by enabling organizations to bridge external networks to obtain resources (Putnam, 2000). Trust, bonding and bridging in turn helps to reduce transaction costs (Fukuyama, 2001), as well as impact the nature of the governance structures actors establish. However, social capital is an asset that is difficult to encourage and depends mostly on the cultural and contextual characteristics of the population. A homogenous ethnic background, for example, is more likely to induce a shared consent about legitimate ways of cooperation (Bebbington, 1997; Knack and Keefer, 1997).

Against this backdrop we rely on transaction cost theory to analyze the factors that influence institutional arrangements governing the relationship between municipalities and smallholder suppliers. We ask the following research questions: What types of governance structures regulate smallholders' participation in the public procurement system in Bolivia? And how do these governance structures impact smallholders' market participation?

We address these questions based on three case studies carried out during 2011 and 2012 in three rural municipalities from the Bolivian Altiplan. These municipalities take part in the national public school breakfast program and were among the first to implement local purchasing. They therefore represent some of the very few successful experiences available. Moreover, since the use of the purchasing power of public procurement to favor smallholders is a relatively recent phenomenon, our research offers the additional empirical insight needed to ensure effective use of public procurement as a policy tool for improving rural livelihoods.

We found that various hybrid governance structures – based on different types of relationship-oriented coordination – support market exchange, and enable the inclusion of smallholders by means of: a) direct and active support from public sector decision makers: b) 'gate openers' at the municipality administrations: and c) community embeddedness that supports trust– building and reduces uncertainty. These findings contribute to opening the 'black box' of hybrids in transactions cost theory by illustrating how social capital influences the mechanisms through which resources are distributed, a dimension inadequately accounted for in the traditional transaction cost theory approach (Martinez and Dacin, 1999).

In the next section we present a brief review of the transaction cost literature related to smallholders' market inclusion, followed by a description of data collection and analysis methods. Results and discussion are then presented, followed by conclusions and implications for practice.

2. Transaction cost theory

Transaction cost theory argues that during a transaction there are costs unrelated to production such as drafting, negotiating, and safeguarding agreements (Williamson, 1985). These include information, coordination and management costs, as well as any related to legal affairs and supervision. Two behavioral assumptions trigger transaction costs: the first is *bounded rationality,* which encompasses decisions always made with limited information, i.e., when

[1] Approx. 150,000 Euro (1 Euro: 8.8 Bolivianos (Bs)).

[2] Law of Goods and Services Administrative System (SABS-181).

[3] Municipal spending for school breakfast has increased from Bs 100.4 million in 2003 to Bs 529.7 million in 2012 (Valdivia, 2013).

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