

From survival to competition

Informality in agrifood markets in countries under transition

The case of Peru



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Informality in agrifood markets in countries under transition

The case of Peru

Ethel del Pozo-Vergnes

In the context of rapid urbanisation, resource scarcity, and the need to assure food security and safety, it is necessary to look at the implications of informality in agrifood markets where the majority of people still produce and trade. This case study explores these implications through the lens of a country in transition. Peru is experiencing rapid economic growth and engaging in a formalisation process in a number of sectors. In the agrifood sector, this process can be seen at many points: from production, trade, processing, and retailing; from mechanisms for small-scale farmers to enter demanding modern markets; to the formalisation of Lima's main wholesale market, La Parada. Despite its impressive economic growth, Peru remains among the six most informal economies in the world. Transiting from survival strategies to regulated competition is a highly contested process. This transition reveals the economic and social schisms that governments face when reforming markets in countries where informality is still deeply rooted in the economy and behaviours and where formalisation, to succeed, has to deal with real inclusion. The study, which forms part of a new body of research at IIED on informality in agrifood trade, aims to share ideas on the implications of formalisation policies, to invite discussion, and to highlight some promising pathways for more in-depth research.

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Abbreviations and acronyms

AVSF	Agronomes et Vétérinaires sans Frontières (Agronomists and Veterinarians Without Borders)
APEGA	Sociedad Peruana de Gastronomía (Peruvian Gastronomy Society)
APOMIPE	Programa de Apoyo a la Micro y Pequeña Empresa en el Perú (Programme for the Support of Micro and Small Enterprises in Peru)
CEDEPAS Norte	Centro Ecuménico de Promoción y Acción Social Norte (Ecumenical Centre for Advocacy and Social Action North)
CENTRUM-PUCP	Centro de Negocios de la Pontificia Universidad Católica del Perú (Business Center at the Pontifical Catholic University of Peru)
CEPES	Centro Peruano de Estudios Sociales (Peruvian Center for Social Studies)
CIP	Centro Internacional de la Papa (International Potato Center)
COFOPRI	Organismo de Formalización de la Propiedad Informal (Agency for Formalising Informal Property)
CONVEAGRO	Convención Nacional del Agro Peruano (National Convention of Peruvian Agriculture)
CSCI	Consortio sin Contabilidad Independiente (Consortium without an independent accounting system)
EMMSA	Empresa Municipal de Mercados Sociedad Anónima (Lima Municipal Markets Enterprise)
FAO	Food and Agriculture Organization of the United Nations
GMLL	Gran Mercado Mayorista de Lima (Lima Wholesale Market)
GRADE	Grupo de Análisis para el Desarrollo (Group for the Analysis of Development)
IDE-JETRO	Institute of Developing Economies, Japan External Trade Organization
IEP	Instituto de Estudios Peruanos (Institute of Peruvian Studies)
ILD	Instituto Libertad y Democracia (Institute for Liberty and Democracy)
JNC	Junta Nacional del Café (National Coffee Board)
MINAG	Ministerio de Agricultura (Ministry of Agriculture)
MYPES	Micro y pequeñas empresas (Micro and small enterprises)
REMURPE	Red de Municipios Rurales del Perú (Network of Rural Municipalities of Peru)
SUNAT	Superintendencia Nacional de Aduanas y Administración Tributaria (National Superintendence of Customs and Tax Administration)

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1. Introduction: the transition from survival to competition

Informality is growing all over the world, pushed by globalisation and increased competition in a context of shifting economic and political powers.¹ Once, informality was mainly associated with the survival needs of poor people in developing countries. Today, it has become a major concern for developed countries, donors, and formal enterprises. As waves of youth join the labour market, employment has become a major issue. The crises in the Eurozone, the Arab spring, and changes in former state-managed economies have propelled many people into informal activities to earn their living.

Most research, development interventions, and attention to policy on informality have concentrated in urban areas of developing countries. Millions of people arrived from the countryside seeking better opportunities. But the growth of slums and street vending in cities were only the tip of the iceberg. Definitions of informality (Gërxhani 2004) usually discuss employment statistics 'without including agriculture'. In the present context of growing urbanisation, resource scarcity, and concerns about food security and safety, there is an urgent need to look at how informality operates in agrifood markets – and to examine the implications.

Fast economic growth in resource-rich countries like Peru has stressed the need to rethink and reshape agrifood markets to face the needs of a rapidly growing urban population with higher aspirations. But in a country like Peru, where informality is deeply rooted in the economy and behaviours, the task is not easy, despite the present government's expressed commitment to a process of inclusive development. The closing and relocation of Lima's wholesale market, which had functioned mainly under informal arrangements, illustrates the tensions. Informal trade has always been a key survival strategy for migrants. But they are having to adapt in the face of competition from newcomers and also new government regulations. In a context of higher competition for market share and supply, different actors are trying to adapt to the modernisation process. Wholesale and retail traders, as well as small-scale farmers, are experimenting with new regulations and mechanisms to transit to formalisation.

This country case study examines the tensions and opportunities around formalisation in a rapidly modernising economy dominated by small-scale production and informal markets. It is intended to contribute to a better understanding of the struggles and needs of countries to find a course of careful, inclusive formalisation. It builds on a body of work carried out by the International Institute for Environment and Development (IIED) over the last ten years. Projects such as Regoverning Markets, Linking Worlds, and more recently, Small Producer Agency in the Globalised Market have looked at the expansion of supermarkets and how inclusive business tries to link farmers to modern or high-value markets.² But it is by understanding how small-scale farmers themselves make their own choices and act on them that reveals the need to look at their markets – and informality in agrifood trading relationships appears as a major issue. In developing and emerging economies, the vast majority of trade that links small- and medium-scale producers, low-income consumers, and parts of formal agrifood companies, is informal.

This case study aims to share ideas on informality in agrifood markets and the implications of formalisation policies, to provoke and invite discussion, and highlight some promising pathways for more in-depth research. It forms part of a new body of research work at IIED on informality in agrifood trade. Besides inputs from different actors in Peru, the study has benefited from discussions with many international researchers and practitioners during a meeting organised by IIED and Hivos to begin exploring the topic (Vorley 2013).

There were several questions guiding this country case study. What does the restructuring and formalisation of La Parada, Lima's wholesale market, mean for wholesalers, retailers, and other actors involved in the agrifood chain and Lima's city markets? How is informality being accommodated in the context of growing competition for market share and supply among different formal and informal businesses? What new regulations and formalisation mechanisms are being promoted in the government's strategy to develop a more inclusive and competitive economy – and do they work in reality?

¹ Informality is defined here as all economic activities, trading, and social arrangements that work outside of a country's legal regulations.

² See: www.iied.org/regoverning-markets; www.iied.org/tag/linking-worlds; www.iied.org/small-producer-agency-globalised-market.

The study is based on two sets of fieldwork. A three-week scoping visit took place in Lima between August and September 2011, followed by a four-week visit in January 2013. The second trip included a field visit to Cajamarca in northern Peru to meet with guinea pig (cuy) farmers and learn about their experiences in applying the new formalisation mechanisms.

During both visits, interviews were held with diverse key actors: wholesalers, exporters, retailers, the food industry, municipal authorities, the municipal firm running the wholesale market, farmers' national organisations, NGO service-providers, academics, government officials in the ministries of production and agriculture, and farmers' groups transiting to formalisation.

This case study contains five sections. The first introduces the topic of informality as a growing global issue. It argues the need to recognise the importance of informality in agrifood markets, not just in employment and urban areas. It highlights the relevance of a case study on Peru as a country in transition, where many changes are happening and some new, more flexible mechanisms for formalisation are being implemented. The second, third, and fourth sections present the tensions but also the opportunities and strategies that diverse private actors are using to compete in the agrifood market.

From the recent restructuring of Lima's wholesale market, La Parada, the case study then explores how different formal and informal businesses are adapting to compete. It highlights the recent phenomena of a new generation of chefs who are helping to promote Peruvian gastronomy as an economic development lever. By valuing small-scale producers, they are becoming leaders of change. Finally, this case study discusses a government programme for small- and medium-scale commercial farmers and the new regulations and mechanisms designed for a more flexible formalisation of small-scale farmers' economic activities. Evidence is supplied from fieldwork with a group of farmers using these mechanisms. The conclusion then raises questions to explore in further research.

1.1 Going global: why informality matters for inclusive sustainable development

Contrary to expectations, informal economic activities and employment have grown everywhere (Table 1). This is not necessarily by choice. High opportunity costs are associated with the formal economy. The employment situation in some European and North African countries and even in former Soviet republics like Armenia (Ressler 2010) reminds us of a similar situation many developing countries faced during the 1980–90s under the Washington Consensus. Liberalisation and privatisation processes pushed people working for public institutions and state-owned companies into the informal sector. In many countries, the collapse of the public formal sector was inevitably offset by the development of the informal sector.

Fast-growing populations, particularly large cohorts of youth, and more and tougher competition in domestic and global markets, have reinforced the symbiosis between formal and informal economic activities. Some authors note that the modern globalised economy increasingly depends on informal employment and that 'the informal economy does not exist separately from the formal economy; rather it produces for, trades with, distributes for and provides services to the formal economy' (Alter Chen 2007).

Informality is usually associated with the coping activities of poor households. But it is present in the whole economy. Medium and big business may be informal and formal firms may be narrowly linked/dependant on or affected by informal activities at some point in their business. Tax and regulatory avoidance create more competitive prices, undercutting and taking market shares from formal firms. 'Laissez-faire' policies actually operate as incentives not to formalise (OECD 2009). Big business has also expressed concern, flagging the need to fight informality and corruption during the B20 Business Summit in 2012, held alongside the G20.³

Table 1. The informal economy as a percentage of GDP

Region	1990	2000	Increase of informality %
Africa	33.9	41.2	7.3
Central and South America	34.2	41.5	7.3
Asia	20.9	26.3	5.4
Transition countries	31.5	37.9	6.4
Highly-developed OECD countries	13.2	16.8	3.6

Source: OECD (2009). Data draws on statistics of 24 countries in Africa, 17 in Central and South America, 25 in Asia, 23 countries in transition, and 21 Organisation for Economic Cooperation and Development (OECD) member countries.

³ The Business 20 (B20) is an event which is part of the G20 Summit. It aims to express common views from the international business community. Its main purpose is to develop recommendations and issue relevant commitments from business leaders and organisations to deal with current issues. See: www.b20businesssummit.com/b20/g20.

The benefits of producing and trading informally are important. They offer market access, flexible entry and exit markets, and no legal constraints. They are reflected in the dynamic market places around the world. But looking deeper, we see also the limits of these benefits. The downsides can impede sustainable development: poor food safety, insecurity, poor environmental performance, and corruption (B20 2012).⁴ Over time, informality can become a poverty trap and an obstacle to sustainable development.

Business is concerned with competition. But over the last few years, some emerging countries have started trying to measure and understand informality from a more developmental perspective. In India, the informal sector accounts for 50 per cent of its gross domestic produce (GDP) and 90 per cent of its labour force. The concern is how to make India's fast economic growth more inclusive (Government of India 2012). The issues of informality, inclusiveness, and economic growth are critically important and are drawing attention (Heintz 2012). But to get the future right for the majority of people involved in informal activities and employment, we also need to look to agrifood markets. The vast majority of trade that links small- and medium-scale producers and low-income consumers in developing and emerging economies is informal.

1.2 Acknowledging the predominance of informality in agrifood markets

The informal economy has often been portrayed as located primarily in cities. But informality is far from just an urban phenomenon. It can be just as prevalent in rural areas. Most of the 450 million small-scale farms around the world trade through traditional informal networks and often they feed low-income urban consumers. In India, nearly 85 per cent of marketed milk is handled by the informal sector, through middlemen, private milk traders, and direct sales from producer to consumer. The Indian Society of Agribusiness Professionals (ISAP 2006) estimates that out of 3700 cities and towns, only 778 are served by the formal milk distribution network.

The last two decades has seen an emphasis on 'making markets work for the poor' by using value chains as a way to lift small-scale farmers out of poverty. But there has been an evident disconnect between research, development interventions and investments, and reality. Theories and practices of linking farmers to modern markets have overlooked the reality in the developing world where most markets are informal. And, for the majority of low-income consumers in urban and rural areas, these markets matter for food security. Supporting smallholders' traditional markets and/or improving aspects of informal supply chains are likely to have strongly pro-poor outcomes because of this sector's broad base (Ram 2010).

For 80–90 per cent of small-scale farmers and low-income consumers, their markets – where they sell and procure food – are still informal (Vorley *et al.* 2012). In much of sub-Saharan Africa (Sparks and Barnett 2010) and many countries such as Bolivia (Tassi 2012), the informal sector is big enough to be the norm, and formality the exception. Informal and traditional trade is often marked with high degrees of coordination, albeit based on trust-based networks, which can overcome obstacles of poor market institutions. Even many 'modern' food chains still have their feet in informality, in production, and the first steps of supply chains (Vorley *et al.* 2007).

Informality is largely seen as a problem and a mark of underdevelopment. It has a reputation for poor food safety, tax avoidance, criminality, and obstructing 'modernisation' and nation building. It is particularly distant from most green economy initiatives, as 'greening' is almost always linked with formality. Experiences of regulations to improve the performance of the informal sector vary as far as inclusion of small-scale producers is concerned. Examples include the drive to reverse China's poor record of adulteration of its domestic milk supply through centralised production complexes, and policy innovations in Kenya to license small-scale milk vendors. Inclusive growth and food security (both rural and urban) will depend on developing policy tools and business practices that retain the best features of informality for small-scale producers and low-income consumers but mitigate the worst features of informal markets.

1.3 Why Peru? Studying a relevant fast-growing economy

Peruvian society has changed dramatically over the last two decades. Recent statistics demonstrate remarkable economic and social progress (Box 1). Demands for minerals from emergent economic powers like China and India and high prices have contributed to 'Peru's boom' (Briceño 2013). There has been rapid economic growth and modernisation, and increasing aspirations – for well-being, security, and law that work for all. Combined with more inclusive policies promoted by the present government, these factors seem to be pushing for formalisation, including, for the first time, in the agrifood sector. But what happens when too much informality clashes with sustainable development? This seems to be the situation in Peru. A resource-rich country with a more progressive government, Peru seems ready to start redefining a new social contract based on inclusiveness. But this will not be easy and will take time. Informality is still deeply rooted in the economy and behaviours take a long time to change. But the debate created around formalisation is already a promising sign.

⁴ The B20 estimates that international bribes to conduct business could be as much as USD 1 trillion, increasing the costs of doing business by 10 per cent.

Box 1. Peru in numbers: big improvements but more needed...

Growth

- 6.4% average growth per year since 2002: 9% in 2009; 6.8% in 2011
- 60% mining contribution to Peru's total exports
- GDP per capita USD 3936 in 2011 compared with USD 1698 in 1999
- 21% growth in the agro-export sector between 2001 and 2011
- 3% out of 5 million hectares of agricultural land dedicated to agro-exports
- 10% contribution of agro-exports to the country's total exports
- Ranked 36th out of 183 countries ranked in Doing Business 2011⁵

Development

- Ranked 80th of 187 by UN Human Development Index (HDI) indicators, and considered a country of high human development in 2011
- 19.9% of the total population living in conditions of multidimensional poverty and high inequality in 2011
- 250 banking and finance institutions present in rural districts in 2011 compared to 91 in 2001
- Middle classes have increased from 15% of the total population in 2003 to 20% in 2011
- More than 50% of students in technical or university institutions are women; they marry and have children much later than their mothers

Informality

- Accounts for 60.9% of GDP – the 6th most informal country in the world and 3rd in Latin America
- USD 5.2 billion in government losses per year due to tax evasion
- Accounts for 70% of labour force

Business structure

- 98% of businesses are micro and small enterprises and account for:
 - 40% of GDP
 - 76% of the working population
 - 75% are informal
- 2% are medium and big firms and account for:
 - 60% of GDP – they are all formal
 - 98% of exports
 - 100% of the direct taxes collected by the state
- 10% of the top companies contribute to 71% of total taxes
- Turnover of the top 10,000 companies in the country is USD 234.3 billion – net profits are 13.1%
- 18% income growth for the 10,000 top companies in 2011 – 8811 are medium-sized firms with incomes of over USD 2.5 million per year
- Average growth of medium-sized enterprises over the last five years is 9.12%

Source: based on Apoyo Consultoria 2012, Loayza 2011, Peru21 2011

1.3.1 Promoting change in the agrifood sector

Since 2010, Lima's municipality has been trying to modernise La Parada, the capital city's main wholesale market. Doing so has not been easy. For the last 40 years, La Parada has been run like a world apart. It was a migrants' construct, a territory functioning under its own economic and social rules. Authorities in charge of assuring food security and safety have to manage both Lima's rapid demographic growth and rising middle-class aspirations, while not affecting informal livelihoods around the wholesale market.

Over the last decade, new competitors to the wholesale market have appeared. Some are semi-informal. Others, like hyper- and supermarkets, are formal. But this competition is not just for consumer market share in the capital city. It is also about ensuring supply from farmers. Besides the rapid expansion of export crops, the growth of industrial food processing is also adding pressure. They are engaging in contract farming arrangements – often through NGOs – to secure supply.

One last but important factor is Peru's 'gastronomic revolution' and the proliferation of restaurants demanding and promoting traditional produce.

These changes in the agrifood market have brought formalisation centre stage in the national debate. In recent years, some formalisation mechanisms – designed for urban micro and small enterprises (MYPES) – have been extended to small-scale farmers. Programmes by the Ministry of Agriculture are promoting these more flexible and gradual mechanisms towards formalisation. The aim is two-fold: to increase tax collection and allow more small-scale farmers to access formal and larger markets.

Transiting from survival to competition and governing markets present a difficult task. A closer look at experiences in Peru can help us to better understand how informality works in reality – and to reflect on how to improve institutions and governance of informal agrifood production and trade.

⁵ See: www.doingbusiness.org/reports/global-reports/doing-business-2011

2. Bringing order to Lima's wholesale market

Regulating Lima's wholesale market has been a policy and implementation challenge for governments. La Parada is one of the poorest neighbourhoods in Lima and over the last 50 years, this space became a no-man's-land. Migrants arriving in Lima did not just appropriate this space: they produced it. They constructed the city and shaped its economy, making markets work for them using their own arrangements and rules. Since the 1940s, many rural migrants arrived to trade fresh agricultural produce, taking advantage of their relationships with producers in their home towns. They used Andean peasant social organisation to help support extended family businesses, using existing social networks and social control. Trying to organise street trading, in the early 1970s the government finally built a wholesale market of over three hectares in La Parada. Wholesalers were supposed to operate inside the new facilities. But more informal traders and street vendors continued to establish themselves around and even inside the market. More and more lorries entered the city every day and more waste had to be dealt with by the municipality.

In 1970, Lima's population was 3 million people – 24 per cent of Peru's total population. By 2012, it was nearly 10 million. In 2007, Lima's daily food needs were estimated at 2500 tonnes of cereals, 4000 tonnes of vegetables and tubers, 2125 tonnes of fruit, 510 tonnes of fat, and 1615 tonnes of milk (MINAG 2007).

Major changes have taken place in Lima in the last two decades: urbanisation, economic growth, more demands for food in terms of quantity but also in quality and diversity by a rising middle class (Arellano 2010), modernisation and expansion of roads, and telecommunications.⁶ The old informal 'kings' of La Parada, little by little, found themselves surrounded by and competing with other new informal wholesalers, retailers, and markets. Since the late 1990s, La Parada also faced competition from formal retail. Supermarkets began developing vertically integrated supply chains – even if part of the fresh produce they sold was bought in La Parada itself – while expanding their stores in low-income neighbourhoods. Supermarkets also understood the power of credit for middle- and low-income consumers and developed a 'credit card' system, accounting for a good part of their profits.

In 2002–2006 a new migrant power consolidated itself in Lima's agrifood sector landscape: the Unicachi markets. These are run by Aymara people who have settled in the north and south of the city, where many low-income shanty towns have been growing rapidly. And as we will see below, these newcomers and older market actors are now all trying to adapt and compete.

2.1 La Parada: a world apart

Despite de Soto's theories (de Soto *et al.* 1986), since the late 1980s, measures to legalise informal property and organise and formalise street vendors did not affect La Parada (Bettcher *et al.* 2009). Lima Municipal Markets Enterprise (EMMSA) was the owner and administrator of La Parada, and in charge of guaranteeing Lima's food supply. Since its inception in 1987, EMMSA had been planning to move the wholesale market to bigger modern facilities, inspired by the experiences of Paris, Santiago de Chile, and Barcelona. EMMSA worked with the UN Food and Agriculture Organization (FAO) to identify bottlenecks and solutions to improve food supply and distribution in Lima (FAO 2000). Key findings at that time showed already that low-income consumers' food security depended on thousands of informal street vendors (around 60,000) or small shops (around 100,000) and on the efficiency of the different commercial activities, from production to consumption. Successive mayors have had to balance the economic, social, and political costs of moving and restructuring a market like La Parada. So many people's livelihoods depended on it – people whose votes could be critical in future municipal elections.

But over 40 years, La Parada had become a world apart (Box 2), a territory with its own rules and arrangements. People in the market and the neighbouring slums made their livelihoods by working as porters, car guards, taxi drivers, food caterers, and waste pickers; by renting rooms, working in bars, or upgrading for supermarkets, restaurants, and food processing industries, or in organised crime, prostitution, and drug dealing. Economic and political interests have always opposed or colluded to avoid any change; more than USD 2 million circulated in this market every day before its closing in October 2012 and the move to the new market at Santa Anita.

⁶ Mobile phones are used by 50 per cent of the total population. Coverage is also now reaching the countryside. Since 2000, road extensions have increased by 62 per cent (CEPESRURAL 2009).

Box 2. Before the closure: La Parada in numbers

- 30% of national production of vegetables and tubers were sent to La Parada
- 70% of Lima's fresh produce was supplied by La Parada, feeding 6 million people
- 5000 tons were traded per day
- USD 2.6 million turnover per day
- 744 registered concession holders paid a monthly fee and were organised as an association
- 300 concession holders worked in the market as wholesalers, not retailers
- 2000 formal porters (who paid to be registered by EMMSA) were organised in a trade union, and in conflict with external informal porters (who were unregistered and provided cheaper services)
- 20,000 people traded everyday – including retail and street informal vendors, both inside and outside
- 260 lorries entered the market per day
- 30 tons of waste produced per day

Sources: EMMSA (2013); El Comercio (2012); La Republica (2012a); CEPESRURAL (2009) and Chau (2009).

La Parada finally closed in October 2012. Completed in 2011, the new Santa Anita wholesale market is located on the Eastern outskirts of Lima, and covers 60 hectares compared to La Parada's three. Over the years, many consultancies were hired to plan and improve the efficiency of the new market (Escoffier and Isnard 2008), to identify bottlenecks in daily operations (Paititi SAC 2011), and even to better manage social conflict (CARC-PUCP 2011). The new mayor of Lima displayed political willingness to end informality in the transport sector and food trading (Villarán 2012) and the EMMSA board decided to proceed with the move in October 2012, when the market moved to its new site.

However, radical measures were taken after dialogue with La Parada representatives – many of whom did not want to move – broke down. Lorries delivering produce from the countryside were blocked and when police entered La Parada, four people were killed in riots. The news was broadcast around the world (BBC 2012). Susana Villarán, mayor of Lima since 2010, had introduced reforms to modernise and bring order to the city, mainly in transport and the wholesale food market. But these reforms have hurt many small, but also some large, interests that had flourished outside of the law. In Peru, citizens have a constitutional right to recall their authorities. Taking advantage of this, these interests formed a federation of different political parties and civil society organisations. They successfully complied with legal requirements to hold a referendum to vote for Villarán to step down as mayor, accusing her of governing Lima for 'the whites' and the upper classes. Debate has been fierce, and these events have brought informality firmly back to centre stage in the political and economic debate in Peru, as people question the line between informality and organised mafias and corruption.

Change takes time. After two years at the head of the city, it is too early to gauge the results, particularly when Villarán's reform agenda is so radical. But what lies at the core of this referendum is an attempt to define a new social contract. Formalisation is a stormy path to walk in order to establish a rule of law for all. Are Lima citizens ready to undertake this journey? Results of the March referendum show deep polarisation. The mayor won with only 53 per cent of votes but most of her collaborators were recalled. Governing the city in general – and the transport and the wholesale market in particular – will be more difficult as new elections must be organised to replace the recalled municipal advisors.

2.2 Why was informality so resilient and dynamic in La Parada?

In the absence of effective public institutions to govern markets and trade effectively, informality in La Parada market was supported by a wide network of common social, economic, and political interests. A multitude of private arrangements existed among different actors. Unwritten rules and codes of conduct were respected as they allowed all, from the richest to the poorest, to earn their living as best they could, both inside and outside the market.

2.2.1 Wholesalers: the 'kings and queens'

Potatoes, onions, and lemons accounted for 75 per cent of the total volume traded in La Parada. The 15 biggest wholesalers accounted for 22 per cent of potatoes sales, 44 per cent of onions, and 46 per cent of lemons (Escobal and Agreda 1997). In La Parada, these big wholesalers were (and still are) known as 'kings and queens', exercising considerable power from their dominant market position.

Wholesalers had a stable presence in the market, often spanning three generations. One key factor underpinning the whole system was the role of wholesalers as money lenders, lending to farmers who could not access formal credit (Chau 2009). Farmers needed access to La Parada where there was most demand for their produce. Combined with the wholesalers' financing of supply chains, these two main factors explain the resilience of the informal trading system.

Ricardo Giesecke, EMMSA's president (and a former Minister of Environment), estimates that the top wholesalers can earn nearly USD 2000 net per day. One 'potato queen' declares that she sells around 200 sacks per day (equalling 20,000 kilos) worth USD 5748 but that her profits amount to only 30 per cent (La Republica 2012a). She points out that she invests much of her profit in financing farmers in two Andean provinces (Ayacucho and Huánuco) to grow potatoes for her. In 2011, this investment amounted to USD 30,658 (ibid). Although wholesalers paid a monthly fee to EMMSA for their stalls, often they did not pay either taxes on sales or local taxes. But they will have to pay taxes in the new market – a major factor behind their rejection of moving from La Parada to Santa Anita.

Over the years, many registered wholesalers made a living out of sub-contracting their concessions in La Parada. Under informal arrangements, they sometimes even 'sold' their concessions. For years, EMMSA charged the same



La Parada and surrounding traders © Archivo La República, Lima-Perú

established monthly rental of USD 50 for a 30m² stall. Representatives estimate that 50 per cent of concession holders informally rented their stalls for a daily payment of USD 50. Some may even have earned up to USD 4600 per month sub-contracting. Many wholesalers also sold to informal retailers as well as to supermarkets and restaurants – even if the concessions were supposed to deal only with wholesalers. Naturally, these wholesalers did not want La Parada to move, and before the new left-wing municipal government came to power in 2010, EMMSA either could not or did not wish to get involved in these traders' arrangements.

2.2.2 Surrounded by other informal wholesalers and retailers

Six officially registered associations of retailers operated around La Parada. They once bought in La Parada. But in recent years, business has grown. Up to 15 lorries a day now come directly to them, bringing produce from the countryside. All these retailers sell and buy most of their produce informally. It is estimated that together they now contribute 24 per cent of the supply of vegetables in Lima (Barrera 2012).

According to one association representative interviewed in January 2013 in La Parada, currently there are 32 associations – with different legal status – integrating 3000 retailers. Most members specialise in selling vegetables that are produced around Lima. Growing high demand for local products has increased the number of producers and hectares dedicated to growing local crops. Retailers are organised, identified, and registered by the district municipality of La Victoria by the

street or block they occupy, with two associations per block. Before the move to the new Santa Anita Market they used to buy from the wholesalers inside La Parada's premises. But now they buy directly from the lorries that arrive daily from the countryside to illegally sell produce – the areas surrounding La Parada have themselves become an informal vegetable wholesale market.

The point here is this: these thousands of retailers operate under the jurisdiction of the district municipality of La Victoria, not EMMSA. In principle, the new market was meant to be an exclusive facility for wholesalers. But there have also been discussions between EMMSA and retail association representatives to move them to Santa Anita as well, where special facilities would be built exclusively for that purpose. Still waiting for results of the March mayor recall referendum, retailers have stopped collecting refuse, and are refusing to pay the USD 0.77 daily fee they used to pay to the district municipality.

Some retailers would like to move to Santa Anita. But others have organised to protect the old market, calling themselves the Front of Defence and Development of La Parada, arguing that its three-hectare site, donated to the city by the Canepa family, was explicitly meant to be a market. Whatever their position, what came out clearly from many interviews with retailer representatives in January 2013 was their aspiration to engage in a formalisation process, which is even spelled out on their jackets: '*Asociación 5 de Agosto – Rumbo a la Formalización*' ('5 August Association: Towards Formalisation') (see cover photo). They want a legal space to

operate in without fear of eviction, where hygienic and secure conditions are assured for them and for their customers, so that they can work and develop their businesses. However, they are concerned about higher costs in the new market (Box 3).

Box 3. Leandra's blues

Leandra sold lettuce, spinach, and broccoli for over 20 years outside La Parada. Like many migrant workers, she started out selling small quantities. But little by little, Leandra managed to make her business grow. She offered a good selection of quality vegetables to her customers and was able to provide work to her two eldest sons.

Then came the moment when her larger, formal clients pushed her to formalise her business. She decided to register with the national taxation body (SUNAT), which enabled her to invoice her larger clients and for them in turn to reclaim VAT. Even so, she continued to trade informally with smaller buyers.

Leandra remembers the good times, when she could sell up to 500 American lettuces a day. Today, she can sell only a dozen. With the closing of La Parada, supply is not concentrated there anymore. She is no longer registered with SUNAT and has gone back again into full informality. Leandra has had to review her direct arrangements with producers around Lima as well, as she cannot guarantee that she can sell the same volumes she used to buy. She buys 50 per cent of her produce in the new Santa Anita market, but because of the distance, Leandra has to be there early in the morning to be back at her street stall by 6am. She is losing sleep and her costs have risen dramatically. In La Parada, she paid a porter USD 0.19 per case. In Santa Anita, the porters' fee is USD 0.77. Besides this, she must also pay transportation costs of around USD 11.57 for 20 cases.

For Leandra, failing to transfer all of La Parada's porters to the new market was a mistake. 'These men were really useful and earned their living honestly,' she says. 'Now most of the 2000 porters are trying to find work somewhere else, and besides the police harassed them violently when they came to close La Parada.'

Like many street retailers, Leandra is waiting to see what happens in the March referendum. What will happen with EMMSA and the markets administration in the city? Meanwhile, she has only her youngest son to help her when he is not at school. Leandra's two oldest sons have had to leave to find work elsewhere: one in a Unicachi market, and the other in Santa Anita.

Source: interview with 'Leandra', an informal vegetable retailer in the vicinity of La Parada.

2.2.3 Winners and losers: inequity in the chain

The big winners in the commercialisation process are the transporters, known as 'maestros'.⁷ In 2008, they earned USD 0.014 per kilo of potatoes loaded into their lorries. In the 10 or 20 hours it takes to reach the Lima market, a transporter earned as much as the farmer made for the months of hard work to grow the crop. Traditional small shop retailers earn very little too, when we consider that they sell in low volumes and over a relatively long period of time.

Small-scale farmers were once 'captive suppliers' of intermediaries and wholesalers. But new information and communication technologies (ICTs) and the rise of mobile phones are overcoming information asymmetries, making it harder for buyers to fix prices. Farmers now have better access to the Ministry of Agriculture's and EMMSA's improved information systems and websites. Old established informal relationships that were based on trust and credit have become strained as small-scale farmers are presented with new opportunities. This is an area that requires further empirical work. Already, we see that farmers will not hesitate to abandon these old arrangements when they are sure that they can earn more, in less time, and with lower risks, as the experience of guinea pig (or cuy) farmers later in this case study illustrates.

2.3 Santa Anita: challenges ahead for the new wholesale market

EMMSA has attempted to make the transfer process to the new wholesale market, the Gran Mercado Mayorista de Lima (GMML) both transparent and participatory over the last two years. But despite good intentions, the new market was born in blood.

Although generally acknowledged that it was time to restructure the old La Parada and create a better market, there is much to critique on how it was closed. The GMML, located in Santa Anita, in eastern Lima, has been functioning since November 2012. A few months are certainly a very short period of time in which to expect everything to work well. EMMSA has been forced to face up to reality and tries to manage many interests while ensuring the market makes enough money to cover the cost of facilities and services. Prices for stalls have been lowered, and they have been rented to retailers and not only to wholesalers as initially planned. Anyone can purchase from the market, not just registered buyers. In fact, this 60-hectare market is quite modern and even if all of its facilities are not yet built, most services are already functioning. But the costs for this modern market are high. It is not easy to manage both social and economic costs. Even if EMMSA is a public enterprise, it remains a business that needs to cover the costs of its operations. This dilemma between social objectives and economic constraints has been a focal point of discussion in recent years, and the total or partial privatisation of the GMML is still a possibility.

In a visit last January, and according to many interviews with wholesalers, retailers, and customers buying there, the GMML is a good idea but there is still much to be done (Box 4).

⁷ Lorry owners and/or drivers, or 'maestros', have been a key element in rural-urban links, and not only in transporting produce. They also act as postmen delivering news, money, and packages. They are important and powerful players... or at least they were, before roads, the Internet, and competition from more modern and specialised enterprises appeared in the countryside.

Box 4. The unhappy 'onion king'

David is a big onion wholesaler, and he has been in the business for a long time. He buys in Arequipa, his hometown. His providers are small farmers with less than three hectares of land, and some larger farms with 30–40ha, equivalent to 250 lorry loads. He pays them by cheque or in cash, 'depending'.

Until 1995, onions were produced only in Arequipa. Because of the increase in demand they are now produced in many other places, and all year long. Near Lima, farmers have succeeded in growing two onion crops per year. This proximity decreases transport costs and thus prices for consumers, making competition harder for David.

David supported the move to Santa Anita. He thought it was going to be a real wholesale market, where only wholesalers would be allowed to sell. In this way, he thought that his business would be protected from competition from occasional and informal wholesalers and big retailers. He was prepared to pay a higher rent for his new stall, understanding that the new market would provide him with better services. He was also ready to comply with all required legal documentation of his transactions. But of the 1300 stalls promised by EMMSA, only 640 were ready, and of those, only 450 stalls have been hired to wholesalers. The rest have gone to retailers. Besides, as David explains, to make more money EMMSA has divided the already-small stalls (30 square metres each) into two, and is now

requesting a monthly rent of USD 845 for each half. The agreement was that this was the price for the whole stall. He smiles, remembering that in La Parada, he paid USD 77 not so long ago.

David understands that Lima really needs three wholesale markets to cover the needs of all consumers in the north, south, and east of the city. This would help to organise the traffic mess that having some 1000 lorries arrive every day in the capital entails. Actually, he says, some of La Parada's wholesalers have already gone to the Unicachi markets operating in the north and south of Lima, mainly those trading potatoes. He would like EMMSA to finally build the 20 hectares of facilities at the GMML that they have promised to the La Parada retailers. This would attract more clients, and in turn, provide these businesses with what they need: more customers.

David hopes that things will be clearer after the March referendum. Among other contradictory discourses, he does not understand why the wholesalers in the GMML are not allowed a formal organisation as they had in La Parada. Now, he says, he meets with his colleagues as an informal group. They do not have a collective representative voice to negotiate with the market's management. All contracts are now made on an individual basis.

Source: interview with 'David', a former La Parada onion wholesaler.

The new Santa Anita market was meant to be the only wholesale market in Lima. Control of products traded, hygiene, and transparency in all trading activities to avoid speculation and tax evasion – from the lorries to the stalls and sales accounts of wholesalers – are supposed to have improved commercialisation and allowed food price stability and safety to benefit the city's consumers. Food safety in fast-growing cities like Lima is a major concern for municipal authorities. Since the 1990s, various studies and workshops with mayors in Lima (EMMSA-FAO 1999) have drawn attention to some burning public health issues. These include the high quantities of chemicals used in agricultural production and food processing, transporting food in lorries that also transport minerals, and street vendors who use water from drains. The new GMML was supposed to deal with appropriate sanitary controls as part of the modernisation and formalisation process.

There are still many problems to be solved. How should EMMSA deal with the thousands of informal retailers making their living around La Parada, or the porters who will be replaced by mechanisation? Transport costs for retailers (in open municipal district markets, small shops, and restaurants) have also increased, as the new market is located far away in the east of Lima. The idea of having two more wholesale markets is already making its way into the national debate

(Azarán 2012). The Aymaras' Unicachi markets in the north and south of Lima are already well positioned and willing to take on this role. But to be able to host the displaced La Parada traders not wishing to go to Santa Anita, the municipalities where Unicachi markets operate are also pushing them to formalise, to become licensed, and to pay taxes. Old informal arrangements are not that easy to maintain anymore and widespread digital online information on prices and transactions on public institution websites are making it more difficult – or more expensive – to cheat. Besides, formal markets like hyper- and supermarkets are proliferating even in low-income districts. They offer not only low prices in some perishables – which they increasingly procure directly from farmers – and other food products, but also hygiene, security, and parking facilities. Comfort and 'making shopping a pleasure' is something that even the lower social classes have started to appreciate, pushing many markets to improve.

The closing of La Parada and opening of the GMML have shed light on the reality of agrifood markets in Lima. And this move has reinforced the trend of a de facto restructuring that has been taking place in the capital city over the last decade as we will see in the next section



Public entrance to the GMML. Sunday openings for 'housewives' are promoted to attract more customers.
Photo: Ethel del Pozo-Vergnes

3. New competitors: where formality and informality meet and clash

Economic growth, rapid urbanisation, and an increased demand for food quantity, quality, and diversity have attracted more businesses into the agrifood sector. Over the last decade, new competitors to both the former La Parada wholesale market and street retailing have appeared. Some are semi-informal, and others formal, like hyper- and supermarkets. But this increase in competition is not only for consumer market share in the capital city. It is also to assure their own supply from farmers in the countryside. Besides the rapid expansion of export crops, the growth of industrial food processors is also adding pressure, as they engage in contract farming arrangements – often through NGOs – to secure their supply from farmers. One last but important factor is the 'gastronomic revolution' in Peru, and the growing proliferation of chefs and restaurants demanding and promoting traditional produce while lobbying for more inclusive policies for small-scale farmers.

And so formal and informal business interests meet and clash. In the new context of more competition and also more scrutiny from the government, municipalities, and fiscal authorities, they are reviewing their ways of working to adapt to this changing context. Emergent informal wholesale markets like Unicachi, formal retailers, and food processors like Alicorp, and even the 'gastronomic movement', are all trying to meet formal licensing requirements or rethinking long-term formal contracts to assure supply and also to deal with fiscal regulations. Is this situation leading to greater formalisation in the agrifood sector?

3.1 Unicachi: the rise of the migrant business cluster from Lake Titicaca

Finding that municipal processes were not working well to deliver on the 1988 Property Formalisation Law, in 1996 Hernando de Soto and his Instituto Libertad y Democracia (ILD) (Institute for Liberty and Democracy) helped to establish the Commission for the Formalisation of Informal Property (COFOPRI) (Bettcher *et al.* 2009). De Soto had been responsible for making the 1988 policy law. Urban real estate assets were formalised and legally recognised, while street vendors were allowed to buy their stalls in special

facilities built by municipalities with public and/or private funds. These popular and better organised commercial centres gave business owners both freedom to operate and security, thus avoiding harassment and bribes. They also contributed to business growth, as security to buy in the premises was assured, motivating even middle-class shoppers. Many of these centres have prospered but many other poorer vendors are still arriving and operating in the surrounding streets.

In 1996, a dynamic Aymara group, from the village of Unicachi by the borders of Lake Titicaca, migrated to Lima. They decided to invest in running markets and commercial centres in populous areas of Lima. Ethnic and extended family networks and the friendlier institutional environment supported an innovative business model, where collective arrangements helped individual entrepreneurship. In 1996 they constituted the Unicachi Investment Group, pulling together money from associates and banks. They bought cheap land in the poorest districts, built commercial facilities, and sold or rented the stalls to Aymara people or others. In 2002, they decided to drop their housing project to develop a wholesale market in the northern highly populated and poor district of Comas. Some of their smaller businesses had suffered from the expansion of supermarkets in Lima, and the idea was to meet this competition head on.

A new company, the Unicachi Commercial Complex (Complejo Comercial Unicachi), was born. Sited on one hectare of the six the group had bought in this area, 320 stalls were rented out, focusing on servicing the lowest-income consumers with fresh and processed food, beverages, cleaning products, and some services (CC Unicachi 2013). In 2002, the group bought more land, this time in the south of Lima, on the outskirts of Villa El Salvador, where over the last 20 years a self-managed slum had successfully created a dynamic industrial business area dedicated to furniture manufacturing.⁸ The new Unicachi market emerged in a location where there was only one small road and no public transport, water, or electricity. Using their commercial, social, and cultural networks in different low-income neighbourhoods of Lima, they managed to bring in customers, offering free buses and very low prices. The objective of this wholesale

⁸ The Self-Managed Urban Community of Villa El Salvador – Comunidad Urbana Autogestionaria de Villa El Salvador (CUAVES).

market was to satisfy the demands of the smaller markets, corner shops, and restaurants operating in the south of Lima.

At the beginning, the open market had to be surrounded by a wall to avoid invasions from new migrants. Now it operates with better facilities, covering 3 hectares. The rest of the 20ha is where the group runs other complementary and profitable businesses, such as a sports arena and swimming pool. Bought at USD 20 per square metre in 2002, by 2012 the price was USD 1500 per square metre: a very good investment.

To begin with, the market could only offer non-perishable products. But as public services (particularly water and electricity) and public and private transport became available, the market grew and got more and regular customers. Unicachi then started selling vegetables and meat as well. Wholesalers and retailers inside the market, whether associates or tenants, are now doing well. Their monthly incomes are estimated between USD 580–1150 for the wholesalers and USD 190–580 for the retailers. According to a recent survey, educating their children is the first priority for wholesalers, while for retailers it is food. But in both cases, their last priority is paying taxes (La Cruz *et al.* 2007).

Unicachi has always held the ambition of becoming the wholesale market of the south. It has been in discussion with the former mayor of Lima and also with the district municipality of Villa El Salvador. The closing of La Parada brought the Unicachi markets centre stage during the debate about Lima's wholesale markets and informality. If the Unicachi enterprises are 'partly' legally registered and pay some of their tax obligations, transactions inside the market between the enterprise, the stallholders, their suppliers, and their customers would combine different arrangements in which invoices can be delivered or not, 'depending'.

Conversations between some 350 La Parada wholesalers rejecting the move to the new market and the Unicachi group had started before the closing of La Parada (Peru21 2012a). The riots that provoked the police intervention to close La Parada and the road blockade around the market caused many wholesalers to move the next day to Unicachi, where the lorries delivering supplies could enter. The mayor of Villa El Salvador declared he would not allow the moving of 'informals' to a market that did not yet have a fully legal licence to operate. He said that first Unicachi would have to comply with all legal requirements, as the other 42 smaller markets in his district had already had to, in order to become formalised (Gestión 2012a). Retailers already operating in Unicachi were also opposed to receiving the La Parada traders, as they feared competition with their lower prices.

In a visit to the Villa El Salvador Unicachi market in January 2013, representatives were not very keen to provide information or show the premises where the La Parada traders were operating. They said that all legal requirements were nearly finished. What was observed was work in progress to build facilities, many lorries delivering potatoes, and above

all, the fear and mistrust of outsiders. It is difficult to fully understand the internal arrangements, but a statement by the Unicachi manager shows the profitability of making room for the newcomers. He mentioned that the current price per square metre is USD 1500 and that 5 hectares of their plot is to be developed for wholesaler activities. Stalls will be 48 square metres – bigger than in Santa Anita – but that they had not yet established prices to sell or rent (Gestión 2012b). With these new entrants, it is expected that the volume of fresh produce offered in the market will grow. Up until now, as with many of these popular markets, Unicachi sells mainly non-perishables of all types, from big brands and formal companies like Alicorp and Nestlé, to smaller and artisanal food industries. Fresh produce represents only 6 per cent of their total sales.

3.2 Supermarkets and food processors: accommodating to compete

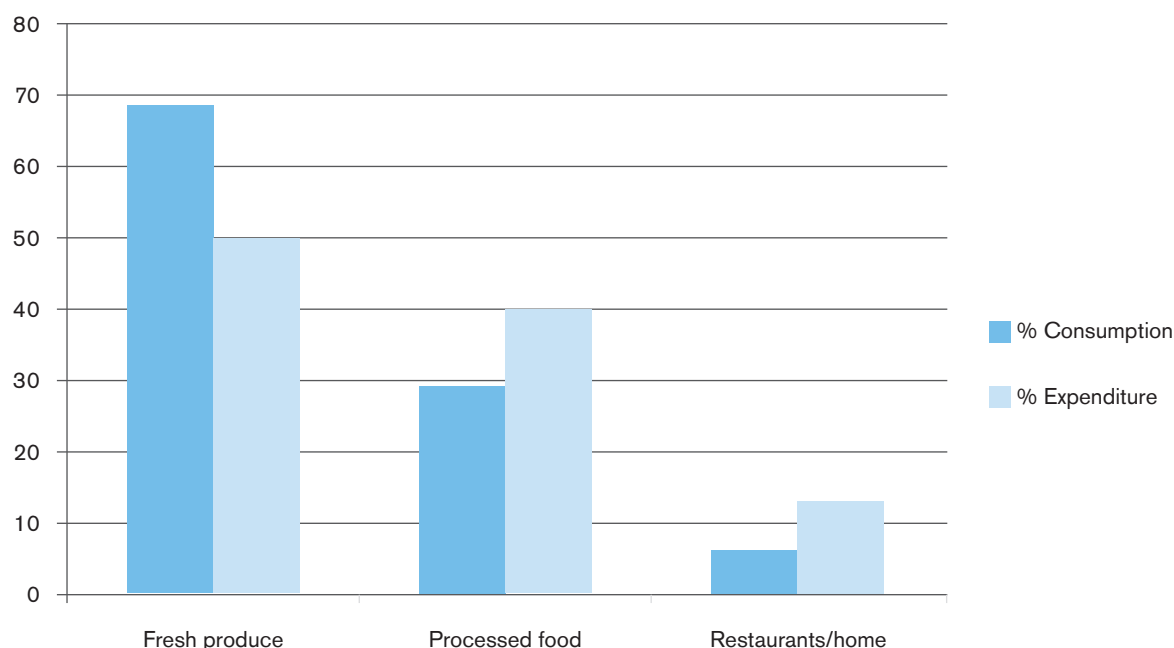
Supermarkets which used to buy, grade, and package in La Parada were pushed to make their sourcing and food safety practices more transparent and rethink their procurement strategies.

Since the 1990s, many supermarkets had begun sourcing some produce directly from farmers. Now, growing competition and new law enforcement processes are accelerating this practice.

Tottus, a Chilean supermarket chain (part of the Falabella Group), foreseeing these changes, put out a national call for farmers in March 2011, seeking to engage them in long-term supply contracts for 90 tonnes of fruit and vegetables daily. The Tottus procurement manager explained that these contracts guarantee better prices for the producers, for them, and for consumers as they cut out the middleman. He insists on the formality of contractual agreements as they guarantee the company's supply in the long term. Nevertheless, as most farmers are not legally organised, new modern intermediaries, managers, and small formal firms have appeared. They often publish calls to farmers on well-established online agro-forums, asking them to join them and form groups to supply supermarkets (Cruz 2010). NGOs have also been mediating between small-scale farmers and supermarkets and food processors over the last two decades.

Supermarkets, both national and foreign-owned, have certainly taken a bigger share of the fresh food supply in Lima and some other big cities in Peru over the last 20 years.⁹ Even so, these sales represent only around 20 per cent of the total compared to other wholesale and traditional markets and corner shops (Chau 2009). In this respect, it is important to look closer at how consumption habits have changed. Peruvians, as in many other emerging economies, have improved their diets and are consuming more vegetables, fruits, dairy, and meat. But where does their food expenditure really go?

9 Wong was bought by the Chilean CENCOSUD in 2007. Today, the Wong Group has 34 stores throughout Lima, including 14 Wong supermarkets, 17 Metros (11 hypermarkets and six supermarkets), seven Eco Almacenes discount stores and three American Outlets. Supermercados del Perú was founded in 2004 after Interbank bought Supermercados Santa Isabel from the transnational Ahold in 2003. The company has three denomination groups/supermarkets: Vivanda, Plaza Vea, and Santa Isabel. They also own Mass, a discount chain. Tottus Falabella is Chilean. Minka is Peruvian and owned by Grupo Romero.

Figure 1. Household food consumption and expenditure in 2010

Source: Based on Gonzales (2012)

Figure 1 illustrates the growing trend of processed food consumption. In 2010, household expenditure on these sorts of products represented nearly 40 per cent of total food budgets. A few big companies control this market, producing mainly wheat, flour, pasta, rice, milk, sugar, oil, and poultry (REVISTA CEPES 2011). Consumption of fresh produce sold by wholesalers and other traditional channels still represents a bit more than 50 per cent of families' budgets, but a new expenditure category has strongly emerged in the last decade: the consumption of food in restaurants and other ready-made food outlets. This budget is now estimated to represent 13 per cent of Peruvians' expenditure on food.

3.2.1 Securing supply: formal long-term relationships with small-scale farmers

Alicorp, the biggest food processor and a member of Grupo Romero, had already successfully developed a wheat supply chain to produce flour, pasta, and biscuits. Contract farming was organised via an NGO with some 1930 small-scale producers over 1500 hectares in the country to avoid dependency on imports and reduce costs. Wheat accounts for 70 per cent of the flour price. Durum wheat seeds are imported and given to farmers as part of a package including training, inputs, and finance. The company also pays a 12 per cent premium above the average price of imported wheat (Scotiabank 2010).

Alicorp has an aggressive policy to strengthen its position both in domestic and international markets (other countries represent 25 per cent of its sales), acquiring and/or merging with other firms and adapting to respond effectively to its customers' changing demands. Although they supply most

hyper- and supermarkets and wholesalers like Unicachi or their own Minka megastore, the company recognises the importance of corner shops and other small outlets for their distribution strategy. New modern markets need demographic concentration. Even if the urbanisation process is pushing a transition from living in houses to flats, small retailers still remain good clients whether they are formal or not.

3.2.2 Building trust and formalisation: business models that distribute value to the whole chain

For Alicorp, markets are creating supply chains and not farmers, supermarkets, or industries. More and more people are eating in restaurants. Women have less time to cook at home and this has expanded the market for ready-made sauces and pre-cooked French fries. The consumption of packet sauces grew by 15 per cent between 2010 and 2011, and has pushed Alicorp to form contracts with many more pepper producers around Lima (Gestión 2012c). Roasted chicken served with French fries has become the first national dish (Scott and Zelada 2010). It is now sold in thousands of restaurants of different categories, which has prompted Alicorp to make plans for the future: an agreement has been signed with the National Agrarian University (Universidad Nacional Agraria) to produce Peruvian high-quality potato seeds. Alicorp expects yield to be around 30 tonnes per hectare in 2015 (La Republica 2012b).

Alicorp is a modern company practising quality standards and proud of its corporate social responsibility commitment. But despite efforts over the last decade to engage with small-scale producers in long-term trading relationships, the

results have not been as good as expected. According to Francisco Javier Quinde, Director of the Industrial Products Business Unit (Quinde 2013), intermediation through NGOs has proven successful in the initial stages of discussions and organisation of dispersed small-scale producers and in delivering capacity, inputs, and financial packages. But these intermediaries are not good at commercialisation. After the initial stages, Alicorp contracts a private firm, and farmers have to deal with them directly. There have been success stories with farmers improving their incomes – like those linking small-scale farmers producing special potatoes for Frito Lays chips (PepsiCo) (Cuentas *et al.* 2010). But NGOs also work with international cooperation funds and may also contract with private business to organise farmers and aggregate products for them. In this intermediation role with companies, they often invoice on behalf of farmers for long periods of time (Bernet *et al.* 2002). This role needs to be studied in more depth, to examine how it impacts on farmers' empowerment and formalisation processes.

Like many supermarkets and food processors around the world, Alicorp needs stable and long-term relationships to guarantee the necessary supply of produce regularly and on time. In accordance with their business model, the company aims to establish formal relationships that allow increasing productivity and to make a profit while also distributing value along the whole supply chain. Good and fairer prices for farmers have been studied, taking into account all variables of costs and benefits to fix a price for a medium period.

Nevertheless, in most cases, small-scale farmers prefer not to engage in long-term contracts. Instead, they prefer to be paid at the market price at the moment of transaction. As Quinde points out 'the challenge for Alicorp is to create trust in their model'. They understand that farmers have been trapped in traditional trading relationships with transporters, intermediaries, and wholesalers – and even with NGOs – which have created business models that do not work in the farmers' favour. Besides this, many modern supply chains operating in the country with long-term contracts and fixed prices have not respected farmers' rights, underpaying prices stated on signed agreements. Mistrust among different actors in the chain, including NGOs, and weak law enforcement procedures would explain the major difficulties of formalisation in agrifood trading relationships.

3.2.3 Could higher taxes mean lower revenues and more informality?

In the past, private companies have taken advantage of fiscal arrangements through their privileged relationship with the state. But things have changed, particularly with recent governments. One major concern has been to strengthen the capacities of the national tax collection body (SUNAT) and to give this institution the necessary budget and staff to raise the levels of tax collection. With the formalisation process underway, fiscal policies and how they work for competitiveness has become a sensitive issue.

Supermarkets and the food industry need suppliers, who in turn need producers. As competition in the domestic and export markets gets tougher, companies either have to struggle against competition from informals, or accommodate their practices. Dionisio Romero is CEO of one of the biggest clusters with interests in various economic sectors including food processing (Alicorp), retailing, and palm oil. He opposes higher taxes. Romero points out that instead of demanding more tax from formal business (which already contributes to 40 per cent of the GDP), the alternative is to tax informal activities. Peruvian taxation is one of the highest in the region, between 40 per cent and 60 per cent depending on the sector. VAT is 18 per cent. Informal business is more profitable and rising taxes have pushed many formal companies to adopt similar informal practices (Romero 2011). The Romero Group has been running an aggressive campaign on TV against informality.¹⁰

The Association of Exporters (Asociación de Exportadores del Perú (ADEX)) states that the Ministry of Economy and Finance is promoting informality in the agrifood sector as they have decided not to eliminate the VAT on dried paprika. Intermediaries buy this product informally from small and medium producers without issuing invoices. Once they have aggregated large volumes, however, they sell it on to export companies, adding on the 18 per cent VAT. None of this money is declared to SUNAT, which means that exporters cannot claim the VAT back (ADEX 2010).

Fiscal authorities state that their purpose is not just to tax and control. They also aim to facilitate a good business environment and foster competitiveness. Many outdated laws and fiscal regulations are being examined. In 2012, tax collection rose by 8.9 per cent on average, with increases in some regions as high as 30 per cent. More importantly, the number of tax payers has increased by 10 per cent, with 600,000 new contributors (Gestión 2013).

3.3 When chefs lead change: the gastronomy boom

Economic growth has meant an average increase of 14.8 per cent in household food budgets, and a 4.4 per cent increase in expenditure on eating out in restaurants from 1998 to 2008. The number of restaurants is growing at 10 per cent since 2001. Together with hotels, they accounted for 3.7 per cent of GDP in 2008 (APEGA 2008). In 2008, 90 per cent of franchises abroad were gastronomic businesses, and have expanded from Latin America to the USA and Europe, mainly Spain.

In recent years Peru has seen economic growth, an increase in incomes, and peace within the country. But it has taken a revolution in food to establish stronger social cohesion. The Peruvian passion for food has resulted in a highly dynamic gastronomy movement. Chef Gaston Acurio has become a celebrity not only for his excellent cooking, but above all for his vision of Peruvian gastronomy as a tool for cultural and

¹⁰ See e.g. 'Alto a la Informalidad' ('Stop informality') by Fundación Romero. Watch online: www.youtube.com/watch?v=CClowAC4RCA

economic integration (fusion) and sustainable development. Acurio represents a new wave of an emergent business class, in which cooks are the leading voice and have even become influential actors in policies. With others, Acurio has created APEGA, the Society of Peruvian Gastronomy (Sociedad Peruana de Gastronomía). This association links farmers, the food industry, and all actors involved in the food chain. The government, the Lima Chamber of Commerce, and prestigious research institutions like the National Agrarian University, the International Potato Centre, and many academics and civil society organisations have all signed agreements with APEGA. The idea to develop a business based on cultural identity is not new (del Pozo-Vergnes 2011).¹¹ But APEGA has gone further, creating a national movement where ethnic and class differences meet and melt in the gastronomic fusion of origins, aromas, and flavours.

But Peruvian gastronomy depends on Peruvian products. Defending biodiversity from genetically modified crops that could potentially hurt Peruvian competitiveness is certainly seen as a business opportunity. If biodiversity protection is a long standing demand of indigenous organisations, the private sector – through restaurants and chefs – have given them a lot of publicity. Genetically modified organisms (GMOs) are now forbidden in the country. Through the annual Mistura International Gastronomy Fair, APEGA has succeeded in making farmers more visible, promoting small-scale farming to the general public, and highlighting the effort of small-scale farmers to produce a huge variety of produce despite multiple constraints.¹² With the National Convention of Peruvian Agriculture (Convención Nacional del Agro Peruano (Conveagro)), APEGA has also agreed and signed a farmer–chef alliance with small-scale farmers.¹³



The farmer–chef alliance: pillar of the gastronomic movement.
Photo: Ethel del Pozo-Vergnes

In six years, the gastronomic movement has undoubtedly contributed to change. As Luis Ginocchio, one of APEGA's founders and former Minister of Agriculture, indicates, strengthening national identity and Peruvian pride is contributing to valuing culture, identity, and the sense of belonging to a larger community. This is a key factor in building a national project (Ginocchio 2012). For some, the role of chefs in development is difficult to understand.¹⁴ But good analysts know what Peru has experienced since the end of the 1970s. Up until the 2000s, Peru endured the tough economic policies of the Washington Consensus and violence that cost some 70,000 lives – mainly among poor indigenous and farming communities. Analysts acknowledge that the gastronomy movement has given many people new hope – and hope matters.

However, from the farmers' perspective, improvements in their market participation as a result of the gastronomy revolution are not yet visible. Small-scale farmers produce a large variety of high quality, original, and traditional produce – but in small volumes. Because of this, they need to cooperate in order to aggregate production and meet market demand. Chefs cannot guarantee regular demand for large volumes of produce for their restaurants, they still mainly procure this produce – the basis of Peruvian gastronomy – from the wholesale market, district markets, or through special small irregular arrangements with producers in different parts of the country. As an anonymous representative of a pepper growers' association in the Ucayali Region (Amazon) explained:

Sure, having a restaurant requesting us to quickly supply 20 kilos of a very special pepper that only grows here, is a good thing. But even if they pay well and we can aggregate the amount through the association and send it by airplane, this is only 20 kilos from time to time.

APEGA is trying to find solutions to make chefs' demand and small-scale farmers' supply meet through a project initiated with funds from the Inter-American Development Bank and in agreement with the Municipality of Lima. The objective is to ensure that they support small-scale farmers so that their produce makes it into the district markets and Lima's central retail traditional markets, where cooks and the general public can buy a variety of produce from them. Lucila Quintana, president of Conveagro and a coffee producer herself, recognises that APEGA is playing an excellent role in communications. APEGA is helping to make the problems faced by small-scale producers more visible and lobbying for better inclusive policies. But still, she argues, these farmers are not yet seeing a real change in their incomes. Because of this, they are not interested in formalising (Quintana 2013).

¹¹ The Lindleys, a migrant British family, created a golden-coloured beverage in 1935 which they named 'Inca Kola'. From the start, they developed an aggressive marketing strategy and branded it as a unique Peruvian drink, fusing different ethnicities and cultures. The idea of having a national identity, in this case by enjoying the drink together, was born (del Pozo-Vergnes 2011).

¹² Now in its fifth year, the Mistura International Gastronomy Fair in Lima is one of Latin America's biggest gourmet events. Watch a video of Mistura Fair 2011 online: www.youtube.com/watch?v=RtMbE5aCxK&feature=related

¹³ See e.g.: <http://apega.pe/contenidos/alianza-cocinero-campesinoS12/C3.html>.

¹⁴ 'The "G9" chefs' manifesto to save humanity is an act of such ludicrous self-regard you'd need an oxygen tank to get your breath back.' Rayner (2011).

Many multinational food processors have also adopted a market strategy based on the boom of Peruvian gastronomy and the quality of its products. Nestlé is selling milk products containing Andean cereal (Velasco 2012). Alicorp and Gaston Acurio have together created a pepper sauce called 'Tari'. How these arrangements will cope with informal and formal relationships is yet to be explored. But at least it is clear for APEGA that if they cannot guarantee procurement volumes for farmers, they can advocate for better inclusive policies that work for them.

Researchers carrying out a regional study in the north of Peru found that restaurants continue to procure most of their supplies in the Moshoqueque traditional wholesale market – trading the second highest volumes of produce in Peru – where most transactions are informal. Small-scale farmers would not benefit significantly from the gastronomic boom in that region (Fairlie and Solis 2011). Nevertheless, progressive restaurants and food entrepreneurs can have impact in other ways. In 2007, according to APEGA, 80 per cent of workers in restaurants and hotels were informal. Now that restaurants can afford and ensure better conditions, they are calling for the formalisation of informal restaurant workers.

With the restructuring of the agrifood market and higher competition, there are still more and better opportunities opening for small-scale farmers too. The next section looks at public programmes and mechanisms that have been established to support farmers in making the most of these opportunities in modern and formal markets.

4. Towards formalisation: improvements in public policies

Over the last decade, governments have been implementing different policies to formalise real-estate assets ownership and regulate street vending, mainly in urban areas. Since the mid-2000s, and in the context of rapid globalisation of markets, the issue of supporting agriculture and farmers has gained traction in policy decision-making. The signing of the free trade agreement between Peru and the USA in 2008 was preceded by an intensive and polarised national debate – particularly for its agricultural component. Who will win, who will lose, and what products will be most affected by competition with North American subsidised products? (Oxfam International 2006). Since then, competition in agricultural markets has become central to policy-making and development interventions. Some programmes and formalisation mechanisms have been developed specifically for that purpose.

This section analyses two main government programmes and laws. It also examines a concrete mechanism to allow a gradual transition towards formalisation, using a case study based on fieldwork to ask, how does this mechanism work in reality?

4.1 Compensation for Competitiveness: Agroideas

After signing the free trade agreement, a new programme called Compensation for Competitiveness was established by law.¹⁵ Regulations followed in 2008. The aim was to level the playing field for Peruvian farmers – particularly those who are most exposed to foreign competition like cotton, rice, and corn. This programme, known as Agroideas, was set up as an executive unit of the Ministry of Agriculture, reporting directly to the vice minister. It was designed to promote and facilitate competitiveness for commercial medium- and small-scale farmers. To ensure profitability and sustainability, Agroideas focused on tackling three main problems: the dispersion and low levels of producer cooperation; low levels of managerial capacity to deal with modern markets; and low productivity.¹⁶

Three main working areas and financial incentives were implemented:

- Association: to support the creation of producer organisations and costs related to their formalisation
- Management: support in hiring managers and developing business plans
- Technology: support to buy machinery, equipment, improved plants or animals, as well as building facilities to improve and/or adapt new technologies

As established in law, this programme will end in June 2013. However, a second phase is under discussion. Agroideas' director points out that in its final year, the programme transferred Peru S/. 50 million (USD 19 million). Over 11,000 farmers have associated and formalised around 165 business plans and have invested Peru S/. 20 million (USD 7 million) (CEPESRURAL 2013).

The criteria to be eligible to benefit from the programme are flexible. Even farmers' associations that have been buying or selling collectively for less than six months can benefit – they just need to be presented/supported by a municipality, an NGO, a mining company, or a public agrarian agency. Importantly too, associations do not need to present property titles of their lands, as many do not have them.

Those who have benefited most from this programme are already well-organised formal farmers' associations and cooperatives, mostly producing coffee, cacao, bananas, and milk. Agroideas targets small- and medium-sized commercial agriculture (farming 3 to 30 hectares) and not subsistence farmers. They account for 22 per cent of a total of 2.3 million farmers (INEI 2010).

For the second phase of the programme, the Ministry of Agriculture's target is to have 500,000 farmers formally associated by 2016. But the chief of the promotion area, reflecting on the first years' experience, questions the programme's effectiveness to reach more farmers. 'Despite

¹⁵ Decreto Legislativo 1077: www.agroideas.gob.pe/web/wp-content/uploads/marco_legal/dl_1077.pdf

¹⁶ See: <http://siea.minag.gob.pe/siea/?q=acerca-de-siea/instituciones-que-conforman-el-siea/programa-de-compensaciones-para-la-competitividad>

more flexible criteria and important non-refundable financial incentives, why have only 11,000 producers out of 500,000 (who are in the category of the small and medium commercial agriculture) shown an interest in association and formalisation to access the programme benefits?' (Huamanchumo de la Cuba 2013).

Regional workshops have been planned to try and answer this question. But whatever the outcomes, it is important to highlight here the changes that are taking place in public institutions. They are undergoing a process of learning and reflecting, trying to differentiate the needs of small- and medium-scale farmers and to adapt to what works best for them. Over the last decade, a new wave of professionals has entered the civil service. With academic or NGO backgrounds and with more progressive visions, they are contributing to change. This case study does not discuss in detail issues around the quality of policymakers and programme designers. However it is an important topic for further research work in relation to its importance in institution-building and how positive change happens.

4.2 Small-scale farmers, MYPEs, and the APOMIPE Programme

Framed under the same competitiveness objective, a law for the development of micro and small enterprises (or MYPEs) – known as the 'MYPEs law' – was also passed in 2008. This law and its corresponding regulatory framework included, for the first time, agricultural micro-enterprises. The MYPEs law does not specify how to implement enterprise development processes, for example, how to form small-scale producer associations. But what is important is that it recognises small-scale farms as 'enterprises' and therefore as economic actors. Before this, laws governing MYPES were only targeted at formalising the informal urban sector.

Despite efforts to formalise, the Peruvian economy is still one of the most informal in the world. Sixty per cent of production and one in ten jobs are informal (La Republica 2011). Micro and small enterprises account for 90 per cent of the national total of enterprises and employ 75.5 per cent of the working population. Out of 1.1 million MYPEs, only 110,000 have gone 'formal' – only one in ten – and many have yet to finish their formalisation process, particularly regarding workers' rights (ibid).

Seeking to find solutions for very small-scale farmers, the Ministry of Production – responsible for developing micro and small enterprises – joined efforts with the Swiss Cooperation Agency. They set up a bilateral cooperation programme, the Programme for the Support of Micro and Small Enterprises in Peru (Programa de Apoyo a la Micro y Pequeña Empresa en el Perú (APOMIPE)) (2005–2013). The purpose was to overcome obstacles that limit equitable, inclusive, and sustainable development by improving the competitiveness of small-scale producers (Amézaga and Aramburu 2008).

Treated as 'micro-enterprises' small-scale farmers are said to represent 60 per cent of this category in Peru (MPTE 2006). Because of their small size, individual operations, and low productivity, they need to form associations to be able to compete. While there is nothing new in this analysis, what is interesting is the programme's approach to overcoming these bottlenecks. The strategy is clear: farmers need to form associations to get the right product in the right markets and in the right space in order to make a profit. It is about looking at value chains and territories that have a meaningful potential and that also benefit from other economic promotion initiatives such as those offered by local governments.¹⁷ This strategy challenges many development interventions that try to link small producers to markets. The way in which many cooperation programmes and national NGOs deal with markets is antagonistic, radical, or paternalistic. Ideology rather than the economy has oriented many of these interventions. The fact that many farmers' organisations, created by development projects to compete in markets, have adopted a legal not-for-profit status illustrates this situation.

APOMIPE's methodology follows three basic steps:

- create trust among members;
- identify a product with market potential within a territory; and
- professionalise the business.

An 'articulator' – a local NGO staff member – plays a key role. She or he is engaged by APOMIPE to accompany the process until the business 'network' can hire and cover the salary of a manager. APOMIPE has adapted and applied an enterprises network approach (*redes empresariales*) to its interventions in rural areas (Cuzco, La Libertad, Cajamarca).¹⁸ The idea behind these networks is that networks of individuals join others to become a network of networks or a consortium, to aggregate demand and supply. This approach should enable these very small-scale firms to become more competitive.

4.3 Adopting appropriate mechanisms to facilitate transition

Building trust in an association or network, improving incomes and profits, and understanding the benefits of adopting a formal enterprise structure all takes time. APOMIPE estimates this process takes at least three years.

An already existing (but little known) mechanism to facilitate the transition from informal to formal is the Independent Accounting for Consortia tool. This tool was designed by the national taxation institution (SUNAT). It allows a group of individuals or small enterprises to unite to buy or sell goods and services without having to create a legal structure. The only requirement is that the group elects an operator who registers the contract in SUNAT, which will then collect taxes accordingly. The Ministry of Production has successfully

¹⁷ In Peru, the decentralisation process has transferred important financial resources to local governments. The law of municipalities allows them to engage in supporting local businesses, to which they can allocate funds from the participatory budget.

¹⁸ The approach was first introduced by the Ministry of Production and used mainly with industrial and service MYPES.

used this mechanism with a consortium of fruit producers and with industrial and service MYPES. SUNAT is now trying to promote it widely to help associations of small-scale agricultural enterprises access bigger and formal markets, like those associated with public procurement.

The CSCI is a useful transition mechanism towards full formalisation. But it can only be used by a group for three years. During that period, groups need to decide whether to become a legal and permanent enterprise structure. The purpose is to enable small-scale producers to benefit from participating in the formal economy. It aims to demonstrate that being formal is not difficult or expensive, and that formalisation offers more advantages because they can access bigger markets and expand.

A consultancy hired by APOMIPE has advised that the best structure for the farmers' networks to adopt after the three-year period is to become a services cooperative. However, in Peru, because of previous negative experiences, even the word 'cooperative' upsets most farmers.¹⁹ Nevertheless, many self-promoted and managed cooperatives are flourishing, demonstrating that the cooperative model can work (Remy 2007). They have recently won a long battle to have the Cooperative Law modified to their benefit, mainly around taxation.²⁰ One important reason for promoting the cooperative model rather than the simpler associations is that in the latter, all investments remain with the association, while in a cooperative, retiring members can claim their share. This provides members with a strong incentive to invest in their business and make it prosper. In addition, members are not taxed individually. Only the cooperative pays taxes on sales.

APOMIPE has promoted 118 entrepreneurial networks, benefiting around 1500 small producers. But results are not uniform. One study by Gonzales (2011) analyses eight cases in Cuzco (producers of flowers, milk, and guinea pigs) and La Libertad (milk, mangoes, and handcrafts). It points to APOMIPE's good performance in relation to social, productive, and commercial objectives. The members trust their network and find value in their business, and one clear indicator is that investments and assets have risen by 100 per cent. Nonetheless, organised collective sales are not yet the rule and only one out of the eight networks is thinking about formalisation. Gonzales recommends accompanying this process and most importantly, widening the concept of 'formalisation' to include the members themselves as formal citizens with both rights to public services and obligations. One key point to consider here, and one that could constitute a good incentive, is that formalisation could allow individuals to access healthcare services, personal insurance, and pensions. And as incomes rise, demands for these services have already started to appear in the countryside.

4.4 Going formal: guinea pig farmer networks in Cajamarca

In Cajamarca, following the APOMIPE approach, a high and unsatisfied demand for guinea pig (or cuy) meat was identified in the entire northern region due to expanding urbanisation. Cuys have the advantage of having a short reproductive cycle, and can be easily transformed into cash at any moment.²¹ Many small-scale farmers, mainly women, were already breeding cuys on a small scale in their kitchens, which constituted a sort of cash and savings fund. The majority of these farmers were milk producers with up to four cows, farming up to five hectares, and selling their produce either to Nestlé or to Gloria (a national company) who set the price.

According to the director of CEDEPAS Norte, the NGO in charge of implementation in this region, at the end of the APOMIPE programme, 34 'enterprise networks' (each group with 10 to 12 members) are now operating, benefiting 350 families (Casanova 2013). Most of them have dropped milk production as breeding cuys pays much more, demands less work, and presents low risks. Cuys left the women's kitchens for specially built breeding facilities when the men realised that cuy breeding was good business, but women continue to participate as members of the business network.

Thanks to improvements in the production process and the high quality of the breed, the Condebamba Valley cuy has acquired a good reputation in the region. Prices are rocketing, as was observed during a field visit in January 2013. While these improvements were facilitated by the NGO 'articulator', the financial investments were made mainly by the farmers themselves, using their own profits. This differs from the standard practice for many development interventions, where everything is free. A few years ago, the price for a cuy weighing less than 1 kg was around USD 5. Today, they can fetch up to USD 11. Production costs are reasonable, as most of the feed is produced by the farmers themselves. On average, a farmer sells 100 cuys per week and as they say, the profit is 50 per cent net compared to the 15–20 per cent made from milk.

To understand the process leading – or not – to formalisation it is necessary to understand the different markets and customers that these enterprise networks deal with. Traditionally, before the APOMIPE programme, intermediaries operating in the La Grama market were the only buyers.²² Little by little, the enterprise networks have established direct agreements with other clients: restaurants, clubs, an export company, municipalities, and mining companies.

Diversifying their client portfolios, volumes, and qualities traded has required different strategies. All network members sell some quantities individually and informally, or they can

19 The Agrarian Reform implemented at the end of the 1960s was one of the most radical in Latin America. Most large and medium landowners were expropriated. Most of the land was 'distributed' through newly created cooperatives and other forms of collective production. But a lack of managerial and technical staff, internal conflicts, and contradictory interests of workers (who were at the same time also owners) led to their failure and fragmentation in the 1980s. Eguren (2006).

20 The new law promotes the inclusion of agricultural producers through cooperatives. It regulates taxation, eliminating VAT on transactions between a cooperative and its associates and vice versa. It includes producers in the social security system. See: www.rpp.com.pe/2013-01-16-cafeteros-piden-reglamentar-ley-que-promueve-cooperativas-agrarias-noticia_558513.html

21 A cuy has two to three babies every two months. With improved breeding and production management, livestock losses have decreased, further improving the profitability of the cuy business.

22 La Grama is the only market in the Condebamba Valley, and is only open on Saturdays.



Individual cuy-breeding facilities are built by each member. Breeding cuys generates more money, on less land, and with less effort. Photo: Ethel del Pozo-Vergnes

associate with others to satisfy a demand, for example catering for a football club event. When the demand is relatively large and the customer is a formal institution/ company, then the network sells as an association and uses the CSCI mechanism to issue an invoice, which formal clients require. But this mechanism can only be used for the first three years. Now, the cuys consortium (the network of networks) has embarked on the process to register as a service cooperative.

Not all members agree with this new status and many do not appreciate that the consortium sometimes rejects their animals because they do not conform to quality standards. They also do not understand – or appreciate – that when VAT (at 18 per cent) is recovered, the consortium keeps 30 per cent for their investments fund.

But good and stable contracts are gradually changing people's minds. Aramark, an American catering company, is negotiating a long-term procurement contract for 1200 cuys per month with the cuy consortium. The final destination of the cuys is on the Yanacocha Mining workers' plates. But to get the contract, the consortium must comply with Aramark's quality standards and food safety requirements.

During a field visit, the author accompanied Aramark's food safety inspection of the consortium's new cuy abattoir. The list of improvements required was long. But what matters is the willingness on both sides to find solutions for a win-win relationship that both need. The consortium needs a large, formal, and regular client to consolidate its formalisation process. This will strengthen its portfolio of important but irregular clients, such as municipalities. Diversifying clients is key to not falling prey to the 'inclusive business trap', where producers are dependent on a single buyer. The Yanacocha Mining Company, through Aramark, on the other hand, needs this long-term engagement with the consortium. It needs to raise its social profile in Cajamarca. Rural opposition to mining projects is a very sensitive issue, and has led to tension and even violence.²³

²³ In 2011, Cajamarca, where the most important gold mining companies operate, had the highest rate of people in extreme poverty in Peru. According to the National Institute of Statistics (INEI), Cajamarca is in the top five of Peru's poverty index (Peru21 2012b).

5. Conclusion

Globalisation and tougher competition in markets have brought informality centre stage. Exploding urbanisation, resource scarcity, food insecurity, and safety concerns are making governments look seriously at informality in the agrifood sector. But transiting from survival to competition is a conflicting process. It reveals the economic and social difficulties governments like Peru have to face when reforming agrifood markets and implementing formalisation processes.

After two dark decades of suffering from armed conflict and structural adjustment, Peruvian society has started to hope for a better future. Economic growth is now pushing towards formalisation. Growing demand for minerals has meant that the Peruvian economy has grown rapidly since the 2000s. Progress is evident in the increase of formal employment and the widening of a middle class, largely composed of former migrants with higher expectations and demands. Peru's domestic market has great potential for business. Market reforms to support the liberalisation process and an open economy have changed the country. They have also generated a dynamic entrepreneurial culture that is both concerned about and engaged in sustainable development.

Even so, the informal sector remains very important. Despite efforts to change, the Peruvian economy is still one of the most informal in the world. Sixty per cent of production and one in ten jobs are informal. And like many countries in transition, Peruvian society is fragmented and hampered by low levels of trust. Peru has a long history of exclusion, and for the majority, it is not yet over. If Peruvians are to accept formalisation, it has to mean something more to them than paying taxes or being given a registration number. Formalisation needs to be a key component in economic and social inclusion – and to succeed, governments will have to look very closely at policy design and implementation.

5.1 Towards formalisation – and inclusion

In countries where the majority of people have been excluded or marginalised, and where mistrust of state institutions has become embedded, informality is the expression of that exclusion. Formalisation must be seen as an inclusive process, and not only linked to legal economic activities but also recognising citizens' social and political rights. It needs to create the right conditions for the state to be accountable in

guaranteeing those rights for all. In that sense, formalisation is a tool that helps define the social contract and supports nation building.

The move and reform of La Parada wholesale market has made visible the social and even ethnic divides still prevailing in Peruvian society. But it has also contributed to recognising the contribution of migrants to Lima's development, as the President acknowledged in his speech on the 478th anniversary of the city in January 2013. The referendum to recall the Lima mayor is not just a conflict between tradition and modernity. It also reveals the conflict between economic interests and different understandings of national rights and responsibilities. People have lived and worked at the fringes of legal institutions, and political interests manipulate public opinion according to their own electoral interests. Now, Lima's municipal government and the national government are trying to redefine the role of the state in society. They are showing political willingness to make Peru's rapid economic growth work for real inclusion, and a new ministry has been created for this purpose. Formalisation may – if done well – contain the key to inclusion, strengthened citizenship, and national integration.

The results of the March 2013 referendum on the recall of Lima's mayor reveal the prevailing polarisation in society. A slim majority of 53 per cent voted in favour of the mayor. Their votes demonstrate that they are more willing to trust institutions, and to change and engage in new rights and law-based relationships. Just as importantly, the other 47 per cent – who voted against the mayor – do not seem ready or willing to engage in a reform process. Whether it is because they fear that reform will hurt their economic interests, or that people still deeply distrust the ruling classes, changing mindsets will take time.

5.2 Formalisation and competitiveness policies: managing conflicting interests and sharing the bill

Restructuring the agrifood market in Peru involves multiple actors, from the municipal wholesale market, the Unicachi cluster, and supermarkets to food processors and restaurants. Each is competing for market share and supply. But how do you accommodate multiple interests when designing and implementing policies – and who pays the bill?

Formalisation processes have a cost for governments, business, farmers, and consumers and may hurt livelihoods and food security, particularly for the poorest. Political willingness and well-designed policies certainly matter but their implementation is still more crucial.

Formalisation is more than paying taxes or registering a business. But taxes do matter. Raising taxes and expanding the number of tax payers is a critical issue, and it is a significant challenge for countries in transition like Peru. Resource nationalism and demanding higher taxes from big business in the extractives sector is one approach, but it is not enough. However, raising taxes for all companies may be seen as impacting on their competitiveness. Formal businesses might be tempted to avoid paying taxes, arguing unfair competition, turning to more informal business models instead. Already, important agri-business groups have accused the government of promoting informality with their new fiscal regulations.

Paying taxes is certainly important if the state is to assure the necessary public goods, basic services and institutions, and law enforcement that supports people's well being and business activities. And programmes like Agroideas or APOMIPE could not have existed without an appropriate budget. Interviews with business and farmers' representatives reveal that many informal and even formal businesses prefer not to engage in written or legal contracts, due to the absence, inefficiency, or corruption of law enforcement institutions. Sustainability means assessing the burden of formalisation on the public budget over the long term.

Besides taxation, another sensitive issue for business in the agrifood sector is labour costs. In Peru, they are steadily increasing. Informal employment in agriculture may be key to the competitiveness of business. Many formal firms and cooperatives or less formal firms have profited from family and/or cheap labour. Any formalisation process in countries with high economic growth will have to tackle this issue. They will need to maintain a balance between supporting competitiveness and assuring formal employment with full benefits, better wages, and working conditions in this sector.

Restructuring the wholesale market and plans by markets like Unicachi to play a bigger role in guaranteeing Lima's food supply will have an impact on food prices – particularly for low-income consumers. The higher operation costs of the new Santa Anita market will have to be covered. So will the multiple requirements that other retailers wanting to sell in those markets will have to comply with. Whether this will be achieved by improving efficiency or transferring the cost to their suppliers, the farmers, or to consumers is something that requires further research.

5.3 Is gradual formalisation better for small-scale farmers?

Besides their deep-rooted mistrust of state institutions and authorities, small-scale farmers are known to be risk averse. Any programme attempting to persuade them to adopt more

formal structures and ways of working must proceed with care, so as to create confidence. For example, SUNAT's CSCI mechanism is supposed to be an incentive to formalise, but three years may not be enough to create the necessary trust for farmers' businesses to take the next step towards formalisation and create a service cooperative.

The APOMIPE programme has experimented with gradualism. It appears to have been effective, although its impact on the formalisation process in the medium term is still to be evaluated. But what is already proving successful about this approach is the emphasis on finding the right product, for the right market, and in the right place, and cuy production in Cajamarca is an example of how this works. Having a good product and a good market is important. Farmers will buy into the process if they see concrete benefits and not just more costs. And programmes like Agroideas only work with small- and medium-scale farmers because they have the potential to enter and stay in markets and become sustainable after an initial period of support.

Reducing the costs of formalisation – as many programmes around the world have done – is certainly important. But formalisation only makes sense where there are profits to be made as well as sustainable investment in more formal structures and relationships. Costs, benefits, and risks determine market choices and ultimately market inclusivity. In this sense, the formalisation process must add value to what informal relationships and transactions already offer. Production, life and health insurance, pensions, and tackling bribery and corruption could make a crucial difference.²⁴ These are some of the new demands made by farmers such as those in Cajamarca who have engaged in formalisation and competition, and illustrate the expectations farmers have of formalisation as an inclusive process.

Peru is in a strong position to face the challenges of ensuring that its economic growth supports a more equitable and inclusive society. The formalisation process could undoubtedly contribute. Both mindsets and behaviours are changing and Peru must also think of other challenges ahead. Demand from China and other emerging countries – which have contributed to Peru's economic growth – may slow down in the near future. Markets and investments need stability and trust, and a continuum in policies has secured political and economic stability over the last ten years. Peruvian society is also changing and has started to appreciate the benefits of stability and peace, and is more demanding and critical of authorities.

Peru has still a long way to go to establish a new social contract in which all will feel included. But there is strong potential. Further and comparative research is still needed to measure the impact of formalisation policies and mechanisms in agrifood markets from an inclusive development perspective. Such research would reveal important lessons on what works – and what doesn't – that may inspire others.

²⁴ Mexico's new government is planning to explore energy reforms and fiscal changes that could finance a social security reform, designed to reduce incentives for Mexicans to work in the informal economy, as one in two now does (Economist 2013).

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From survival to competition: Informality in agrifood markets in countries under transition

The case of Peru

In the context of rapid urbanisation, resource scarcity, and the need to assure food security and safety, it is important to look at the implications of informality in agrifood markets where the majority of people still produce and trade. This case study explores these implications through the lens of a country in transition. Peru is experiencing rapid economic growth and engaging in a formalisation process in a number of sectors. In the agrifood sector, this process can be seen at many points from production, trade, processing, and retailing, from mechanisms for small-scale farmers to enter demanding modern markets, to the formalisation of Lima's main wholesale market, La Parada. Despite its impressive economic growth, Peru remains among the six most informal economies in the world. Transiting from survival strategies to regulated competition is a highly contested process. This transition reveals the economic and social challenges that governments face when reforming markets in countries where informality is still deeply rooted in the economy and behaviours and where formalisation, to succeed, has to deal with real inclusion. The study, which forms part of a new body of research at IIED on informality in agrifood trade, aims to share ideas on the implications of formalisation policies, to invite discussion, and to highlight some promising pathways for more in-depth research.

The International Institute for Environment and Development (IIED) is a policy and action research organisation working to promote sustainable development – development that improves livelihoods in ways that protect the environments on which these are built. Based in London and working on five continents, we specialise in linking local priorities to global challenges. In Africa, Asia, Latin America, the Middle East and the Pacific, we work with some of the world's most vulnerable people to ensure they have a say in the decision-making arenas that most directly affect them – from village councils to international conventions.

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