

THE MARKETING COMPONENT OF ALTERNATIVE DEVELOPMENT



UNDCP PROJECTS IN PERU

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“Merely growing a new crop, without knowing how its product will be sold,
is a hobby and not a business”¹

¹ *The Australian New Crops Newsletter*. Issue nr. 10 (July 1998). Preface.

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Introduction

In the early years of Alternative Development (AD), the marketing component has not been totally ignored, but emphasis was placed on the *production* of alternative products. Nowadays, marketing has truly become a pivotal element of AD projects. However, little research has been carried out into this element. Being convinced, that marketing considerations should be part of the first phase of any AD project, a set of clear guidelines would be very useful to integrate marketing considerations in a proper way. The main question of this research therefore is stated as:

Is it possible to establish a set of marketing guidelines that can function as input in every Alternative Development project in Peru?

To limit the scope of my research, I have chosen to focus on Peru. The reason for this is that Alternative Development Projects in Peru are recently giving more and more attention to the marketing aspect. The Regional Expert Meeting that took place from 19 to 22 November 2001, where marketing was an important issue on the agenda, illustrates this recent emphasis.² However, it should be noted that findings on the marketing component of AD in Peru are likely to hold a certain value, when considering projects in other countries or regions.

There is no UNDCP report with marketing of Alternative Development as its central theme. Furthermore, there are no related documents offering clear and thoroughly explained guidelines and approaches to marketing. The guidelines I hope to provide will deal with the following underlying questions.

- 1) Which are the *main actors* (local, national or international) that can actively contribute to the marketing of Alternative Development products.

² Results from this expert meeting can be found in: Seminario Regional sobre Desarrollo Alternativo. Tarapoto, Perú (Noviembre 2001). Forthcoming.

- 2) Which *international institutions and agreements* should be considered when dealing with the marketing aspect of AD?
- 3) What role can *agro-industry* play to enhance the marketing component of Alternative Development projects?
- 4) Which are the *main constraints* that prohibit the proper marketing of AD products and the access to local, regional, national and international markets?

Methodology

The process of answering the first three underlying questions of this research will simultaneously lead to an answer to question four, and thus will indicate which constraints occur in the context of marketing AD projects. Together these four underlying questions will lead to a set of guidelines on the marketing component of AD projects, and thus provide an answer to the main question.

On the one hand, the research has been based on a continuous dialogue with UNDCP staff members at both the headquarters and the field level. On the other hand, it is based on the study of UNDCP documents (e.g. to reveal past experiences with marketing) and reports and publications by other organizations. Next to that, several books and the Internet were substantially used. The character of the research makes sure the report is very suitable as a starting point for further research in this rather complex matter.

Main Findings

- Alternative Development concentrates on *agricultural products*. These products are subject to extreme price volatility and often face a long-term downward trend in the price-level. These two facts form the main problem of the marketing component of Alternative Development projects, and have serious consequences for the long-term sustainability of the projects. The UNDCP goal of sustainable development is hard to achieve under these circumstances.
- *On a project-level*, it is essential that UNDCP projects utilize the preferential markets of the United States and the European Union, providing that their preferential trade agreements targeting countries with illicit drug cultivation (respectively the ATPA and the GSP) will continue to exist. These agreements change and develop which can affect the products used in Alternative Development projects. Developments surrounding both schemes should therefore be watched closely, and projects need the flexibility to adapt to changing circumstances.
- *On a product-level*, it is essential that projects utilize the product-based agreements that can positively affect the production and marketing of certain crops and products. Agreements like the International Coffee and the International Cocoa Agreements have to be taken into account when designing and executing projects. Again, these agreements tend to change and develop quickly, underscoring the necessity for a flexible response to changing circumstances.
- *Productivity and quality* are the twin pillars of achieving competitiveness and profitability, and thus key elements in assuring the sustainability of Alternative Development. Both productivity and quality are however problematic in many Alternative Development projects.
- Proper *agro-industrial and other post-harvest treatment* of produce is in most cases essential to obtain the necessary high quality. Improving the production process from

start to finish will in general influence the productivity of production and the quality of produce in a positive way.

- There is no coherent system of *marketing reports* surrounding UNDCP projects in Peru. Not every project has a substantial number of reports covering all aspects of marketing (e.g. product information *and* a proper analysis of international trade patterns).
- Given the adverse conditions of agricultural production, a move to *non-agricultural alternatives* is desirable, but this step requires thorough market research, and large-scale utilization is only an option in the long-term. Choosing and selecting consultants with a non-agricultural background may be an advantage when researching non-agricultural alternatives.
- Cooperatives, and other farmers' organizations are not only the *cornerstones* of AD projects in Peru, but are also responsible for *spill-over effects* outside their primary role of coordinating production and safeguarding quality (e.g. catalysts of rural development in general). Therefore, they are crucial elements when it comes to the marketing of AD products in Peru.
- Given the characteristics of most of the areas chosen for Alternative Development in Peru, often a marketing approach should initially solely concentrate on *local marketing structures*, before looking at national or international strategies and markets.
- *Flexibility is the key.* Successfully marketing AD products, means having a flexible marketing approach or marketing strategy that can easily adapt to changing circumstances (e.g. market structure, prices, demand et cetera). Flexibility also means being flexible between projects. No two projects are likely to require exactly the same marketing approach.

1. Background

Alternative Development (AD) is a strategy to counter the supply of illicit drugs. It can be described as:

“A process to prevent and eliminate the illicit cultivation of plants containing narcotic drugs and psychotropic substances through specifically designed rural development measures in the context of sustained national economic growth and sustainable development efforts in countries taking action against drugs.”³

The most important element of this definition is the sustainability of the process. If there is no sustainability in the context of economic growth and development, Alternative Development will not be able to present a long-term solution to the drug problem it wishes to target.

AD projects predominantly take place in remote and isolated areas, with limited or no governmental control. Consequently, it is a bottom-up approach that starts with the community and works its way up towards the national level. The ultimate aim is to integrate the remote areas into national development plans and into the national economy.

In Peru, UNDCP has carried out Alternative Development (AD) projects since 1985. These projects have mostly been concentrated around nine geographical areas⁴:

- 1) The Upper Huallaga region
- 2) The La Convención and Lares (Yanatile) region
- 3) The Apurímac-Ene valley
- 4) The Central Huallaga region
- 5) The Lower Huallaga region
- 6) The Pichis-Palcazu river and the Aguaytia river valleys
- 7) The Tambopata and Inambari valleys

³ United Nations. *Measures to enhance international cooperation to counter the world drug problem*, A/RES/S-20/4 (8 September 1998). Part E.

⁴ These areas are displayed in map 1 (page 82). This map is accurate, but does not show the distinction between projects in Central and Upper Huallaga

- 8) The Tingo Maria and Monzon Area
- 9) The Palmapampa Santa Rosa region

During the first year the central focus of projects was on the *production* of alternative products.⁵ The following years, *market potential* was first considered to be more important and nowadays of central importance. That does not mean that all UNDCP projects are fully aware of this importance. A quite recent mission to Apurímac in 1998, for example, was still told by local farmers that projects were solely concerned with production and ignored marketing.⁶ To judge such allegations, it is important to look at the history of marketing as part of AD seminars, meetings, conferences and projects. This will be done in the third chapter. First we will now look closer into the process of marketing.

⁵ UNDCP. *Report on Thematic Evaluation of Alternative Development in Peru* (Vienna 1997) 18.

⁶ UNDCP. *Report on Mission to Apurímac, Peru. January 13-17, 1998* (June 1999) 11.

2. Marketing

This chapter will start with an introduction on marketing, after which some important principles of marketing will be discussed.

2.1 Introduction

When farmers move away from self-sufficiency, they are confronted with markets and market demand. This means their products have to be adapted towards this demand. For example, a 1993 project in Peru states as project output: *“improved quality of the alternative products to meet market requirements.”*⁷

Four types of markets for alternative development products can be distinguished: local, regional, national and international markets. This distinction is important for Alternative Development:

*“Sobre todo era importante saber si estos productos alternativos tenían mercados a nivel local, nacional o internacional (...)”*⁸

AD products can have a market on one of these levels, but also on more than one level.⁹ The main problem for farmers is having or getting access to these markets. Looking at local markets, the problem of *access to the market* is often simply a problem of:

- 1) lack of transport infrastructures**
- 2) lack of communications infrastructures**

Both factors predominantly result from the fact that coca cultivation takes place in remote and dispersed areas. This is also the case in Peru, where former coca-cultivation areas are characterized by limited government involvement. Local production in these remote areas not only has to be adapted towards local market demand, but also has to be taken to these

⁷ UNDCP. Project Summary: AD/PER/93/749. *Consolidation of Alternative Development in the Valleys of La Convención y Lares, Department of Cuzco*. Part three.

⁸ Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Conceptos para un Desarrollo Alternativo Integral en Zonas Cocaleras del Perú. Actividades, Experiencias y Propuestas del Proyecto Aidia* (Lima 2000) 23.

⁹ However, it is possible that no markets exist at any or all of the three levels. This special case will be dealt with in further research.

markets. This can be very difficult without a good road system and proper means of communication. For example, an UNDCP project proposal, dating from October 1996, stresses the need for good roads as a precondition for competitiveness at consumer markets.¹⁰

Improving the infrastructure does not only facilitate the marketing of agricultural products and other goods; it also makes sure that government services (e.g. health care and education) are able to reach these remote areas.¹¹ Furthermore, it decreases the cost of transportation, which is regarded as one of the main barriers to the proper marketing of AD products.¹² This barrier is increasingly significant when targeting other than local markets. The increase in transportation costs causes the level of total production costs to rise. This has adverse effects on the degree of comparative advantage or competitiveness. On top of that, lack of infrastructure can decrease the choice of products available for AD products. For example, the production of perishable goods like fruits, fish or meat may simply be impossible, because transport takes too long.

Looking beyond local markets, and towards regional, national and international markets, infrastructure is indeed not the only problem. Additional problems for obtaining access to these markets can be summarized as:

- 3) Lack of information (markets, products, price, quality, supply and demand)**
- 4) Lack of credit facilities and investment (for distribution and planning)**

Firstly, regional, national and international markets are likely to have different supply and demand functions and a different level of competition. Access to information about these markets is more difficult to obtain for local producers. In general, they could lack the information about which products are highly demanded by these markets, and which product quality is desired to be able to enter the market successfully. Next to these problems, the producer can lack the necessary skills to switch to new types of produce, or to be able to produce the required high quality.

¹⁰ UNDCP. *Proposal for the Lower Huallaga Valley* (October 1996) 3.

¹¹ *AD Cooperation in East Asia*. 24.

Secondly, farmers lack the financial means to plan their production according to the demand of the market and to distribute their products to the market. Proper production and marketing requires at least some market research, investment in production inputs (e.g. fertilizers or pesticides) and means of transportation to the markets (e.g. carts, trucks or boats, together with the necessary fuel and staff). All these aspects have to be funded.

An additional problem when specifically targeting the international markets for products can be described as:

5) International uncertainty and risk

Although producing for local, regional and national markets harbours its uncertainties and risks (e.g. droughts, floods, crop diseases, and excess supply at the market), the international markets for products have additional sources of uncertainty and risk. For example, a sudden increase in productivity, quality or total output in another producing country might entail severe consequences for farmers in Peru. Another uncertainty worth mentioning is the dependency on importing countries. These countries might suddenly change their import policies, increase the quality or safety standards, or start promoting local production of a certain product.¹³ Such external factors can in the short-term render the Peruvian production of an export product non-profitable.

An interesting question in relation to this is whether it is better to focus on a national (including local or regional) market, or whether it is better to focus on international markets. Of course this partly depends on the character of the product chosen and the types of market that go with it. However, because product selection is a phase of the planning of Alternative Development projects, the choice of product can be connected to the choice of strategy (a national or an international outlook with export products). Normally, a national strategy focusing on local production is associated with less risk and easier access to information. This leads GTZ, a German development organization, to one of their recent recommendations that states that:

¹³ ITC. *Plan de Accion para el desarrollo de cultivos de sustitucion de la hoja de coca en la region Andina. Desarrollo Alternativo en Bolivia, Colombia, Ecuador y Péru* (July 1992) 100.

“Local production should (...) be adapted in order to first of all secure the food and nutrition situation of the target population. Local marketing structures (...) should be utilized and developed, and new regional and national markets should be accessed, before any export-oriented component is added-on – which for farmers would be more difficult to control and might be more risky.”¹⁴

This suggests that an international strategy should follow and complement a successful national production and marketing strategy, instead of being a strategy on its own.

¹³ The possible changes in a country’s policy meant here are changes compatible with the World Trade Organization’s rules. In other words: changes that are perfectly legal, and can not be countervailed by using retaliatory measures as described in the WTO legislation.

¹⁴ Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), *Drugs and Development in Latin America. Strategies, experiences, and project examples from the work of GTZ* (September 2001) 59.

3. Marketing precedents

Over the years, UNDCP developed a model for promoting Alternative Development in the Andean countries.¹⁵ This ‘Peruvian’ model has four strategic elements:

- 1) the creation or strengthening of *local organizations* around traditional or new crops
- 2) the improvement and diversification of production through *technical assistance* and extension, including grass-roots training to selected crops
- 3) the development of *agro-industry* for selected crops that secure added value
- 4) the *marketing* of a final product

Although the focus will be on the marketing element, it is important to note, that the first three elements (local organizations, technical assistance and agro-industry) all have an important link with the marketing aspect of Alternative Development. Local organizations are for example strongly involved in the marketing side of a project. This link will be dealt with in paragraph 4.1 on *cooperatives and other farmers’ organizations*. This paragraph will also deal with providing technical assistance to these actors. Agro-industry is a factor of demand for Alternative Development produce, and will be discussed in paragraph 6.

Although said four points clearly are of central importance to Alternative Development, I would like to add two other points, to arrive at a more complete picture:

- 5) *Infrastructure (roads, communication, energy)*
- 6) *Agricultural credit*

Both these points are partly covered by the first four, but I think they deserve the same emphasis. Both the existences of infrastructure and credit to finance production are necessary conditions for the success of Alternative Development projects. On top of that,

¹⁵ ODCCP Studies on Drugs and Crime. *Alternative Development in the Andean Area*. The UNDCP Experience. Revised Edition. (New York 2001) 69.

we will see below that these two conditions are also very crucial to the marketing component of Alternative Development.

UNDCP experience suggests that the marketing element should be a pivotal element of the AD strategy.¹⁶ For example, a report on AD in Peru states as one of the lessons learned:

*“Always consider marketing when working with alternative crops or livestock. Do not begin with production and ignore markets until later. Marketing should be a major consideration before trying to promote technologies. Marketing failures, especially early ones, have a high cost and will be used by opponents of AD to discredit it.”*¹⁷

Indeed, an essential part of AD is *providing* or *having* access to markets for alternative development products. The alternative economic activities of farmers and other persons who used to work in the coca industry need this access to obtain income.¹⁸ Farmers are generally concerned with the absence of markets for alternative crops and the long wait for any income from them.¹⁹ They need crops, which can obtain an economic yield capable of competing over a longer period of time with earnings from coca cultivation. We have to keep in mind though that developing agro-industry is also a way of providing farmers with a selling opportunity and providing non-farm jobs to other workers. The need for agro-industry however depends largely on the choice of product. Products like coffee do not necessarily require processing before being sent to markets, while palm heart does require processing.

The starting point of thinking about marketing should be the point in time when alternative crops are selected for AD projects; That is, at the start of the project’s planning phase.²⁰ One of the deficiencies found by an observation of two projects was

¹⁶ Ibidem. 40.

¹⁷ Thematic Evaluation. 13.

¹⁸ UNDCP. *Guidelines on Gender Mainstreaming in Alternative Development*. Final Draft (January 2000). 15.

¹⁹ James Painter, *Bolivia and Coca, a study in dependency* (London 1994) 118.

²⁰ UNDCP Programme Peru. *Evaluations carried out since early 2000 (Project AD/PER/B58 and PER/98/939-S)*. 7.

insufficient preparation of these projects.²¹ Here, marketing studies are indeed presented as a basic principle before undertaking any action on the ground.²²

The most recent event where marketing was discussed in the context of Alternative Development was the Regional Seminar on AD Cooperation in East Asia.²³ Although the region has very distinct cultural and geographical features, the overall marketing context is similar to the situation in Peru. This means, that the results of the Regional Seminar deserve consideration. The following section will look more closely at the results of this seminar.

3.1 East Asia

The main strategies on marketing (as found in group discussions during said seminar) can be summarized in four points²⁴:

- 1) Marketing is a major concern, which should be considered by all projects.
- 2) The project should only facilitate and support marketing, but not be a marketing agency.
- 3) Incorporating food processing and other value-adding activities in marketing should be considered.
- 4) Market research should be given special attention and any introduction of new AD products should be based on sound research.

These points deserve a proper analysis. The first point states that marketing is very important and should be considered by all projects. This is very clear, and also the main axiom of this report. The second point is more interesting and has important implications. If UNDCP should not function as a marketing agency, it means it has to support or create units that *do* execute the marketing strategies. Considering the bottom-up character of

²¹ Ibidem 7.

²² Ibidem.

²³ This Regional Seminar was held from 16-19 July 2001. All information about the seminar can be found in: UNDCP, *Alternative Development: Sharing Good Practices, Facing Common Problems. Alternative Development Cooperation in East Asia* (Bangkok 2001).

²⁴ These points are directly taken from the book on the seminar (see note 23). Page 153 and 154.

AD projects, these units are likely to be local experts or members of local organizations. In East Asia local organizations are indeed dealing with marketing. The kind of local organizations dealing with marketing differs strongly across countries. In Vietnam, for example, NGOs carry out marketing; in China private corporations and manufacturing plantations, while in Thailand so-called Administrative Councils promote marketing.²⁵

The third point of the seminar guidelines illustrates the close connection between marketing and agro-industry (point 3 and 4 of the UNDCP model on Alternative Development on page 17). This connection will be dealt with in more detail in paragraph 6 where agro-industry is discussed in the context of marketing. During the East Asia Seminar, some of the project presentations touched upon experiences with processing of AD products. However, no guidelines were established concerning best practices of processing or post-harvest technologies.

The fourth and last point concerns market research. Since the East Asia Seminar dealt primarily with research on overall AD practices, no guidelines were established concerning market research and no details on specific market research strategies were discussed.

The East Asia Seminar illustrates the fact that up to very recently, the marketing component has been given more importance, but was not dealt with in detail. It was treated as a very important aspect of AD projects, which deserves more research and consideration. In the next paragraph our focus will be on Peru, and on the past and present situation of marketing as part of Alternative Development in this country.

3.2 Peru

UNDCP has a lot of experience with Alternative Development in Peru. This paragraph will examine if this experience includes a thorough set of marketing principles and strategies. The main focus will be on recent AD project, since this will increase the usefulness and accuracy of this report.

²⁵ The UNDCP Regional Centre in Thailand provided this information.

3.2.1 Experience

A good starting point for looking at UNDCP's experiences with marketing is the "*Thematic Evaluation of Alternative Development in Peru*" dating from 1997.²⁶ This evaluation report was produced with the aim to assess the long-term impact of Alternative Development efforts in terms of reduction of illicit crops.

3.2.1.1 Agricultural diversification

One of the most important marketing related findings of said report is that:

*"On the economic side, project-introduced product lines are viable and profitable, but sustainability over the longer-term depends on world market prices. (...) Attention needs now be given to risk avoidance, probably through diversification as a hedge on market-price volatility."*²⁷

World market prices are important in two ways. Firstly, export products produced by Alternative Development projects directly face this price, and need to be profitable at this price level. Secondly, AD products intended for the national market face competition from foreign products that can be bought at the world market price of a product plus any import tariffs. World market prices have been relatively low for agricultural products, and have been experiencing a downward trend. This is very important because most Alternative Development products fall in this category. Moreover, the world price for such products tends to fluctuate substantially, which creates short-term uncertainty and risk for Peruvian producers. Partly this uncertainty and risk can be (as stated in the above quotation) avoided by *product diversification*. This can be regarded as the first marketing principle of AD projects in Peru (see table 1 for a list of the marketing principles found in most UNDCP projects in Peru). A recent project states as one of the objectives to be reached at the end of project:

²⁶ UNDCP. *Thematic Evaluation of Alternative Development in Peru* (Vienna 1997).

²⁷ *Ibidem. Executive summary.*

“Se ha diversificado la estructura agrícola de la zona, prioritariamente, en base a cultivos permanentes (2.850 ha. de cultivos de cacao, café, pijuayo, palma aceitera, marañon y acerola) beneficiando a 2.900 familias.”²⁸

Through a process of agricultural diversification, it is certainly possible to avoid sudden market collapses of specific agricultural products. The first thing to keep in mind here is that agricultural diversification only makes sense when it is part of national agricultural or developmental plans. In other words, agricultural diversification can only fully reap its benefits when the national level supports it. For example, diversifying towards another crop is less beneficial when most areas in Peru are making the same move.

An example of agricultural diversification can be found in a recent project in the Apurímac Valley.²⁹ Here not only production of coffee and cocoa was promoted, but also the production of citrus fruits, and the keeping of bees and black-belly sheep.³⁰ Of course the ability to diversify production successfully depends on market or feasibility studies and pilot projects. Project AD/PER/98/D96 in the area of Inambari and Tambopata, for example, developed feasibility studies for agro-processing, baseline studies for production and pilot modules for bee and sheep keeping.³¹ The outcome of these activities determined the way in which the project developed, and thus how agricultural diversification was carried out.

However, such agricultural diversification does not present a solution to the structurally low prices and long-term downward price trend for agricultural or agriculture-related products in general. Therefore it is also necessary to diversify outside the agricultural sector. This has not been done on a large scale by UNDCP projects. There are some experiences with woodworks and handicrafts, but these experiences are relatively thin.

An additional advantage of product diversification in general is that the negative environmental effects of having a mono-culture (as experienced under coca cultivation) can be avoided. The main negative effects are soil erosion and declining fertility.

²⁸ UNDCP *Project document AD/PER/99/D05 Alternative Development in the lower Huallaga valley*. 17

²⁹ Project PER/98/D04. *Alternative Development in the Apurímac Valley* (started 1998).

³⁰ *Business Plan Peru*. Project PER/98/D04. Background, part c.

The last point worth mentioning is that product diversification is often combined with a strategy of having a *flagship crop*. This means that the project is concentrated around one major cash crop, but that additional crops are used because of the benefits described above. In Peru, the flagship crop has normally been coffee or cocoa, which will be dealt with in chapter 9.³² The strategy is often used on big farms that concentrate on export-products.

3.2.1.2 Quality of products

One of the conditions mentioned by UNDCP for the success of AD is the existence of stable prices.³³ This contradicts with the long-term downward trend and enormous price fluctuations mentioned above. These market conditions are not very likely to produce stable prices.³⁴ A way used by UNDCP projects for getting grip on the adverse market conditions is to make sure the **quality** of the Alternative Development products is as high as possible. Ensuring a high quality is especially important for export products, but is due to competition from foreign products, also applicable to the national market.

To increase the quality of products, it is essential that farmers improve the pre-harvest phase of production. This can be illustrated by pointing to palm heart. The quality (and thus the price) of palm heart is determined by the length and the color of the products.³⁵ The palm hearts that are ivory white get the highest prices. This means farmers have to design and improve the production process in a way that suits the demand of consumers for this kind of palm heart. Producing lower-quality products for export markets will most likely not be sustainable in the long-term.

For most agricultural products, a second very important way to increase the quality is to improve the post-harvest phase of production.³⁶ This means offering farmers the relevant techniques and skills to improve the final stages of the production process and thus the quality. As such, it is part of the second strategic element of the Andean

³¹ UNDCP, Internal Office Memo. Subject: *AD/PER/98/D96. Desarrollo Alternativo del Inambari y Tambopata* (12 January 1999).

³² UNDCP. Report on Mission to Apurímac, Peru (January 13-17, 1998). 12.

³³ UNDCP. *Informe final de sistematización del proyecto de desarrollo alternativo de los valles de La Convención y Lares* (September 1995) 46.

³⁴ Stable prices can however be offered to producers by using guaranteed prices (for example in the case of Fair Trade Organizations).

³⁵ ITC. Heart of Palm. Export opportunities for the Andean region (January 1993) 5.

model for Alternative Development (the improvement of production through technical assistance and extension). For example, in the early 1990s, the quality of most Peruvian cocoa was very poor due to insufficient fermentation and poor drying.³⁷

However, it should be noted that some means to improve the pre and post-harvest phases of production might simply not be available. Farmers may, for example, not have the right type of agro-chemical products that ensure a higher quality for agricultural products. Moreover, the ecological and climatic characteristics of a certain area may simply not be suitable for the production of high-quality products.

3.2.1.3 Productivity

Low productivity is a problem often found in Alternative Development projects in Peru. This can be illustrated by the Peruvian Business Plan, which states as one of the expected results of Alternative Development projects in six areas an increase in the productivity of both “capital” crops and quick-cash crops by 80 to 200 percent between 1999 and 2003.³⁸ If such a substantial increase is desired, it means the productivity at present is far from economically viable. It indicates that there is room to substantially cut costs to increase competitiveness. Normally, however, such drastic increases in productivity depend again on the technical support given to the farmers.

Another example is project AD/PER/96/B62 in the area of La Convencion and Lares. A project evaluation report shows clearly the enormous fluctuations in productivity concerning the production of both coffee and cocoa between 1989 and 1996.³⁹ The conclusion is that in general such fluctuations in productivity deserve the same attention as low productivity in projects.

3.2.1.4 Agro-industrial transformation

We have already seen that agro-industry is potentially a good way to increase value-added of a product. Moreover it can create market possibilities for farmers, and employment opportunities for other people. Recent project documents mention having a

³⁶ Ibidem. 50.

³⁷ ITC. *Cocoa. Production and grindings in Peru* (May 1992) 7.

³⁸ UNDCP, *Business Plan Peru* (September 28, 1998) Drug Control Objective.

high product quality as a precondition for successful marketing, and improving post-harvest treatment as a way to achieve this high quality level.⁴⁰ Chapter 6 will deal more thoroughly with the agro-industrial component of Alternative Development projects, and with the problems and possibilities it encompasses.

3.2.1.5 Commercialization structures

The marketing of Alternative Development products in Peru requires commercialization structures. They can be considered as being part of the need for infrastructure. However, they represent a more specific function to the production process, compared to, for example, good roads and the supply of energy. As an example, the need for collection centres can be mentioned, to collect the products from the farmers and prepare them for transportation to the markets. There is, however, a close link between both types of infrastructure. A recent publication by UNDCP about the Andean region mentions that:

*“AD must include as a priority in its programmes the construction or rehabilitation of internal communication links which provide minimum transport facilities between the farms and the collection centres (rural roads and local roads).”*⁴¹

In general, commercialization structures facilitate the marketing process. As such creating or improving them should be part of an optimal marketing strategy.

In areas where agro-industry exists, the production plants can in themselves be regarded as being part of the chain of commercialization structures. Firstly, they often obtain the supply of raw material from collection centres. Secondly, the final product that rolls out of the plant requires similar collection centres to arrive at the desired market.

³⁹ UNDCP, *Impactos del proyecto AD/PER/96/B62 en el valle de la Convencion y Lares* (27 February 1997). Cuadro 4 y 5.

⁴⁰ UNDCP. *Project document AD/PER/99/D05. Anexo VI.*

⁴¹ UNDCP, *Alternative Development in the Andean Area. The UNDCP Experience. Revised Edition* (New York 2001). 45.

3.2.1.6 Credit centres

Credit centres can be regarded as locally based banks or financial institutions that facilitate the production and marketing of Alternative Development. In Peru, they often facilitate the funding of production and marketing, by arranging and managing so-called *rotating funds*. These funds intend to smoothen the production cycle, by making sure the farmers have enough credit in advance to make the initial necessary investments required for proper cultivation. UNDCP project documents often mention the project activity of evaluating, improving or creating such credit centres.⁴² It is especially important that there is a close link between these credit centres and the cooperatives UNDCP works with in the projects.

In most UNDCP project documents, the financial side of production is treated as being part of a system, together with the gathering, storing and marketing of the farmers' products. As one of the desired results of projects, it is often described as:

*“Está implementado un sistema de acopio, comercialización y financiamiento de la oferta agropecuaria de los beneficiarios del Proyecto.”*⁴³

The implementation of such a system can thus be regarded as a central element of the UNDCP strategy in Peru. The development of such a system is not easy. Therefore, most projects in Peru still rely on UNDCP funding, and internal funding of most projects still seems to be far away.

3.2.1.7 Strengthening the marketing and management capacities of cooperatives

Alternative Development projects are normally limited to a couple of years, which means the local people and organizations have to be stimulated and often taught to deal themselves with the marketing and management sides of the project. Because cooperatives are the dominant and central actors in AD project in Peru, it is a

⁴² See for example: PNUFID, *Proyecto AD/PER/99/D05. Proyecto de Desarrollo Alternativo del Bajo Huallaga. Plan Operativo. Enero a Diciembre de 1999*. 16

⁴³ See for example: PNUFID, *Proyecto del Gobierno del Perú. Documento de proyecto AD/PER/98/D06*. (April 1998) 30.

straightforward step to make sure these organizations are able to play these roles. As already reflected upon, this step is one of the central elements of AD projects in Peru. Securing the long-term sustainability of the projects means utilizing and strengthening the marketing and management capacities of cooperatives.

Table 1 summarizes the marketing principles found above.

Table 1. Marketing principles found in most UNDCP projects in Peru

- 1) Product diversification
- 2) Quality improvement
- 3) Productivity improvement
- 4) Increasing value-added through agro-industrial transformation
- 5) Improving or establishing commercialization structures (e.g. collection centers)
- 6) Improving or establishing credit centers
- 7) Strengthening of marketing and management capacities of the cooperatives

3.2.2 Marketing opportunities

If one considers the success of fair-trade products (more on this in paragraph 8.1.2) it is a very small step towards thinking about marketing Alternative Development products under a fair-trade brand. This strategy, however, requires substantial market research into the possibility and profitability of such an action.

One interesting step further is creating a new brand that only incorporates Alternative Development products. This is a very interesting option if there appears to be a market for such products. An example would be promoting special Peruvian Alternative Development coffee or cocoa. The success of such a strategy depends in the first place on promoting Alternative Development. If consumers are unaware of Alternative Development projects in Peru or Alternative Development in general, they are not very likely to buy products that support these efforts.

However, the idea definitely has a certain appeal. The branded products may present consumers with a more specific idea of what their money actually supports, compared to regular fair-trade products, which often just mention the general benefits to farmers in developing countries. On top of that, special Alternative Development products have the ability to be promoted by pointing out a clear link with the consumer countries, due to the fact that the drug problem does not only affect drug producing developing countries (just think about the drug abuse problems many countries face).

A negative aspect may be that creating a new Alternative Development brand, and thus creating a new line of products next to the traditional Fair Trade products, may cause uncertainty with consumers.

3.2.3 Expert Meeting Peru

Although the full UNDCP report on the regional expert meeting in Peru is forthcoming, a few points about the meeting can be made here. As stated before, marketing was one of the main points on the agenda, next to the equity (or poverty) issue, which will be dealt with in the *further research* section at the end of this report. Which elements of the marketing component were discussed at this venue? Firstly, all four components of the ‘Peruvian’ model of AD were discussed (see page 17). With regard to farmers’ organizations, a proposal was made to set up associations of farmers’ businesses, with the aim to reduce costs and improve the commercialization of the products. It was again stressed that the farmers’ organizations should be *competitive at the market* and *sustainable through time*. Two elements can assure this: High productivity and high quality. These two factors can be found in all documents of the meeting.

Secondly, with regard to marketing itself, it was stressed that the requirements of the markets (e.g. characteristics and quality of the products) should be a pivotal element of the marketing strategy. Thirdly, the importance of sustainability was stressed. Sustainability is very problematic with fluctuating prices and (in some cases) non-existent agricultural policies. For example, one document referred to the ‘Andean crisis of coffee’ with excess supply, low market prices, low productivity, and strongly varying

levels of quality.⁴⁴ The problems facing coffee production will be more thoroughly dealt with in chapter 8.1. Part of the meeting's proposals was offering the farmers technical assistance, which should improve the quality and efficiency of production. The processes of improving or developing agro-industry and infrastructure were considered as necessary additional measures, which also will be able to counter the adverse conditions of the market. Again, more on the results of the expert meeting can be found in the forthcoming final report.

3.2.4 Towards a project-based marketing approach

While reading through the project documents of Alternative Development projects in Peru, I started to draft a marketing approach containing steps that are (or should be) taken in every project. My research did not come across such an approach, and the staff members at both the headquarters and field level whom I contacted were not aware of the existence of similar lists already available. The project-based marketing approach presented in table 2 should however not be regarded as final, but as a starting point for further specification and description to arrive at the most accurate approach possible, and that includes all necessary steps, regardless of the region or country the projects are taking place in. Furthermore, it should be noted that any marketing approach should be flexible. This means the phases should not be seen as a strict schedule that requires every next phase to follow the previous one. Some can be taken in reverse order. Others can be omitted in certain cases. The order given is what in my view looks like the most logical sequence of phases.

The first phase is the *area selection phase*. Selecting areas suitable for Alternative Development is often done by or in cooperation with the Peruvian government. This is important, because the ultimate goal of Alternative Development is integrating or reintegrating these often-remote areas in the framework of the state.

The second phase entails *the selection of beneficiaries*. This poses several problems. The history of UNDCP projects shows that normally farmers are selected, who already fulfill certain criteria. This often means having a substantial piece of land, and

⁴⁴ Carlos Gustavo Cano, *La crisis del café en la región Andina dentro del marco del Desarrollo Alternativo: Una propuesta* (14 de Noviembre del 2001).

some necessary resources to work with. The reason for choosing such a predefined kind of farmer or farm is the need for UNDCP to maximize chances of success and to produce results in the short-term. The consequence is that some farmers cannot benefit directly from Alternative Development projects. They might benefit indirectly by either enjoying newly built infrastructure, like roads, supply of energy and schools, or by being able to work on one of the farms (or in the agro-industrial sector for that matter) that *is* included in the project. However, since the selection phase can be rather discriminatory and biased towards the farmers that are already a bit better off than others, it raises the *equity issue*.

The third phase is the phase where *environmental, ecological and climatic research* is conducted or information is collected about the chosen area. This hopefully provides the right kind and amount of information that is necessary to have a good starting point for the cultivation process of a project. The research can be carried out by local experts with a thorough knowledge about the area, or by external consultants, specialized in one of said areas. This research is normally a necessary step before being able to start the next phase.

The fourth phase entails *product selection*. It is closely linked to the third phase, because the environmental, ecological and climatic conditions of the area partly determine the available choice of product. Roughly, there is a choice between cultivating traditional products and cultivating crops new to the area. Traditional crops may in some cases have advantages because the relevant skills necessary for production might be available, or past production has shown the crop to be very suitable to the area. New crops however offer the chance to achieve product diversification, and to avoid having the same products in all areas. Cultivating new crops may also present farmers with the opportunity to profit from emerging markets.

The next phase in the market approach presented here is concerned with the *identification of the markets available* for the product(s) chosen, and also deals with the question whether there may indeed exist emerging or *niche* markets available to a certain product. This phase should therefore also be used to think of creative (new) ways of using the product, instead of just making use of established markets. As such this is the first phase where actual marketing considerations enter the process.

The sixth phase is concerned with identifying the legal policy framework. This research shows that this is a crucial step in the marketing of Alternative Development products, especially when products are chosen that have profitable export opportunities. Attention should be given to all national and international regulations that in any way affect the production, transport and marketing of a product. This ranges from international trade rules that prohibit certain production or transport methods, to preferential trade agreements from which the product might be able to benefit. A proper evaluation of the *legal and instrumental landscape* found concerning a specific product, may result in the opinion that national or international conditions are very favorable to the cultivation of the product in Alternative Development projects. On the other hand, the legal policy landscape might produce so many obstacles and adverse conditions that project design has to start over again from the product selection phase. If the result of the evaluation is on average positive, the next phase can be approached.

This *profitability analysis phase* is in contrast to the more *macro* approach of phase six, more *micro* orientated, dealing directly with the costs and returns expected throughout the project. The legal policy landscape found in phase five surely has to be included, but should now be translated in actual costs and benefits. As such, this is the second test in which the long-term profitability of using certain products in a project has to be assessed. If this assessment results in doubts or negative expectations about the long-term profitability, again returning to the product selection phase may be a good idea. This also gives the project the opportunity to compare the expected results of different products, and to choose the best product for subsequent cultivation.

When a product or set of products are chosen, it is time to look into the matter of which local, national and international *actors* to work with. This may entail looking at the main local cooperatives connected to the product, establishing producer groups if none exist, establishing connections with certain national government bodies (e.g. the Ministry of Agriculture) or establishing connections with international import agencies. In other words, this is the phase where production, funding and marketing matters concerning the product are actually distributed among different agents that should be carefully selected.

The last phase before actual production or cultivation is started is a *pilot or test phase*. This can be regarded as the last real test before the project commits itself fully to

the cultivation of a specific crop. Assessing a pilot phase can however be very difficult, because production or marketing conditions can change rapidly. With some crops, it also takes several years, before a good judgement can be made concerning the success or profitability of production. Notwithstanding these drawbacks, pilot phases are crucial to the long-term success of Alternative Development projects.

Table 2. Project-based marketing approach (10 phases)

- 1) Area selection
- 2) Beneficiaries selection
- 3) Environmental, ecological and (agro)climatic research
- 4) Product selection (traditional or new crop)
- 5) Identification of existing or possible new (niche) markets for product
- 6) Identify the legal policy framework
 - International and national trade rules (e.g. WTO, regional trade blocks)
 - Preferential Trade Agreements that can be utilized
- 7) Profitability analysis
 - Planning costs
 - Production costs
 - Harvesting costs
 - Transportation costs
 - Expected returns
 - Expected net benefits from the legal policy framework
- 8) Identify contributing actors
 - Production actors (cooperatives, sector committees)
 - Marketing actors (market experts, consultants, trade organizations)
 - Financial actors (donors, financial institutions)
- 9) Pilot phase
- 10) Actual production phase

4. Main actors

It is important to know which actors are likely to play the central role in the marketing of Alternative Development products. Because most AD projects are undertaken in areas outside the control of the central government, local actors are playing an important role. This section will deal with local cooperatives, but also with the role of consultants and Fair Trade Organizations.

4.1 Cooperatives and other farmers' organizations

Farmers' organizations are crucial to Alternative Development. The main examples are sector or producers' committees, cooperatives and farmers' associations. Several UNDCP reports state that it is not possible to have AD without using these locally based community organizations.⁴⁵ In Peru, UNDCP has predominantly worked with cooperatives. Therefore, the main focus here will be on these organizations.

Cooperatives are a type of producer group. In general working together in producer groups has the following advantages and disadvantages in the context of marketing⁴⁶:

Advantages:

- 1) A *greater volume* of a product can be marketed.
- 2) The farmer's *bargaining power* is increased. As a whole, the group has a better bargaining position confronted with buyers.
- 3) *Costs* can be shared. This includes costs arising at all stages of the production process up to distribution. In the context of marketing it is important to note that *market research costs* can be shared *and* product promotion can be enhanced though *shared costs of promotion*.
- 4) *Risks* can be shared. This includes the risk of a supply downfall caused by crop diseases or adverse weather conditions.

⁴⁵ See for example: Jim Jones and Bernhard Amler, *Thematic Evaluation of Alternative Development in Peru. Draft* (March 4, 1997) Some Findings and Conclusions.

⁴⁶ The presented lists of advantages and disadvantages are certainly not complete or exhaustible. The different elements are chosen from a marketing perspective.

Disadvantages:

- 1) Loss of independence. Farmers depend more on the strategies of the group and on the commitment of other farmers.
- 2) Loss of flexibility. The larger the size of the group, the more complex the processes of decision making and taking action will be.

Peruvian farmers are generally organized in cooperatives or producers' committees. The reason for UNDCP to work with these organizations has often been the simple fact that there were no alternative structures to work with.⁴⁷ In most cases, the cooperatives were found to be very ineffective organizations.⁴⁸ Working with them thus implied trying to assist the cooperatives in being more efficient and profitable. This falls under the first element of the Peruvian model of AD (Strengthening local organizations). One of the specific objectives of Alternative Development strategies has become enhancing the *marketing and management* capacities of these cooperatives.⁴⁹

Four functions of the cooperatives can be highlighted as being important for the marketing component of Alternative Development⁵⁰:

- 1) Offering *services* for the commercialization and export of its members' agricultural products.
- 2) Promoting the *development* and improving the *quality* of productive activities and agro-industrial transformation.
- 3) Offering technical assistance, *credit*, sale of fertilizers and equipment in support of its members' agricultural production.
- 4) Administering and channeling resources from international and national institutions to finance cooperative activities.

⁴⁷ UNDCP. *UNDCP Participatory Approaches in Alternative Development. The role and Performance of Farmer's Organizations*. Final Report (August 2001) 29.

⁴⁸ Ibidem. 28.

⁴⁹ UNDCP. Project Summary: AD/PER/95/939. *Alternative Development in the Apurimac-Ene Valley. Strategic Orientation Phase*. Part two.

⁵⁰ These four elements are chosen out of a list of main functions found on page 29 of August 2001 Report on *Participatory Approaches*.

This shows that cooperatives have a role, throughout all the stages of a project. They have to arrange funding, give technical assistance and credit to the members, and guide the production and marketing stages of the projects. Moreover, they function as a forum where project beneficiaries can address their problems and obtain information. Thus, the cooperatives take up many of the roles governmental organizations play in other regions where they are present (e.g. the role of organizing the community).

For the marketing stage, it is important to know that UNDCP in Peru normally promotes or establishes a local marketing expert or coordinator inside the cooperatives. In general, the use of local people is very important for the success of Alternative Development projects. However, for the marketing component, it is essential that these local marketing agents are aware of national and international factors that influence the project.

A last point worth mentioning is that leading cooperatives not only function as a supply of technical advice and information to their members, but can also transfer knowledge and marketing information to other cooperatives. An example of this extra benefit, is the leading role the *Central de Cooperativas Cafetaleras en La Convención y Yanatile* (COCLA) plays with regard to other associated cooperatives in the area.⁵¹

4.2 Marketing consultants

In the framework of this research two different kinds of consultation were found. Firstly, there are the individual consultants that normally travel to the field to directly observe the situation and come up with some suggestions and conclusions depending on their mandate. UNDCP has a long tradition of employing such consultants to directly support the projects at the field level. They normally are experts on specific topics, ranging from the cultivation of certain crops or the marketing component, to agro-industrial transformation. These consultants not only provide UNDCP with an impression of the status of specific projects (by indicating weaknesses and possible improvements), but can also personify the transfer of technical knowledge and information to the farmers or cooperatives. **Project AD/PER/98/D05** in Lower Huallaga gives us a good example of the benefits of these consultants. Around this project, one consultant wrote reports about

⁵¹ UNDCP, Project Review Committee. *Outline of a project idea* (15 March 1996) 3.

the specific possibilities of certain products and the *technical packages* needed to assist farmers to reach a high quality.⁵² At more or less the same time, another consultant wrote about the agro-industrial possibilities of some products, and drafted a manual on the right ways to process several tropical products.⁵³ Similarly, a third consultant wrote about the characteristics and operational mechanisms of a coffee cooperative in the area.⁵⁴ Separately these reports are very useful to streamline and evaluate this project. Together, they are able to develop a coherent system of technical information concerning a project. Technical information about obtaining high-quality products by using a certain way of harvesting should, for example, be passed on to the relevant cooperatives. The information is, however, also useful for processing plants, because the quality of the final product depends for a large part on the quality of the raw materials delivered to the plant. This underscores the fact that individual consultations should not be treated as stand-alone documents about a certain aspect of a project, but should be treated as beneficial to all aspects of the project.

Secondly, there are the marketing reports that are not produced by individuals on the ground, but by outside organizations. The main example found here are the reports of the International Trade Centre. This organization only worked with UNDCP in the early 1990s. It produced a general report concerning the export opportunities of Andean countries in relation to the United States and the European Community, an Alternative Development action plan and several reports about the marketing possibilities of specific agricultural products ranging from pepper and peanuts to palm oil and cocoa.⁵⁵

⁵² Consultant: Ing. Daniel Segovia Medina in: UNOPS-UNDCP, *Proyecto AD/PER98/D05. Desarrollo Alternativo del Bajo Huallaga. Diagnostico y zonificacion de la actividad cafetalera en las cuencas del Bajo Mayo y Sisa* (March 1999).

⁵³ Consultant: Ing. Wilfredo Flores del Valle in: UNOPS-PNUFID, *Proyecto de Desarrollo Alternativo del Bajo Huallaga AD/PER/98/D05. Estudio de desarrollo de la agroindustria de frutas tropicales en el Bajo Huallaga* (April 1999).

⁵⁴ Consultant: Ing Hiderico Bocángel Zavala in: UNOPS – PNUFID, *Proyecto AD/PER/98/D05. Diagnostico socialempresarial de la Cooperativa Agraria Cafetalera Lamas Ltda* (May 1999).

⁵⁵ The general report on market access to the European Community and the United States is listed in the reference section at the end of this report, along with three specific reports covering palm oil, palm heart and cocoa. The other report mentioned is: ITC. *Plan de accion para el desarrollo de cultivos de sustitución de la hoja de coca en la region Andina* (July 1992).

4.3 Fair Trade Organizations

The aim of this paragraph is to investigate whether Fair Trade Organizations can actively contribute to the market potential of Alternative Development products. After a short introduction, the possible connections between Fair Trade and Alternative Development are discussed.

4.3.1 Introduction

A Fair Trade Organization can be described as an organization that buys certain products directly from farmers, at a fair price, and sells these products or their derivatives under a special Fair Trade brand. The aim is to increase the standard of living for farmers and producers, by increasing the price the consumers have to pay for a product. The necessary condition therefore, is that many consumers are willing to pay the higher price, and appreciate the aims of Fair Trade that cause this higher price.

Experiences with Fair Trade have been positive. For example, when coffee farmers in developing countries enter into Fair Trade Agreements directly with importers from the United States, they are given a guaranteed price of 1.26 dollar per pound.⁵⁶ That price level is far higher than the normal price, which is fluctuating, but below 60 dollar cent, of which the farmer only gets about 20 to 30 percent.⁵⁷ That means that farmers who grow certified Fair Trade coffee see a significant rise in income.

The main problem of Fair Trade products derives from the higher price consumers have to pay for the products. This would normally be no problem if the price for the normal variant of the product would remain the same. However, with the recent slump in the price level of, for example, normal coffee, the Fair Trade alternative relatively becomes even more expensive. Some consumers are probably willing to pay a higher price, because of the obvious reasons connected with Fair Trade products (providing a fair income to the farmer), but there will be a price-limit, over which consumers will return to normal products.

⁵⁶ US Congress. *Press Release. Switch to "Fair Trade" Coffee Clears First Hurdle. Sampling Period Set to Begin Next Week* (10 August 2001).

⁵⁷ *Ibidem*.

4.3.2 Fair Trade and Alternative Development

Let us look again at the model of Alternative Development. It had the following components (including the two I added myself): 1) The creation and strengthening of local organizations, 2) the improvement of production through technical assistance and extension, 3) the development of agro-industry, 4) the marketing of a final product, 5) the necessity of infrastructure, and 6) the necessity of agricultural credit. Fair Trade Organizations can directly or indirectly benefit all these components. First, the direct links will be discussed.

Firstly, Fair Trade Organizations (FTO's) deal directly with local organizations and are in some cases setting up cooperatives, linking them directly to coffee importers. The reasons for working with cooperatives are mainly derived from the same advantages as described in paragraph 4.1 (e.g. more access to credit, reducing raw material costs, and establishing higher prices for their products). Secondly, most FTO's give technical assistance to farmers involved in the production. Thirdly, because FTO's link cooperatives and farmers' organizations with importing companies, it takes care of the marketing of the product. On top of that it gives producers market information, so that they can better adjust their produce towards the market. Lastly, the FTO's give financial support to the cooperatives. This can take the form of direct loans, prepayments or a linkage with other sources of financing. Prepayments are especially important, because they assure that farmers have enough funds to cover inputs of the production process, but also to cover the costs of basic needs during production time.⁵⁸

Indirectly, FTO's can also benefit the remaining components (infrastructure and agro-industry). For example, Fair Trade projects have experienced that the farmers themselves reinvest their increased profits in community projects such as health clinics and education. As such, the projects can function as a catalyst for rural development in general.

⁵⁸ Free Trade Foundation. *Principles and Practices. Financial and Technical Support* (15 June 2000).

4.3.3 Opportunities

The main opportunity for Fair Trade Coffee at present is the recent trend at the supply side of not only selling packages of coffee and coffee beans for home use, but also providing Fair Trade certified coffee as a brewed beverage. In 2000, the Starbucks Corporation entered into an alliance with Trans Fair USA to market and sell Fair Trade certified coffee in more than 2,000 coffeehouses in the United States.⁵⁹ The powerful lobby in the American House of Representatives to switch to Fair Trade coffee can furthermore illustrate the growing demand for this new application of the product.⁶⁰ If this new trend continues, it might offer an increase of demand for Fair Trade coffee over at least the median term.

⁵⁹ See the website of Starbucks at <http://www.starbucks.com>.

⁶⁰ United States Congress. *Press Release. Lawmakers urge switch to "Fair Trade" coffee in House of Representatives* (8 August 2001).

5. International Institutions and Agreements

This chapter presents those international institutions and international agreements that can enhance the marketing component of AD Projects. There may be other international institutions or agreements, which can have a positive (or negative) effect on marketing as a central strategy of AD projects. Here, because of a tight time schedule, I present those that are according to me most important in a marketing context. Some of the institutions mentioned do not seem to have a direct connection with UNDCP (or with AD for that matter), but they are listed to avoid investigating them again in the future or to point out any possibility of future collaboration.

5.1 Preferential Trade Agreements concerning illicit drug cultivation

Peru's major trading partners are the United States (US) and the European Union (EU). In 1998 they respectively accounted for 33 and 22 per cent of the country's total volume of trade.⁶¹ Both trade partners have preferential trade agreements with developing and least-developing countries. These are designed to increase the export opportunities of said countries. Peru is considered to be a developing country.⁶² Moreover, it is a developing country with a special feature: large-scale coca cultivation.⁶³ This is important, because both the US and the EU have preferential trade agreements directly targeting countries with illicit drug cultivation.

5.1.1 The United States

On December 4, 1991, the United States launched the Andean Trade Preference Act (ATPA), giving four Andean countries (Bolivia, Colombia, Ecuador, and Peru) duty-free treatment or reduced duties on certain export products. The goal of this act is to promote the development of sustainable economic alternatives to drug production. This is done, by offering *alternative products* broader access to the US market. A second aim is to

⁶¹ World Trade Organization. Report by the Peruvian government to the Trade Policy Review Body (TPRB) of the World Trade Organization. See: Peru: May 2000, on: http://www.wto.org/english/tratop_e/tpr_e/tp134_e.htm (last checked on October 17, 2001).

⁶² Peru is however not on the United Nations list of the 48 or 49 least developing countries. The country is on the World Bank list of developing countries. See: World Bank. *List of Developing Countries* (January 19, 2000) for example on: <http://www.siam.org/membership/outreachlist.htm> (last checked on October 17, 2001).

contribute to *export diversification* in the Andean countries, by trying to promote the production of non-traditional products.

Of course the act is not one-sided. The United States hope that by strengthening the Andean economies, these countries can absorb more US exports in the future. Moreover, considering the enormous demand of illicit drugs in the United States and the predominantly Andean source of supply to the United States, the US hope to benefit on both fronts from efforts to curtail illicit drug cultivation. It is also not unreasonable to predict that if ATPA demonstrates to adversely affect the American level of employment, limitations to the agreement will be put in place (or the ATPA will be cancelled completely).⁶⁴

Scheduled to expire after ten years (December 4, 2001), the ATPA was extended by the Andean Trade Preference Expansion Act dating from March 13, 2001. This act does not only extend the original agreement to September 2005, but also provides additional trade benefits to the ATPA countries. Specifically, this means new products are given duty-free and quota-free treatment: textile and apparel articles.⁶⁵ Other goods that were previously not included under the ATPA will fall under the North American Free Trade Association (NAFTA) tariff rate.

Lastly, it is important to note that the ATPA bill is part of the U.S. Policy of promoting trade and combating drugs on a regional basis:

*“This is the only way to avoid what is often described as the “balloon effect”, which means that the drug problem, at best, is displaced from one location to another.”*⁶⁶

It is important to know that most products on the list are non-processed primary products.⁶⁷ This means the Agreement is not very compatible with those Alternative

⁶³ The 2000 estimate of Peruvian coca cultivation amounts to 34,200 hectares. UNODCCP, *Global Illicit Drug Trends 2001* (New York 2001) 68.

⁶⁴ In all American documents about the impact of the ATPA that were studied for this research, it was clearly stated that at present the agreement does not have negative effects on employment in the United States.

⁶⁵ However, these textile and apparel products have to be assembled or cut using yarns and fabric wholly formed in the United States.

⁶⁶ *Background summary of the Andean Trade Preference Expansion Act* (February 2001) by Senators Bob Graham and Mike DeWine. See: http://www.usis.it/file2001_03/alia/a1031303.htm (last checked on October 17, 2001).

Development projects that rely heavily on the development of agro-industry. Moreover, it has to be taken in considering that the ATPA is not a major success story concerning its drug objectives. For the year 1995, it is said the ATPA:

*“had little effect on drug crop (primarily coca, the raw material of cocaine) eradication in the Andean region in 1995, according to sources contacted during this investigation. However, ATPA had a small and indirect but positive effect on crop substitution during 1995 by providing improved access to the U.S. market for certain Andean products.”*⁶⁸

Although this shows a certain weakness of the agreement as a whole, it confirms at the same time the increased market access for certain products and thus the usefulness for the marketing component of Alternative Development projects and those steps of these projects in which products are selected. A more recent US International Trade Commission report dating from September 2000, states that through 1999 the ATPA continued to have a slight but positive effect on drug-crop eradication and crop-substitution in the Andean region.⁶⁹ Interestingly, this report also states that Alternative Development efforts to introduce new products and expand licit-crop production in Bolivia and Peru are continuing to show promising results.⁷⁰

5.1.2 The European Union

The European Union also has its Generalized Tariff Preferences scheme (GSP). This scheme was initially only meant to benefit the Least-Developed Countries. However, in 1990 special measures were adopted in favor of the Andean Community (Bolivia, Colombia, Ecuador, Peru, and Venezuela). These measures include duty-free access for

⁶⁷ Exempted products are listed in part I.C of Appendix A (Trade preference programs available to the beneficiaries of the ATPA). Found on: <http://www2.dol.gov/ilab/public/programs/oiea/atPPA.htm> (last checked on October 17, 2001).

⁶⁸ United States International Trade Commission *Andean Trade Preference Act: Impact on U.S. Industries & Consumers & Drug Crop Eradication and Crop Substitution (3rd report)*. Found on: <http://www.usitc.gov/332S/ES2995.htm> (last checked on November 16, 2001).

⁶⁹ United States International Trade Commission *Andean Trade Preference Act: Impact on U.S. Industries & Consumers & Drug Crop Eradication and Crop Substitution (7th report). I*. Found on: <ftp://ftp.usitc.gov/pub/reports/studies/PUB3358.PDF> (last checked November 17, 2001).

⁷⁰ *Ibidem*.

agricultural *and* industrial exports. The goal is to assist these countries in their struggle to combat illicit drug production.

An European Union press release from June 12, 2001 states that the “drugs GSP regime” will probably be extended for an additional three years until 2004, accompanied by a:

*“careful process of monitoring and evaluation in respect of each beneficiary’s efforts not only to combat drug production and trafficking, but also to comply with core labor and environmental standards.”*⁷¹

The objectives of the extended agreement are to improve the conditions under which the beneficiary countries are combating drug production and trafficking. Specifically that means promoting sustainable development which, according to the explanatory notes on the new proposal, implies the creation of jobs in all sectors, diversifying exports, core labor standards and the protection of the environment. Notwithstanding, the fact that the agreement had to be improved reveals its initial weakness. On the other hand, the effectiveness of the agreement is partly shown by the extension of the agreement. Communication between the European Commission, the Council and Parliament suggests that the first extension (until 31 December 2001) of the GSP scheme was indeed based on an evaluation of the GSP impact on combating drugs.⁷²

Lastly, keeping in mind the four case studies presented with this report, it is worth mentioning that the GSP of the European Union incorporates all four products (coffee, palm oil, palm heart and cocoa).⁷³

5.1.3 Analysis and conclusions

From an Alternative Development perspective, the above two schemes are very important. First of all, the products that fall into the categories of both agreements will

⁷¹ European Union. European Commission adopts new Generalised Scheme of Tariff Preferences (GSP) Regulation to foster sustainable development (12 June 2001) on: http://europa.eu.int/comm/trade/miti/devel/ngsp_reg.htm (last checked on October 17, 2001).

⁷² European Union. *Communications from the Commission to the Council and the European Parliament on a EU Action Plan to Combat Drugs* (26-5-1999) 51.

have an export advantage (albeit temporally) over other products in the trade with the EU and the US. These products are normally easier to sell and more profitable. The important question, however, is whether the above two schemes reach the goals they abide by. In the case of the ATPA: *a positive impact on drug crop eradication and crop substitution and more export diversification for the Andean countries*. In the case of the GSP from the EU: *replacing drug cultivation with substitute products, promoting basic labor and environmental standards, and promoting export diversification*. An economist working for the US Department of Labor described the effectiveness of the ATPA in the following way:

*“The duty-free benefits of the ATPA program are quite marginal and should not be viewed as [a] significant factor in the U.S. war on drugs.”*⁷⁴

As we have seen above, that does not mean the program is totally incapable of enhancing the marketing component of AD projects. The ATPA has in the past actually increased market access for the Andean countries. Therefore, it is important to know whether UNDCP alternative development projects take the provisions of the above two schemes into account when choosing or marketing products.

The first indication for a positive answer to that question can be found in market research conducted for UNDCP projects by the International Trade Centre.⁷⁵ Their report on the *“Market access to the United States and the European Community for selected products from the Andean region”* addresses both the European and the American scheme.⁷⁶ The ATPA and the European GSP are explained, and the interesting products for Andean countries that fall within the schemes are listed, along with the specific benefits provided by the agreements. However, because the report is not up-to-date, and

⁷³ See Annex I for industrial products and Annex VII for agricultural products covered by the Agreement. Council Regulation (EC) No. 2820/98.

⁷⁴ Robert C. Shelburne, *Andean Trade Preferences: An Alternative to Coca?* In: *Papers and Proceedings of the International Trade and Finance Association*, Laredo, TX: Texas A&M International University, May 1995.

⁷⁵ More information about the International Trade Centre can be found in paragraph 5.6.

⁷⁶ ITC. *Market access to the United States and the European Community for selected products from the Andean region* (January 1993). Page 2 for the US, page 13 for the EC.

has not been followed up by other reports, its usefulness to current projects is rather limited.

5.2 The World Bank

There is no direct connection between UNDCP and the World Bank. In a meeting in June 1998 between the President of the World Bank and the Executive Director of UNDCP an indirect link however was expressed.⁷⁷ The President of the World Bank suggested that World Bank activities in poverty reduction, health, and education could be used to improve the quality of life in countries, and thus at the same time reduce incentives to drug cultivation and curtailing damage to institutions and society. The feasibility of a direct link between World Bank and UNDCP projects however is not clear. Because the World Bank is concerned with rural development, improving infrastructure and ensuring sustainable development, a direct connection might be very useful. To which degree the marketing component of Alternative Development can benefit from such a connection is unclear.

The logic of mentioning the World Bank in this report can be illustrated by looking at a very recent World Bank project in Peru. The first specific objective of this *Rural Road Rehabilitation and Maintenance Project* is to reduce transport costs and raise the reliability of vehicular access to expand markets for agricultural and non-farm products.⁷⁸ The second specific objective is to integrate poorly accessible zones with regional economic centers.⁷⁹ These two objectives are also part of the integrated rural development strategy of Alternative Development. Especially when the zones or regions targeted by the World Bank overlap with areas with undergoing AD projects, there is reason to further investigate collaboration or assistance between the two organizations.

⁷⁷ World Bank Press Release, *World Bank President meets with Executive Director of the United Nations International Drug Control Programme* (12 June 1998). Found on: <http://worldbank.org/html/extdr/extme/1818.htm> (last checked on November 14, 2001).

⁷⁸ World Bank Project Data, *Rural Road Rehabilitation and Maintenance Project*. Found on: <http://www4.worldbank.org/sprojects/Project.asp?pid=P037047> (last checked on November 10, 2001).

⁷⁹ Ibidem.

5.3 The International Monetary Fund

The International Monetary Fund does not deal in any way with UNDCP or with the global drug problem. An e-mail from their organization expressed that the Fund only indirectly deals with the issue, when it comes to tax evasion of criminals and the reform of tax systems to confront underground financial transactions.

A recent IMF publication mentions, however, that the Security Council of the United Nations noted with concern that there is a close connection between international terrorism, transnational organized crime, illicit drugs and money laundering.⁸⁰ This might be an indication of the fact that the International Monetary Fund is at least aware of the importance of the United Nations in the field of combating illicit drugs and linkages with financial crimes.

5.4 The United Nations Industrial Development Organization

Because the activities of the United Nations Industrial Development Organization (UNIDO) are centered on the development of industries, the organization shares certain goals with Alternative Development projects. When it is necessary or feasible to complement Alternative Development with the development of agro-industry, the organization might be of help. The first impressions I got from talking with people from UNIDO in Vienna, is that they have a very clear marketing strategy, that is part of the very first phase of all of their projects. This is remarkable, because such a headquarters based focus on marketing as a first step of project design does not seem to exist within UNDCP. In this paragraph, some of the elements of UNIDO's marketing strategy will be highlighted, and their relevance for UNDCP projects will be examined. They can be considered as marketing principles, which certainly apply to Alternative Development projects as well.

⁸⁰ IMF. IMF Survey, *UN counters terrorism* (October 22, 2001). 329.

5.4.1 Flexibility

A UNIDO Marketing training guide states that effective marketing among other elements involves flexibility. It is important:

*“having a marketing plan that is flexible, reviewed regularly and changed as conditions change.”*⁸¹

The need for a flexible marketing plan implies two things. Firstly, it means that within one project, the marketing strategy may have to be adapted during the course of the project. Secondly, it implies that the process of starting a similar project in a different region is likely to require a different or adapted marketing plan, when conditions are substantially different. In this case it is not possible to use the same marketing plan, without making adjustments.

5.4.2 Market research

The first step to be taken when deciding on a marketing strategy should be conducting market research.⁸² Although market research is presented by UNIDO as a way to identify your customers and their wants and needs, it is a simple step to replace that by a more general picture of the market. In that case, market research should provide you with information about which markets are suitable and profitable to target, and the price and quality levels of these markets. An important question is, however, where and how to get the information useful for market research. Here, the publications by UNIDO (as far as studied by the author) only provide limited help. The reason for this is the fact that these publications seem to address local or regional markets. Described methods for collecting information include among others counting people passing by, interviewing customers and distributors and looking at competitors to see whether there exists a market in the

⁸¹ This information can be found in a UNIDO document, belonging to the marketing training programme aimed at creating awareness of marketing needs and increasing the capacities of women entrepreneurs to market their product.

⁸² UNIDO. *Trainers' and Entrepreneurs Manual. Chapter One: Marketing Concepts.* 11.

first place.⁸³ These methods may work very well when targeting local or regional markets, but are destined to fail when nationwide or international markets are targeted.

5.4.3 Legal policy and regulatory framework

Another very important marketing principle concerns the legal policy and regulatory framework. This is a pivotal external factor that has to be taken into account when considering a marketing strategy. It can be described as all rules and regulations that affect the marketing, promotion, production, and distribution of a certain product. National laws, for example, may specify the rules around the promotion of a product, while international trade rules may determine how much of a certain product can be imported or exported. Furthermore, almost every product has certain national or international regulations concerning the quality of the product and concerning the production process in general (e.g. certain regulations covering environmental or labour requirements).

Changes in the legal policy and regulatory framework have important consequences for the marketing aspect of Alternative Development projects. When product standards or (inter)national trade rules are changed, it means the projects will have to rethink the marketing strategy. Significant changes might even render a certain product unprofitable within a certain market. For example, if the general environmental requirements of a certain production process are tightened, it could mean that adapting towards these new requirements severally increases the costs of production, which consequently decreases the profitability. This could mean that other products have to be taken into consideration as possible alternatives. An increase in the average quality level of a product necessary to gain access to a market might even render Alternative Development production useless, because it is impossible to meet this new standard of quality in a certain region (e.g. areas with a certain altitude of the production grounds that diminishes chances for obtaining high-quality produce).

The examples above underscore the fact that a marketing plan and strategy have to be very flexible. They also illustrate that these external aspects to the marketing process have to be regularly viewed and reviewed. This can be further illustrated by an example

⁸³ Ibidem. 11.

regarding coffee. As will be discussed in more detail below (chapter 8), a new International Coffee Agreement provisionally entered into force on October the 1st. Firstly, this new development has to be taken into account by all AD projects involved in coffee production, because the agreement deals with the price, quality and quantity of coffee worldwide. Secondly, the development has to be reviewed by AD projects not involving coffee, because the agreement could increase the median and long-term profitability of the crop, relative to other Alternative Development crops.

5.4.4 Creativity

When speaking with people from UNIDO, I realized that creativity should be a special feature of a marketing strategy. Dealing with developing countries, where production and marketing conditions are not always optimal, it is necessary to be creative, to find new products, new variations on old products and try to develop niche markets. This is also important for Alternative Development because of the fact that not all projects can rely on using the same successful products and continuing to do so throughout the seasons. That would only impede the success of the projects by increasing the supply of a certain product, and thus lowering its price under normal circumstances.

Two examples given here are presented in the UNIDO training manuals. One is to make a selection of attractively packed spices and aromatic oils, and selling it to tourists. The second example is to make jams that can be used as fillings for cakes. An example taken from products in the Andean region is the promotion of an Andean breakfast drink, characterized by Latin flavors like orange, vanilla and cinnamon, combined with condensed milk.⁸⁴ Next to that, the AD/PER/98/D06 project, taking place in the Pichis, Palcazu and Aguaytia valleys, mentions the marketing of certain handicrafts and medical plants that have a commercial value.⁸⁵

Creativity can, however, also be expressed by developing interesting complementary products and by developing a line of related products that can support each other on the market. The case studies presented in chapter 8 will provide some examples covering products used by Alternative Development projects.

⁸⁴ CNN news. *Drugs-Peru: High quality Coffee Substitutes for Coca Crop* (27 September 1999).

⁸⁵ UNDCP, *Proyecto Desarrollo Alternativo de los valles del Pichis-Palcazu-Aguaytia. AD/PER/98/D06* (May 1999). Anexo II. Plan de trabajo. 5

5.5 The World Trade Organization

When Alternative Development projects focus on produce targeting the international market, it becomes important to look at the World Trade Organization (WTO). This organization embodies the rules concerning international trade and the commitment of member states to abide by these rules. Peru is a member state of the WTO and as such affected by the rights and obligations agreed upon within the framework of the organization. Because the country is considered to be a developing country it is also subject to certain special provisions targeting these countries.

5.5.1 Introduction

The framework of the WTO has an important impact on the levels and means of protection that member states are allowed to apply. This is especially important for developing countries, since they depend for a relatively large part on access to foreign markets and in particular access to markets in developed or industrial countries. The WTO states the following about the trends concerning access to foreign markets in industrial countries:

*“While the average level of protection in the industrial countries is relatively low, there are serious barriers to entry in certain sectors of particular interest to developing countries - including agriculture, textiles, clothing and fish and fish products.”*⁸⁶

This is interesting because at present most Alternative Development products fall into the category of agriculture. However, this does not mean that semi-processed and processed products originating from Alternative Development projects do not face similar barriers to entry. In fact, these types of products may have more difficulties because of the phenomenon of tariff escalation. The WTO states in this regard that:

“A number of developing countries also complain that they face difficulty if they try to increase their incomes by processing the agricultural raw materials that they produce.

⁸⁶ WTO. *Participation of developing countries in world trade. Overview of major trends and underlying factors* (16 August 1996). Found on: http://www.wto.org/english/tratop_e/devel_e/w15.htm (last checked on November 15, 2001).

This is because the countries they see as potential export markets impose higher duties on processed imports than on the raw materials — known as tariff escalation — in order to protect their own processing industries.”⁸⁷

This is significant from an AD perspective, because Alternative Development deals both with primary products and with semi-processed and processed goods. One of the central goals of the WTO is trade liberalization. That concretely means that the WTO is *the* forum where the improvement of market access for developing countries and the problems of tariff escalation are discussed. As such, Alternative Development projects should also be aware of the negotiations between member states at this level. The last WTO ministerial meeting held from 9 to 14 November 2001 in Doha, indeed stressed the commitment to the WTO as the unique forum for global trade rule making and liberalization.⁸⁸ It addressed the position of developing countries and the agricultural sector. For agriculture, the main result was the commitment to further negotiations aiming at substantial improvement of market access, reduction of all forms of export subsidies, and substantial reductions in trade-distorting domestic support.⁸⁹ Although concrete results can only be expected on the long term, the political commitment to address the problems faced by developing countries is clearly there.

The final ministerial declaration furthermore expresses the agreement to reduce or eliminate tariff peaks, high tariffs, and tariff escalation for non-agricultural products.⁹⁰ This specifically concerns export products of interest to developing countries.⁹¹ When these provisions are indeed carried out, it might provide Alternative Development projects with a larger choice of product, because more products are potentially profitable as export goods. It might therefore result in a shift from agricultural products towards more non-agricultural production.

Another point of interest for Alternative Development, agreed upon at said meeting, is the reaffirmation of the commitment to the objective of *sustainable*

⁸⁷ WTO. *Agriculture Negotiations. Phase 1. Market Access: The tariffs*. Found on: http://www.wto.org/english/tratop_e/agric_e/negs_bkgnd07_access_e.htm (last checked on November 16, 2001).

⁸⁸ WTO. *Ministerial Conference. Ministerial Declaration* (November 14, 2001). Point 4

⁸⁹ WTO. *Ministerial Conference. Ministerial Declaration* (November 14, 2001). Point 13.

⁹⁰ WTO. *Ministerial Conference. Ministerial Declaration* (November 14, 2001). Point 16.

development. Because sustainable development is one of the pillars of the integrated rural development approach of AD, any (follow-up) action on this point has to be taken into account.

An *example* of the importance of the WTO for Alternative Development can be illustrated by pointing towards the *rules of origin* (the criteria needed to determine the national origin of a product) that are dealt with within the scope of the organization. I deliberately choose this example, because the International Coffee Organization (discussed in paragraph 8.1.4 below) mentions their specific interest in the rules of origin covering coffee.⁹² Article 9.1 of the WTO agreement on Rules of Origin aims at the harmonization of rules of origin and states that:

“Rules of origin should be applied equally for all purposes (...)”

The reason for this is that unequal rules of origin tend to constitute a discriminatory barrier to trade. Clear and equal rules of origin are especially important for Peru (and other developing countries). That is because the Preferential Trade Agreements of the United States and the European Union are subject to rules of origin. Here the American example will only be stated. Products that fall within the Andean Trade Preference Act are only treated as *duty-free* when they a) are imported directly from Peru into the U.S. customs territory, and b) the sum of value produced and processed in Peru (or another Andean or Caribbean country) is at least 35 percent of the value of the product. This shows the importance of rules of origin, but – more importantly – it shows the necessity of control over these rules, so that they don’t constitute a discriminatory barrier to trade.

5.5.2 Problems and opportunities

Peru has committed itself to the multilateral trading system, which means a commitment to trade liberalization and harmonization.⁹³ This creates both problems and opportunities.

⁹¹ Ibidem.

⁹² ICO. *ICO Structure and Governance. The Council*. Found on: <http://www.ico.org/struct2.htm> (last checked on 17 November 2001).

⁹³ WTO. *Trade Policy Review Body: Review of Peru. Concluding remarks by the chairperson* (May 2000).

The main opportunities are clear. Trade liberalization in general increases market access and export opportunities for developing countries. Next to that, attacking the phenomenon of tariff escalation can produce a so-called *level playing field*, where developing countries can improve their terms of trade.

The problems are less clear. The UNDCP field office in Peru, for example, expresses concern about the policy inconsistency of the Peruvian government as to promoting on the one hand the production of palm oil, while on the other hand lowering custom duties to allow more imports of vegetable oils from Brazil, Argentina and Bolivia. The said commitment to the liberalizing multilateral trading system implies the process of removing trade barriers. The increased competition can indeed be very healthy (e.g. stimulating a process of increasing productivity and quality or speeding processes of innovation to face the new source of competition) or disastrous (e.g. rendering palm oil production unprofitable). In the latter case, this means producers have to switch to other licit production, because other countries seem to be able to provide cheaper palm oil.⁹⁴ That is not a surprising fact, but part of the general laws of comparative advantage. A consultant to UNDCP projects has very recently recognized this process and stated:

*“In general, production of all commodities is concentrating in the areas where production costs are most competitive and where economies of scale and access to market are best.”*⁹⁵

The fears that other countries will dump their products on the Peruvian market therefore should not be the central issue.⁹⁶ Dumping might occur, but is illegal under the WTO agreement. This means Peru will be able to apply countervailing measures under the so-called *WTO anti-dumping agreement*. The central issue for Peru is to concentrate on the production of *those* products that remain profitable. This can be done by either concentrating on products the country can produce under liberalized (and liberalizing) conditions or by producing products that fall within the preferential trade agreements. It

⁹⁴ If switching to other licit production is difficult or impossible, falling back on illicit produce is highly probable.

⁹⁵ Andrew Hamilton. *Final Palm Oil Planning Report* (January 2001). Chapter on the market.

should be noted, however, that preferential trade agreements targeting the developing and least-developed countries are supposed to be temporal. Therefore they are likely to expire when a certain level of development is reached.⁹⁷

In conclusion, it can be said that Peru's adaptation and commitment to the rules and regulations of the World Trade system seem to be a stable factor to take into account. In the long run, this is very desirable because it constitutes a commitment to market forces and thus a possibility to reap the overall benefits of comparative advantage and specialization. In the short run, however, this commitment might have some negative consequences for Peru and its (export) products. As a developing country, it should therefore maximally use and utilize the special schemes and WTO arrangements that are available to developing countries in the short run.

5.6 The International Trade Centre

The International Trade Centre (ITC) represents a very important connection between the WTO and another organization within the UN system. The organization was established in 1964 by the General Agreement on Tariffs and Trade (the agreement preceding the creation of the WTO in 1994). Since 1968, it has been jointly run by the WTO and the United Nations Conference on Trade and Development (UNCTAD).

The ITC deals with developing countries and economies in transition, and helps these countries to set up effective trade promotion programmes. For the purpose of this research, the most important activity is product and market development, which entails:

*“direct export marketing support to the business community through advice on product development, product adaptation and international marketing for commodities, manufactures and services. The aim is to develop and market internationally competitive products and services to expand and diversify these countries' exports.”*⁹⁸

⁹⁶ “Dumping” is described by the WTO. It occurs when a company exports a product at a price lower than the price it normally charges on its own home market.

⁹⁷ Preferential treatment should bring these countries on the same level of economic development, largely by developing their export capacity, after which they will be most likely treated as ‘equal trading partners’.

⁹⁸ International Trade Centre. What is the International Trade Centre UNCTAD/WTO (ITC)? Found on: <http://www.intracen.org/> (Last checked on November 15, 2001).

Most importantly, ICT conducted market research for UNDCP projects in the Andean region. This was done within **project AD/RLA/91/704** entitled “Plan of action for the development of crop substitution for coca leaves in the Andean region”. The output of the research was presented in several reports covering more than 30 types of products or product groups. These reports are very useful. They not only present information about the cultivation and processing of different products, but also deal with the conditions for market access, the main markets for a certain product, the level of world production, and they explain how the price of a product is determined.⁹⁹ Table 3 lists all the important elements the reports deal with, and can be considered as a checklist for market research.¹⁰⁰ Additionally some reports include a list of importers and trade contacts in various important countries. These lists are useful to investigate whether there indeed exists market potential for a certain product, simply by contacting importing companies or agencies. These companies will simultaneously be able to give information about the desired quantity and quality of the product demanded.

Table 3. Necessary elements of market research concerning a product

- Agronomic aspects (production, harvesting, processing)
- Level of world production and prices
- International trade patterns
- Most significant markets
- Structure and characteristics of the markets and conditions for access
- Market prospects and trends
- Price determination

⁹⁹ For an example of such a report, see: ITC. *Palm Oil. Export opportunities for the Andean region* (Geneva 1993).

5.7 The Food and Agriculture Organization

The Food and Agriculture Organization (FAO) is a United Nations organization that gives technical assistance to developing countries. It functions as a forum where information is collected and can be passed on to governmental agencies, NGO's or individual farmers. Given the predominantly agricultural nature of Alternative Development projects, these projects may be able to benefit from this information. The link between the marketing component of UNDCP and the Food and Agriculture Organization becomes clearer when we look at the Rural Development for Peace and Food Security Programme (PRODERPAZ) the organization supports, a programme which aims at providing alternatives to coca in Colombia.¹⁰¹ Specifically:

“[A]s alternatives to coca, cultivated mainly in the Amazonian rain forest, the programme offers a number of options to farmers: relocation, reviving the cultivation of previously grown crops, fish farming, increased cattle raising and training in improved management of natural resources. Regarding the opium poppy, cultivated in mountain zones and in humid forests near high plateau, the programme will encourage intensification and diversification of crops and better management of natural resources.”¹⁰²

Here we see again the importance of crop diversification and the move to alternative income opportunities concerning fish and cattle. Considering the drug control component of this programme, this is clearly the terrain of UNDCP. However, the FAO website does not mention UNDCP or its projects. The further research section at the end of this report will deal with the question concerning why there is no pattern of cooperation between these two United Nations organizations.

From a marketing perspective the said programme is very interesting because it also includes actions to improve the access of small rural producers to technology, credit

¹⁰⁰ The elements listed were not found in all reports individually, but rather in a collection of more than twenty reports

¹⁰¹ FAO, *News in Brief*, FAO, partner for peace in Colombia (December 2001).

¹⁰² *Ibidem*.

and management training, which have the potential of increasing substantially the marketing conditions for farmers under this programme.

6. Agro-Industry

As stated above, the need for agro-industry depends on the choice of product for each Alternative Development project. Some products require processing (e.g. canned palm heart and palm oil) while other products do not necessarily have to be processed, but are also capable of increasing value-added by doing so. The strategy of achieving value-added has become a supplemental strategy of Alternative Development.¹⁰³ The Thematic Evaluation report says that three elements were especially important to this strategy¹⁰⁴:

- 1) The provision of funds to improve or install plants
- 2) The enhancement of entrepreneurial capacity
- 3) The provision of rotating funds for working capital

Although sufficient funds and entrepreneurial capacity are indeed a precondition for creating agro-industry, from a marketing point of view the stress should be on the quality of the production process of the plant and of the resulting product. A UNDCP report on experiences in Huallaga suggests indeed that:

“[e]n el caso de la agroindustria, la cosecha adecuada es determinante en los costos del proceso productivo y en la calidad final del producto.”¹⁰⁵

This shows the importance of an efficient production process, which ensures high productivity and quality. Especially in the case of processing agricultural products with strong competitive markets facing structural low prices, production costs should be minimal while producing high quality products that are capable of competing with foreign products.

Past experiences with agro-industry have been both positive and negative. Negative experiences have, for example, arisen from the fact that building up agro-industry took a long time, often longer than originally planned. This led to situations

¹⁰³ *Thematic Evaluation Peru*. 18.

¹⁰⁴ *Ibidem*.

¹⁰⁵ UNDCP. *Sistematización y validación de las experiencias de los proyectos del UNDCP en el Huallaga, Perú (Tomo II. Validación de las experiencias)*. 30.

where farmers could not sell their produce.¹⁰⁶ It underscores once more the necessity for a streamlined connection between producing farmers and the processing plant.

In Peru, consultants have developed project-based manuals for the effective and efficient running of agro-industry. One of these manuals states that the supply of raw materials is a first concern for proper processing.¹⁰⁷ An efficient supply requires the following three conditions¹⁰⁸:

- *“Cantidad y calidad adecuada al objetivo de la agroindustrialización*
- *En el momento oportuno*
- *A un costo razonable”*

The quantity does not necessarily have to be high, but should have a close relation to the capacity of a specific plant. The quality of the raw material is more important, because in many cases it determines the quality of the final product after processing. An example in the context of processing tropical fruits is the fact that the quality of the final product depends much on the degree of ripeness and pureness of the fruits delivered to the plant. In this way, the quality level produced by a specific plant can be very dependent on the quality of the raw materials it is able to obtain. Therefore, again, providing training to the farmers is essential. If they are able to produce the right type and quality of a product the processing plant desires, it will result in a better return to the farmer and a more competitive final product.

The project-based manuals are very useful. This is especially true because they contain for a lot of products an order of the processing steps required to achieve maximum quality. This normally means a list of product treatment phases that, for example, entails the pre-cooking, the peeling, the washing and the sterilization phase of processing a product.¹⁰⁹ To illustrate the importance of these phases, let's focus on the phase of washing the products. For the processing of most agricultural products, the

¹⁰⁶ This meant many hectares of palmetto were rotting on the field waiting for the completion of a processing plant (For example in Yurimaguas, a Peruvian village in the Amazon).

¹⁰⁷ UNOPS-PNUFID. *Proyecto AD/PER/98/D05 “Desarrollo Alternativo del Bajo Huallaga.” Manual de Procesamiento Agroindustrial de Frutas y Hortalizas (Pulpas, Nectares, Mermeladas, Palmito)* April 1999.

¹⁰⁸ *Ibidem.* 3.

washing phase is very crucial. Washing the products normally removes impurities and contamination found on products. As such, there is a strong need for clean water. The availability of clean water in Peru is not a straightforward certainty. A project evaluation report mentions as one of the problems experienced in a project concerning coffee:

*“Poca disponibilidad de agua en las zonas de producción (...)”*¹¹⁰

As a solution, the report recommends arranging the transport of water directly to the place of processing.¹¹¹

Furthermore, just as Alternative Development in general, agro-industry suffers from what might be called *the infrastructure problem*. An evaluation report on a palm heart project in Puerto Inca mentions in this regard the problems of having unpaved roads to the processing plants, which causes bogs and quagmires that prohibit easy transport of raw materials and final products.¹¹²

In conclusion, although agro-industry is in many cases a necessary step to secure the quality of products, to optimize the process of product diversification and thus to assure the long-term sustainability of AD projects, this step should be taken with extreme caution. Thorough research should make sure that all necessary conditions are met before agro-industry is developed. Among other elements, this entails having the appropriate roads, resources, inputs and personnel that will ensure the long-term sustainability of the industry.

¹⁰⁹ For an example, see page 27 of the manual covering fruits, concerning the processing steps of palmito (palm heart).

¹¹⁰ PNUFID, Proyecto AD/PER/98/D05 Desarrollo Alternativo de Bajo Huallaga. Evaluacion y propuestas operativas para el tema café en el ambito del proyecto (July 1999) 5

¹¹¹ Ibidem. 14.

¹¹² PNUFID, Proyecto Agroindustrial de Procesamiento de palmito, de Pijuayo y nectarres en Sungura (Puerto Inca – Natividad). Informe de actividades realizadas (April 1999) 4.

7. Main Constraints

This chapter will bring together the main constraints found in the previous chapters and throughout the whole research. These constraints stand in the way of proper marketing and often give the projects disadvantages that are hard to overcome. First the constraints related to the projects in general will be dealt with. Then, the constraints related to the products used in these projects will be investigated. Some of these latter constraints will be dealt with more thoroughly in the case-studies in chapter 8. Table 4 at the end of this chapter will summarize the constraints found.

7.1 The projects

Alternative Development projects normally take place in remote areas. These areas often face the combined problem of having scarce resources and insufficient infrastructure. Having limited resources presents a clear limit to what farmers can utilize in the production process. An obvious example is the lack of a clean water supply to properly wash the products. Another example can be the insufficient supply of electricity, while an efficient and lasting supply is a precondition for an effective agro-industry. The problem of insufficient infrastructure overlaps these problems. On top of that it means the conditions for transport and communication towards other regions, areas and markets are very poor, which limits the ability to proper market Alternative Development products. The lack of energy and water supply further complicates the marketing process and the ability to develop successful agro-industry.

Next to the above-mentioned problems, Alternative Development projects in Peru have financial problems. The recent Regional Expert Meeting (November 2001) made this very clear. All ongoing projects are reported to have insufficient funds. This has important implications for all aspects of the projects. For example, it may mean that market research can not be appropriately conducted, that proper technical assistance cannot be given to farmers, and that infrastructure can not be created properly. Some of these effects can decrease the quality or productivity found in the projects. Others can decrease the access to national or international markets.

Lastly, farmers often lack the appropriate technical information about product and market conditions, which represents a clear disadvantage and a constraint to the success of the project in general.

7.2 The products

The first main problem concerns the type of products mostly used in Alternative Development projects in Peru. Almost all products used are agricultural products. These products normally face large price fluctuations and a declining long-term price trend. On top of that, there seems to be excess supply for a lot of these products. In general these circumstances mean that developing countries face deteriorating terms of trade conditions, with the value of their export goods constantly decreasing. The projects themselves are not likely to escape the spiral of these adverse conditions. However, product diversification and the development of agro-industry may bring solutions. Moving towards non-agricultural produce is also an option, but as we have seen before, this step requires thorough research and can only be taken in the long-term. Solely producing for the domestic market may also avoid the adverse conditions of the international markets. This last option is in many cases the only viable option in the short-term, considering the conditions in the remote areas of the AD projects. It will partly avoid the uncertainties and risks that are associated with international markets and international trade patterns. National or local production and trade is simply easier to control and to coordinate. Having said that, developing countries, whether export-orientated or not, will always depend on what is agreed upon by the World Trade Organization. This organization can solve the inequalities of the international trade system and the unfavorable terms of trade conditions that result from concentrating on agricultural and other primary types of production (by countering tariff escalation).

The second main problem is connected to the first one. Because there is excess supply and prices are fluctuating and decreasing in the long run, the quality of the products and the productivity of the projects need to be high or as high as possible. Low quality and productivity are very important constraints on the proper marketing of the products, as well as for the profitability and sustainability of the projects.

Table 4. Main constraints on the proper marketing of Alternative Development

- 1) Scarce resources
- 2) Insufficient infrastructure
- 3) Insufficient credit (e.g. for marketing research) and credit facilities
- 4) Lack of technical information
- 5) Strong fluctuations in price for most agricultural products
- 6) Long-term downward trend in the price level of most agricultural products
- 7) Unfavorable terms of trade conditions for developing countries
- 8) Low productivity
- 9) Low quality of the products
- 10) International risk and uncertainty

8. Four case studies: coffee, palm oil, palm heart and cocoa

To obtain deeper understanding of the marketing side of AD projects, it is necessary to look closer into four different products that are very important to AD projects in Peru: coffee, palm oil, palm heart and cocoa. Examining four quite different products, with different markets, and different processing requirements, will produce insight in the possibilities and constraints of marketing different products.

However, it should be noted that all four are primary products. This is significant because world prices for most primary products have declined in nominal terms since the 1980s.¹¹³ The main reason for this trend is the abundant supply of these products.¹¹⁴ This severely affects the terms of trade (value of exports compared to the value of imports) of developing countries that normally depend to a large extent on the export of primary products.

All four products are important for AD in Peru. Coffee and cocoa can be regarded as traditional products that have often preceded coca cultivation, and thus offer some advantages because the relevant knowledge and skills concerning the production of these two crops may already exist in areas where AD projects are executed. Palm Oil and palm heart on the other hand are relatively new products in Peru.

8.1 Coffee

Firstly, I will deal with some important general economic characteristics of coffee in the context of Peru. Then I will discuss some possibilities coffee farmers have to increase their economic position. It is important to note that some of these possibilities are also applicable to the other three products, but to avoid overlap, they are thoroughly dealt with only in the present case study on coffee. Thirdly I will deal with the product as being used in Alternative Development projects in Peru. Finally, a concluding paragraph will deal with the International Coffee Organization.

¹¹³ UNDCP. *UNDCP Technical Series. Drugs and Development* (New York 1995) 12.

¹¹⁴ *Ibidem*.

8.1.1 Coffee in general

Sixty percent of the world output of coffee originates from Latin America.¹¹⁵ Therefore, in Latin America, coffee is one of the most important export products. As such, it can be regarded as the backbone of the rural economy.¹¹⁶ The first problem producers are facing is the volatility of the price level. Even when prices are high, the end result is quite troublesome. Coffee production is heavily increased, supply grows, and the market collapses. At present, coffee prices are suffering from such adverse conditions. For example, at the moment the world price level of *Robusta* coffee has hit a



30-year low (November 2001).¹¹⁷ Shifting to other products is hard, because most countries like Mexico, Colombia and Peru lack easy alternatives.¹¹⁸ The second problem producers are facing at present is the excess supply of coffee beans. Output in Brazil and Vietnam, respectively the first and third largest coffee producer, has been dramatically increased. Coffee prices are not likely to recover in the short run. Brazil has just harvested one of its largest crops in 14 years.¹¹⁹

In Peru, the total level of coffee bean production has also increased significantly over the past five years from 1,871,000 bags in the season of 1995/1996 to 2,539,000 in 2000/2001.¹²⁰ Prices paid for Peruvian coffee have also been very volatile. The enormous fluctuations in price can be illustrated by looking at the last ten years. For *Arabica* coffee, Peruvian growers were paid an absolute low price in July 1992 of 26.06 US Dollar cents, while they received an absolute high in May 1997 of 169.83.¹²¹ This illustrates that prices do not only fluctuate on a yearly basis, but also vary considerably from month to month.

¹¹⁵ The Economist. *Latin America's economy. Drowning in cheap coffee* (September 29, 2001). 61

¹¹⁶ Ibidem.

¹¹⁷ Financial Times. *Indonesia, India and Vietnam to address price of Robusta coffee* (20 November 2001).

¹¹⁸ Ironically however, Coca cultivation is a very easy alternative.

¹¹⁹ Financial Times. *Brazil churns out another huge coffee crop* (15 November 2001).

¹²⁰ Source: International Coffee Organization. *Total Production of Exporting Members. Crop years 1995/96 TO 2000/01 (000 bags)*. Found on: <http://www.ico.org/statist/po2.htm> (last checked on 20 November 2001).

¹²¹ Source: International Coffee Organization. *Prices paid to growers in exporting Member countries in US cents per lb (Arabica)*. Found on: <http://www.ico.org/asp/statschoice2.htm> (last checked on 20 November 2001).

The quality of coffee can vary substantially. Partly, this can be explained by pointing towards two factors that are difficult to influence: the temperature and the altitude of the area. These two strongly related factors predominantly decide which types and specialties of coffee can be grown in a certain area and which not. Another explanation for differences in quality is the fact that this quality is strongly influenced by post-harvest treatment, concerning for example, the washing, drying and roasting of the product. Offering technical assistance to both farmers and factory workers can clearly influence this factor.

8.1.2 Opportunities

There are a few marketing strategies that can help Peruvian farmers to improve their situation. *Firstly*, they can try to increase the quality level of their coffee. Of course the ability to do so depends in many cases on having the right type of agro-climatic conditions, and having the necessary knowledge.

Secondly, increasing the productivity is an option. The ability to do so, often depends likewise on the right kind of agro-climatic circumstances and on having the appropriate knowledge and skills. If successful, a significant increase in productivity may drive down costs, and thus improve their competitiveness.

Thirdly, they can try to diversify inside the field of coffee production. This might mean that -if possible- they can start growing “organic” coffee, or special “fair-trade” coffee. Producing the former requires the necessary conditions mentioned above, while producing the latter requires a Fair-trade Organization (FTO) that is willing to buy the produce. A third opportunity worth mentioning is the production of so-called “single-estate” coffee. This means the production of a brand of coffee, instead of just green or roasted coffee beans. It follows the example of special wines that are only grown on certain estates, and that have a brand name that ensures higher prices. An example of this is the production of the branded Blue Mountain beans, which are grown in Jamaica, and achieve very high prices. The production of either organic coffee, fair-trade coffee or single-estate coffee, although far from being an easy and straightforward step, certainly presents possibilities to escape the adverse conditions of the traditional coffee market.

Fourthly, the farmers can look for alternatives outside the field of coffee production. This means shifting to other products. The Economist mentions this possibility, when stating that:

*“[w]orld demand for meat and fruit is rising, and Latin America has plenty of scope to supply these.”*¹²²

However, shifting to other products takes time, and is more difficult than shifting to different variations of the same product. Considering the present nature of the coffee markets, this possibility should definitely be considered thoroughly. Another alternative outside the field of coffee production might be a shift to a totally new source of income (whether on-farm, off-farm or non-farm). An example worth mentioning is tourism, which is a sector of great opportunities for developing countries. The World Tourism Organization states that:

*“Tourism jobs and businesses are usually created in the most underdeveloped regions of a country, helping to equalize economic opportunities throughout a nation and providing an incentive for residents to remain in rural areas rather than move to overcrowded cities.”*¹²³

This fits perfectly to the integrated rural development strategy of AD. Especially, because the same organization also indicates that travel and tourism stimulate enormous investments in new infrastructure such as roads, sewage systems and water treatment plants.¹²⁴ The question is, however, whether the isolated areas covered by AD projects have much tourism potential. A UNDCP mission report dating from March 1996 states the existence of linkages with national or regional tourism promotion policies for some

¹²² *Latin America's Economy*. 62.

¹²³ World Tourism Organization. *About WTO. Rural Opportunities*. Found on: http://www.world-tourism.org/frameset/frame_aboutwto.htm (last checked on 22 November 2001).

¹²⁴ *Ibidem*. Infrastructure Investment.

area in Peru.¹²⁵ This clearly presents an opportunity that is worth of investigating in further research.

Table 5 lists the above-mentioned opportunities for coffee farmers.¹²⁶

Table 5. Opportunities for coffee farmers to improve their economic position

- Increasing quality
- Increasing productivity
- Diversifying inside the field of coffee production
 - Organic Coffee
 - Fair-trade Coffee
 - Alternative Development Coffee?
 - Single-Estate Coffee
- Diversifying outside the field of coffee production
 - Meat, Fruit, or moving to a different sector (e.g. tourism)

An opportunity mostly outside the control of the individual farmers themselves is to increase the demand for coffee. Nevertheless, this can be done by farmers' organizations or by international agencies such as the International Coffee Organization. In this context, the latter organization is aiming at promoting the consumption of coffee in China and Russia, two important emerging markets.¹²⁷

8.1.3 Coffee in Alternative Development

Coffee in Alternative Development projects in Peru has both been considered a success story and a total failure. How can this contradiction be explained? Firstly, the success has definitely been there. In the Convención y Lares valley for example, UNDCP speaks of

¹²⁵ UNDCP. *Mission Report Mission to Lima, Apurimac and La Paz* (20-30 March 1996).

¹²⁶ As noted, in this table coffee can easily be substituted for the other three products covered in these case studies. To save space however, a similar table is not included in the next three case studies.

¹²⁷ ICO. *Working for the Coffee Community. What we do*. Found on: <http://www.ico.org/abico.htm> (last checked on 21 November 2001).

“the revival of Peruvian coffee”, the high quality that is produced and the competitiveness at the international market.¹²⁸ In this area, the key factor for obtaining the high quality and the success in the international coffee market has been the improvement of post-harvest processes, including agro-industry.¹²⁹ This again suggests agro-industry is more than just an optional add-on to Alternative Development projects, and rather a key factor in any marketing strategy.

Next to improving post-harvest processes, a second indicator for success is the improvement of the productivity of coffee production in most UNDCP projects in Peru. A third indicator is the development of different high quality varieties of coffee, and the production of organic coffee in UNDCP projects.

The main problem and reason for failure concerning coffee is the *structurally low market price*. The response to structural low prices should in my view be the production of high-quality coffee. However, the high level of quality produced in Convención y Lares might not be attainable in

other areas. The quality level that can be reached in a given area can be very limited by factors outside the control of the farmers. Probably the most important factor is the altitude of the coffee fields,



because this factor severely influences other quality determinants like the amount of rainfall, the humidity, and the temperature in the area. The result is that the quality of coffee varies enormously among areas with different levels of altitude.

¹²⁸ ODCCP Studies on Drugs and Crime, *Alternative Development in the Andean Area. The UNDCP Experience* (New York 2001) 71.

¹²⁹ *Ibidem*.

Coffee falls under both the ATPA and the European GSP, both targeting countries with illicit drug cultivation. Within the ATPA, the only two exceptions are coffee substitutes, which do not enter duty-free and green coffee (unprocessed coffee beans) that are not safe of contamination. Within the European GSP, all forms of coffee (whether roasted or not, decaffeinated or not, or coffee substitutes) fall under the special drug arrangement.

An article in the Economist states that because of the recent slump in the price of coffee, some families have switched to growing drug crops in search of cash. This is exactly what AD projects want to avoid. However, if they concentrate on coffee, they have to face the fluctuating nature of the price of the product and the related situation of excess supply. One possibility mentioned above is switching to organic coffee. This possibility will be discussed in the next paragraph.

Organic Coffee

Organic coffee is subject to certain specific criteria depending on which countries are targeted. These can include criteria for proper certification, periodic tests by certified agencies and special production regulations (e.g. concerning the use of fertilizers and natural poisons).¹³⁰ Although the last criteria surely make the production more labor-intensive for small farmers, a recent GTZ report states that organic coffee on the other hand fits perfectly to the environmental conditions of the tropics (e.g. fragile soil substance).¹³¹ The production methods used are predominantly non-capital-intensive, which ensures a higher price for organic coffee. However, the downside is that organic production requires some specific skills, which means that farmers have to be trained to be able to fulfill the criteria that ensure the coffee to be truly organic coffee.

Another problem is that while the 1990s clearly saw the development of a niche market for organic coffee, at present due to an enormous growth of organic production the market has become a normal market with many producers. Nevertheless, in general the continuing market potential for organic food products looks very promising. Experts,

¹³⁰ For the criteria applied in the United States, see the 1990 Organic Foods Production Act. The text of this act can be found on: <http://web.iquest.net/ofma/ofpa.htm> (last checked on 26 November 2001).

¹³¹ DeutscheGesellschaft für Technische Zusammenarbeit (GTZ), *Drugs and Development in Latin America. Strategies, experiences, and project examples from the work of GTZ* (September 2001) 41.

for example, expect the current average annual growth rate of 20-24 percent for organic food sales in the United States to continue in this decade.¹³²

8.1.4 The International Coffee Organization (ICO)

The International Coffee Organization (ICO) intends to promote international cooperation on coffee matters. That includes promoting coffee, facilitating the expansion and transparency of international trade and trying to achieve a balance between coffee supply and demand, with the aim to make sure that both producers and consumers are confronted with fair prices. Important to this research is the fact that the organization wants to act as a forum where technical information, statistics and studies are collected and published, and where research and development is carried out. The organization produces market reports, econometric models, in-depth economic studies and over 20 country coffee profiles. This means the ICO can function as a place to collect marketing information for AD projects.

However, the history of the organization has not been too rosy. In 1989, the intervention scheme operated by the ICO to control the balance between supply and demand collapsed because of the unwillingness of consumers to finance mounting stocks.¹³³ The latest effort to come up with a new agreement has resulted in the International Coffee Agreement (ICA), which provisionally entered into force on October 1, 2001 and is scheduled to expire in six years time. It contains the main principles of the ICO, and recognizes that the coffee industry is of vital importance to many developing countries.¹³⁴ That is why it encourages members to develop a sustainable coffee economy.¹³⁵ This should be done in line with the sustainable development provisions of Agenda 21 of the United Nations' Conference on Environment and Development held in Rio de Janeiro in 1992. That means the organization shares the same definition of sustainable development with organizations under the UN system.

¹³² Economic Research Service, United States Department of Agriculture. *Organic Foods: Niche Marketers Venture in the Mainstream*, in: Agricultural Outlook (June-July 2000) 11.

¹³³ *Drowning in cheap coffee*. 61

¹³⁴ ICO. *International Coffee Agreement 2001* (London 2000) Preamble.

¹³⁵ ICO. *International Coffee Agreement 2001* (London 2000) Chapter I. Article 6.

However, the connection between the International Coffee Organization and UNDCP that has been initially found here is a very problematic one. Problems indicated by the field office of UNDCP concern the rise of Vietnam and Malaysia, two countries that have lately emerged as low-cost coffee producers. Without an effective international agreement that protects the Peruvian producers, and with prices that are in some areas below the actual cost of production, coffee production in Peru does not look very promising or sustainable.

In conclusion, much depends on the signing and implementation, and thus the success of the latest agreement. Until this success is assured, the desired balance between international supply and demand is clearly missing, which means that excess supply will likely continue to exist, causing prices to remain low (or even unprofitable). This imbalance results from global over-production, which is stated by the Economic Times as the main factor causing the present global coffee crisis.¹³⁶ If this crisis results in prices below the level of production costs of Peruvian farmers, it means coffee production stops being an attractive way of generating income, *and* stops offering an effective alternative to coca production (or production of other illicit drugs for that matter).

¹³⁶ The Economic Times. *The worst is ever* (12 November 2001).

8.2 Palm oil

Firstly, I will deal with some important general economic characteristics of palm oil in the context of Peru. To do this, the 1993 International Trade Centre report on palm oil comes in handy. Secondly, I will discuss some specific possibilities surrounding the product. Lastly, I will deal with the product as used in Alternative Development projects in Peru.

8.2.1 Palm Oil in general

The 1993 International Trade Centre Report on palm oil states that:

*“The oil-palm industry is a stable source of much of the world supply of vegetable oil. Oil palms produce more oil per hectare than any other oil-bearing material.”*¹³⁷

However, the price of palm oil is showing a downward long-term trend.¹³⁸ At the same time it experiences the same kind of very sizable price fluctuations as in the case of coffee.¹³⁹ This is mainly the result of a very competitive market, in which the product has to compete with other oils (mainly animal oils and soybean oil). The relatively low market price of palm oil has mainly been its success. It resulted in a rapid increase of palm oil consumption during the 1990s. Therefore, it is justified to say that a low market price is essential for the success of palm oil production. This is the other side of the coin of profitability: raising the market price may be good for farmers on the short-term, but can render product unprofitable on the median and long-term, because cheaper alternative products take over the market.

8.2.2 Opportunities

Peru is mentioned as a country that has the potential to become a much larger producer and exporter of palm oil.¹⁴⁰ However, much depends on the total supply and demand of fats and oils in general. The downward trend of the price level of palm oil is not likely to

¹³⁷ ITC. *Palm Oil. Export opportunities for the Andean region* (January 1993) 7.

¹³⁸ Andrew Hamilton's report for UNDCP. *Final Palm Oil Planning Report Caynarachi de Pongo*. Chapter 4: Market (January 2001).

¹³⁹ *Ibidem*.

reverse in the short run, and even when it does, it might adversely affect the competitiveness of palm oil in the market at large, and thus its profitability. Increasing the production of palm oil as an export product therefore means that the product has to be able to cope with the low price and with the competition of both palm oil producers (e.g. Colombia, Malaysia and Indonesia) and oil and fats producing countries in general. The palm oil industry also offers processing opportunities in developing countries. In general, these countries have shifted towards processing the crude oil themselves, instead of exporting it. Examples concerning Peru will be given in the next paragraph.

8.2.3 Palm oil in Alternative Development

To discover a connection between palm oil in UNDCP projects and marketing, one can look closely at the latest consultant report about a palm oil project.¹⁴¹ This report not only mentions the median-term consolidation of the palm oil markets (both domestic and international), which is a positive sign for the projects. It also gives the advice to subscribe to a specific monthly publication concerning Oils and Oilseeds from LMC International Ltd., a consultancy agency mainly specialized in agricultural products. This will ensure that the project keeps up-to-date with the latest production and price data, together with the latest technical information. The report provides Internet *links* to said organization, and to two other websites covering oil production in general.¹⁴² Mentioning the advantages of subscribing to such publications underscores the necessity to be aware of the latest market trends and market information. It also points to the fact that market research in general and specific consultants' reports are outdated very fast and require frequent follow-up research and observation. Lastly, palm oil falls under both the ATPA and the European GSP targeting countries with illicit drug cultivation.

¹⁴⁰ ITC. Palm Oil. Export opportunities for the Andean region (January 1993) 5.

¹⁴¹ *Final Palm Oil Planning report.*

¹⁴² *Ibidem.* Last page.

8.3 Palm heart

Firstly, I will deal with some important general economic characteristics of palm heart. Then I will discuss some specific possibilities surrounding this product. Lastly the product is viewed in the context of Alternative Development projects in Peru.

8.3.1 Palm heart in general

Palm heart is a relatively new product. In the early 1990s, not a lot of consumers in the United States and Europe were aware of the existence of the product. World consumption has however been growing, which strongly increases the market potential of the product. From the producer's point of view the product is very interesting. It is regarded as a luxury product, and is used by consumers as alternatives to asparagus and artichokes. Therefore, the price of palm heart depends partly on the market price of these two substitutes. Luxury goods are normally higher priced in the market, especially when they are sold in delicatessen stores (as opposed to super markets). This also means a relatively high price for the producer. However, the price paid for the farmer's palm heart is strongly linked to the quality level. Moreover, just as with coffee, the price level tends to fluctuate heavily. For example, the price for palm hearts was said to have dropped by 50 percent at the end of 1998.¹⁴³



Palm heart is normally marketed in canned form.¹⁴⁴ This means that increased production could offer processing opportunities in the producing countries, which could create extra employment opportunities.

8.3.2 Opportunities

Much depends on the growth of the largest potential markets: the United States and the European Union. Increased demand, followed by increased production, might however diminish the luxurious character of the product, and thus decrease its value to producers. Another opportunity comes from the fact that palm heart has a high fibre content, but is

¹⁴³ *Politics. Peru: Warning of expanded coca cultivation* (6 September 1999).

¹⁴⁴ ITC. *Heart of Palm. Export opportunities for the Andean region* (January 1993) 2.

relatively low in calories. This, together with the fact that production requires few chemical fertilizers, means the product can be promoted as a natural and very healthy product.¹⁴⁵ The past decade has shown that there is a growing market for such products as many consumers get more and more health conscious.

8.3.3 Palm heart in Alternative Development

The cultivation of palm hearts in Alternative Development projects in Peru has (not unsurprisingly) provoked the reaction of palm heart manufacturers in Costa Rica. In a letter to the Executive Director of UNDCP, a company called *Demasa* states their concern that the current supply of canned palm heart already exceeds world demand and that extra production (read: AD production) will only drive down prices further.¹⁴⁶ Furthermore, the company is not very happy with the support given by UNDCP to promote palm heart cultivation. Although, the rather political question whether this support is fair or justified goes past the scope of this research, the first concern should be considered. It is clear that, when starting to cultivate palm heart in AD projects, a good estimation has to be made concerning the present market situation (pre-AD) and the effects this extra production will have on the price level (post-AD).

Palm heart also falls within the ATPA and the GSP scheme of the European Union, giving it considerable advantages concerning access to the American and the European market.

¹⁴⁵ Ibidem. 4.

¹⁴⁶ Letter dated November 9, 2001 from Demasa to Mr. Pino Arlacchi.

8.4 Cocoa

Firstly, I will deal with some important general economic characteristics of cocoa in the context of Peru. Then I will discuss some specific possibilities surrounding the product. Thirdly the product is viewed in the context of Alternative Development projects in Peru. The case study will be concluded with a paragraph on the International Cocoa Organization, which, just as the International Coffee Organization, is a very important actor to take into consideration.

8.4.1 Cocoa in general

The price of cocoa is just as volatile as in the case of coffee and palm oil. For example, at the start of 2000, a 25-year low was reached, due to oversupply and stagnating consumption levels.¹⁴⁷ This contrasts sharply with the situation at present (November 2001), where cocoa prices are at their highest levels since early 1999, and there is a threat of output shortfall in Ivory Coast, the leading producer country.¹⁴⁸ Just as with coffee, however, the situation could rapidly change, when the relatively high price level encourages production and simultaneously increases supply.



Cocoa production is quite limited in Peru and the quality is relatively low.¹⁴⁹ The main problems farmers face, result from the fluctuating nature of the price level. Although there are processing plants in Peru, the processed cocoa industry faces similar problems, including strong international competition concerning products like cocoa butter. Nevertheless, the grinding capacity in Peru is high enough to support an increase in cocoa production.¹⁵⁰ Considering the high prices at present, a shift to more cocoa production might (at least in the short-term) be profitable.

¹⁴⁷ Financial Express. *Oversupply pressures down cocoa prices* (3 February 2000).

¹⁴⁸ Financial Times. *Commodities and Agriculture: Cocoa continues strong surge* (14 November 2001).

¹⁴⁹ ITC. *Cocoa. Production and grindings in Peru* (May 1992) 4 and 7.

¹⁵⁰ *Ibidem*. 8.

8.4.2 Opportunities

Cocoa in Peru is often grown among other crops and treated as a product of secondary interest. There are indeed not a lot of true cocoa farms that concentrate on cocoa production.¹⁵¹ Therefore, if international market conditions remain favorable, possibilities for Peru will arise from increasing output by concentrating more on this product. This will at the same time boost the quality of the cocoa. Farmers, however, need the agricultural credit to plan and execute production, and need to have the relevant skills and chemical products that accompany successful production.

8.4.3 Cocoa in Alternative Development

The operation plan of a recent project states that one of its activities is to:

“Efectuar mediante consultoría una evaluación específica sobre el mercado nacional e internacional del grano de cacao, considerando de manera preferente el mercado de calidad y orgánico.”¹⁵²

Firstly, this clearly shows the important role marketing consultants have in the project. Next to that, it again points to the importance of ensuring high quality in cacao production, as a way to be able to compete internationally on high-quality markets. Lastly, just as in the case of coffee, the project mentions producing organic cocoa when it is profitable to target this niche market. Market studies can produce the answers to the question whether such product diversification may be feasible.

Just like the other three products, cocoa can fully benefit from the ATPA and the GSP scheme. Another similarity with coffee is the existence of both an International Cocoa Organization, and an International Cocoa agreement. These two phenomena will be dealt with in the next paragraph.

¹⁵¹ Ibidem. 4.

¹⁵² UNDCP, Proyecto AD/PER/98/D04. *Consolidación y sostenibilidad de las estructuras productivas y sociales de las organizaciones campesinas del valle del Río Apurímac-Ene. Plan Operativo (Enero – Diciembre 1999)* 17.

8.4.4 The International Cocoa Organization (ICCO)

The ICCO is very similar to the International Coffee Organization. It was established to administer the provisions of the International Cocoa Agreement dating from 1972¹⁵³. The sixth and latest update of this agreement reconfirms the central goal of balancing the demand and supply of cocoa in order to give both producers and consumers a fair price.¹⁵⁴ This latest agreement will enter into force provisionally on 1 January 2002.

Next to the agreement, the ICCO functions as a forum where information and statistics are collected and problems are discussed.¹⁵⁵ Important documents for further study are the Quarterly Bulletin of Cocoa Statistics, and several country reports published by the organization.

In conclusion, just like the latest version of the International Coffee Agreement, the International Cocoa Agreement 2001 has to be signed and implemented by both the producing and importing countries. However, when this happens, the provisions of the agreement will bind Peru. This means it faces both the opportunities presented by the agreement (towards assuring fair prices and improving quality), as well as the limitations (towards increasing output). The last limitation could severely limit the scope of substantially using cocoa in new AD projects.

¹⁵³ ICCO. *Establishment and Functions*. Found on: <http://www.imf.org/external/np/sec/decdo/icco.htm> (last checked on 21 November 2001).

¹⁵⁴ The latest International Cocoa Agreement dates from March 2, 2001, and can be found on the web-site of the ICCO: <http://www.icco.org> (last checked on 22 November 2001).

¹⁵⁵ *Establishment and Functions*.

8.5 Conclusion about the case studies

All four products suffer from substantial price fluctuations and a long-term trend of declining world market prices. In all four cases, trying to produce high quality products by improving the pre and post-harvest treatment of the product can minimize the negative effect of these adverse conditions. Improving the production process should also lead to an increase in productivity, which will bring down production costs, and consequently increases the profitability and competitiveness of the product. Another way to avoid the adverse circumstances surrounding the four products is to develop special varieties of the four products or to develop an ecological variant that can target specialized and growing markets.

In all cases, it is very important to keep track of the latest market developments and to know which national and international institutions and agreements influence the price, demand and supply of the product (knowing the institutional landscape). Agreements like the International Coffee and International Cocoa Agreement should be taken into account together with recent market studies conducted by consultants or consultancy agencies.

Conclusion

The four underlying questions of this research have been answered throughout the course of this report. This provided a list of important actors and institutions that can contribute to proper marketing, and explained agreements that have to be taken into consideration by UNDCP projects. Furthermore agro-industry was discussed as an important add-on to UNDCP projects, when conditions allow it. Taken together, the first six chapters of this research and the case studies presented in chapter 8 produced a set of main constraints to the marketing component of Alternative Development, which was summarized in chapter 7. After the process of answering the four underlying questions, we can now turn to the main question. In the introduction the main question of this research was stated as:

Is it possible to establish a set of marketing guidelines that can function as input in every Alternative Development project in Peru?

The answer to this question is yes. However, such guidelines have to be presented with caution, because conditions may vary from project to project, and are able to change rapidly. Therefore the introduction of flexibility is so useful, as an element that prevents making mistakes by unquestionably using the same guideline under different circumstances and in different projects. In fact, even guidelines are subject to change over time. Notwithstanding these uncertainties, I managed in this research to establish a general list of marketing principles found in most UNDCP projects in Peru (Table 1) and a project-based marketing approach (Table 2). Next to that, Table 3 contains a list of necessary elements of market research, and Table 5 presents possibilities a farmer has, to improve his position in the market. These lists of guidelines are definitely not final or exhaustive. They will certainly have to be adapted, changed or in some cases ignored when conditions prove different. In other words, they have to be flexible. Nevertheless, in my view, they do function as a nice starting point from which further discussion and elaboration can commence. Such a starting point was missing when I started this research three months ago. At the end of this conclusion, I will sum up the most important elements that can in my view improve the marketing of Alternative Development.

A starting point for further research into the marketing component of AD suggests that not all matters are discussed in this research. Indeed, some topics I included at the end of this report under the title *further research*. On these topics, I either have been unable to find the right information, to find enough information or perhaps I have been unable to talk to the right people. Nevertheless, these topics are very important to the marketing component of Alternative Development and deserve further research.

Because UNDCP projects are not just development projects, it should be noted that indicators such as an increase in Alternative Development production, an improvement in the marketing component or more favorable conditions for AD products at the international markets, can not in themselves be regarded as proof of the overall success of UNDCP. UNDCP has a clear drug control objective, which means attention should primarily be given to a simultaneous reduction of the amount of hectares under coca cultivation in Peru. However, this reduction can be achieved more realistically by streamlining the projects. One way to do this is to improve the marketing component of Alternative Development.

Following the line of this research, marketing can in my view be improved by:

- 1) Regularly carrying out marketing surveys
- 2) Treating flexibility as a key factor in both market research and marketing strategies
- 3) Supporting the producers' cooperatives in their marketing capabilities
- 4) Supporting local processing possibilities (e.g. agro-industry), which will increase the value-added and the quality of the products
- 5) Developing essential infrastructure (for transport, energy and communication)
- 6) Increasing the information available about product diversification and the opportunities of shifting to other products (for example organic or Fair Trade variants)
- 7) Improving or setting up patterns of cooperation with other international institutions that can benefit the projects in general and specifically the marketing component



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Further research

1. The equity issue

At first glance, questions about which people have to benefit from Alternative Development projects, whether all people should benefit or only the poorest, et cetera, do not seem to have a relationship with marketing. These questions seem to be part of the political process that determines which area and which beneficiaries are selected. Past experience, for example, indicates that not the poorest farmers tend to benefit, but those with a certain amount of land and resources, which will ensure the success of the project, and thus ensure the ongoing funding and appreciation of Alternative Development.

Since Alternative Development incorporates the objective of general rural development, such partial benefits seem to be wrong. However, having limited funding and resources normally means that beneficiaries *do* have to be selected, and thus that some people will probably always be left out. On the other hand, while the face value of including the poorest people may be high considering the poverty issue, such a step has strong complications for the overall success of AD projects. Using farmers with little resources and small plots of land will greatly complicate the success of Alternative Development.

The regional expert meeting in Peru (November 2001) illustrated that the equity issue is a major concern among people working in or with Alternative Development. That means the issue should be considered in further research. There are several links between Alternative Development and the equity issue. First of all, people not included in Alternative Development projects are able to benefit indirectly from the projects. For example, they can reap the benefits from any infrastructure improvements in the area. They also may be able to buy new products on local markets or work on farms or in factories that do fall under the AD project. Thus, they benefit from the general development that is taking place in the area, and possibly from the inclusion of the area in the national developmental and political structure.

Secondly, there is a more direct link between the equity issue and Alternative Development. The process of selecting products or crops for a certain project can have a deep impact on the issue. When one, for example, chooses products that need a

supporting agro-industry, it means more people are able to benefit from new job opportunities created. Similarly, if you focus on labor-intensive products, it means more people can participate in the projects. The issue of selecting the products for a project is also worth of further research. This will be dealt with in the next section.

2. Choice of product

So far, I did not find clear information about which elements determine the choice of product for Alternative Development projects. Obviously, there seems to be the choice between using traditional or new crops, and then between various crops in both groups. Next to that, there is a choice of moving away from agricultural products, although this does not yet seem to be an option (or is not considered to a high extent) in most AD projects. However, it is not clear which reasons are the main determinants for making these choices. Firstly, environmental, climatic and ecological factors seem to limit the choice of product, but on the other hand, using fertilizers or irrigation systems can diminish the limitations these factors provoke. Secondly, lack of technical information and product-specific skills also seems to limit the choice, but, then again, providing information and education is an element of Alternative Development. Thirdly, marketing considerations should influence the choice. Either, there should be profitable markets for the product or these markets have to be created. However, markets and market conditions rapidly change.

Selecting a product is very difficult, because it means long-term trends, developments and opportunities have to be taken into consideration. These developments are often not very predictable. Product prices can suddenly drop and consumer tastes can suddenly change. Therefore, it is very hard to judge whether it is better to concentrate on coffee in an area where coffee has traditionally grown at a time when the product is profitable in international markets or whether an unknown local product should be promoted. A local (or regional) product can first be promoted nationally, with the possibility (if successful) of creating an international niche market later. Because the choice is so hard, Alternative Development projects should be flexible. Their marketing plan should be reviewed regularly and the possibility of shifting to other products should be considered. That however poses other problems. Shifting to other crops or products

takes a lot of time, with some crops needing up to five years to arrive at the first substantial or successful harvest. It also might entail that farmers again have to learn other skills, or that particular agro-industry has been created in vain. The issue is very complex and deserves more research to be able to analyze all these interlocking factors.

3. Inter-organizational cooperation

Although there seem to be many organizations, which share the goals associated with integrated rural development, UNDCP tends to be a bit isolated. Formal connections with other (United Nations) organizations hardly exist and collaboration in projects with organizations such as UNIDO, the World Bank or FAO does not seem to arise. The obvious reasons for this are the extreme nature and characteristics of the areas where UNDCP is working, areas that often lack governmental control and (even worse) sometimes are controlled by guerrilla movements. However, this cannot be the only reason why UNDCP does not work more closely with other organizations. Further research could deal with the matter and might also be able to assess the possibilities and benefits of future cooperation.

4. The private sector

Strangely enough, I was unable to find clear information, guidelines or strategies about the involvement of the private sector in Alternative Development projects. Some evidence suggests that at present the private sector plays an almost insignificant role in the remote areas of AD, but that future plans and projects should develop this link further. One of the e-mails I received from the field office in Peru indeed mentions the need for more coordination with the private sector and public-private partnerships. Unfortunately time did not allow elaborating more thoroughly on this type of coordination or cooperation. Further research should therefore investigate this link, and the role the private sector can or has to play in connection with the marketing component of Alternative Development.