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DIAGNOSIS (JUNE 2016)

BARRIERS TO ECONOMIC GROWTH IN THE VRAEM

(Apurímac, Ene and Mantaro River Valley)

What barriers are inhibiting inclusive economic growth in the VRAEM?
How is illegal drug trafficking impeding licit economic expansion?

PRIMARY BARRIERS

1



Fragile Rule of Law

- The state has not clearly framed the cultivation of coca as a crime.
- The security forces in the VRAEM are focused on the fight against terrorism, leaving the fight against drug trafficking as a lesser priority.

2



Inadequate transportation infrastructure

- The area's limited transportation infrastructure, composed of roads and waterways, is oriented towards the extraction of natural resources, not agricultural activities. The resulting system increases costs and reduces the profitability of licit crops.
- Moreover, this inefficient infrastructure does not affect the transport and sale of illegal coca and drugs.

SECONDARY BARRIERS

3



Market failures and limited social capital

- The area's principal market failure is the competition between the legal economy and the illegal economy, which generates distortions, such as in the labor market.
- The level of organization among VRAEM producers is very low: only 8.6% of farmers in the south and 15.5% in the north area belong to an agricultural organization.

4



Land Rights

- Native communities are more vulnerable to invasion by settlers and drug traffickers because communal property does not enjoy the same legal protection as individual property.
- While 70% of land in the VRAEM is individually held, only one-third of properties are publicly registered.

EVALUATION

ETHNOGRAPHY

DIAGNOSIS



OTHER FINDINGS

Two zones in the VRAEM

A discussion of the VRAEM must recognize the existence of two distinct scenarios. While northern VRAEM is home to 68% of the area's population, the southern area has double the population density.

The northern area accounts for 91% of VRAEM's native population, with 82% being Ashánincas.

While the economy of the south is dominated by illicit economic activity, only 7% of farmers in the north claim to have coca crops.



	SOUTHERN AREA	NORTHERN AREA
POPULATION DENSITY	20.7 people/Km ²	10.6 people/Km ²
POPULATION	85,419	181,687
AREA (KM ²)	4,135	17,093

Relative profitability of illicit crops



The difference in expected profitability of coca versus other alternative products, such as coffee or cocoa, governs the farmer's decision regarding which crops to cultivate.



The low risks and lower costs associated with coca cultivation favor the profitability of coca versus licit crops.

Characteristics of the drug trade in the VRAEM, such as the high value of coca leaf, the intensive use of agrochemicals in coca cultivation, and increased insecurity, among others, negatively affect the flow of investment toward licit activities in general.

SOME GENERAL CONCLUSIONS

- It is not possible to study the economic and productive structure of the VRAEM independent of the coca economy.
- There are two scenarios in the VRAEM – those of the south and the north - that each require a differentiated strategy. The former requires a stronger interdiction program to address the dominant presence of the drug industry and the Shining Path. The latter would benefit from coca eradication and the promotion of alternative development programs in the short-term.
- The key problems facing inclusive economic growth in VRAEM are the inadequate rule of law and insufficient transport infrastructure. These, coupled with market failures and insufficient land titling in native communities, drive the profitability gap between licit and illicit crops.

The content of this document is based exclusively on the study: "Barriers to Economic Growth in the Apurímac, Ene and Mantaro River Valley" (June 2016), which used the methodology of the Diagnostic of Inclusive Growth (IGD) employed extensively by USAID and the World Bank. It included eight districts of the provinces of Huanta and La Mar (Ayacucho), three districts in the province of La Convención (Cusco) and two districts of the province of Satipo (Junín). The complete report is available at: PGRD: <http://www.pgrd.org/> | http://www.cies.org.pe/sites/default/files/files/otrasinvestigaciones/archivos/01-vraem_final.pdf

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