The Alternative Development Model in San Martin
A case study on Local Economic Development Executive Summary
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Executive Summary

The San Martin Region is located in the north-east of Peru. Between 1950 and 1970 it underwent a strong migration of peasant farmer population, basically from the highlands and northern coast of Peru. This population dedicated itself to migratory agriculture encouraged by the bountiful lands of the region, as well as by the “Marginal de la Selva” highway built in those years by Fernando Belaunde Terry. This migration established and consolidated the economic and social base of the region (the small agricultural production), and also caused a strong impact on the environment. It was precisely in the decade of the seventies that coca bush cultivation was introduced and expanded in the area, driven by Colombian drug trafficking organizations that entered the country without any major resistance from the Peruvian State, and at the same time that the influence of the political control of the terrorist organization “Movimiento Revolucionario Tupac Amaru” (MRTA), was expanding in the entire territory.

In the decade of the eighties, the terrorist movement “Sendero Luminoso” (SL) joins MRTA, in the southern area of the region; these two forces are complemented by drug trafficking, creating the conditions for the expansion of coca cultivation areas, reaching the highest figure of 30,000 hectares, turning it into the region with the highest coca production in the country. At that time, Peru was already the greatest coca producer in the world. In the same decade, coca eradication begins, and the first alternative development initiatives are experimented, although due to their own weaknesses, and the adverse social and political conditions, both activities did not have a major impact. This was the worst moment of the San Martin Region, dominated by drug trafficking and terrorism, its population lived surrounded by anxiety and uncertainty. Terrorist attacks and
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murder reined in the region without control, violence and insecurity in the population reached its most dramatic levels. The region retracted in economic, social and institutional terms, and it became the region with the worst performance in Peru.

In the nineties terrorism is defeated in the region as well as at the national level. Coca bush eradication takes greater force, and alternative development policies and methods improve, with great promotion from international cooperation, increasing human and financial resources in the region. The State and private sector join these efforts. At the end of this decade the first production, commercialization and in some cases industrial cooperatives are formed, for the four star products of the region: cacao, coffee, oil palm and palm hearts. From the illicit side, Mexican drug trafficking organizations also appear in the region, replacing Colombian organizations, and introducing different production and commercialization systems, outsourcing delinquent activities to smaller Peruvian firms, and progressing to the production and export of cocaine from ports in the coast.

In the first decade of this century associative organizations of small regional farmers achieve a quantitative and qualitative improvement, reaching significant progress in value added, productivity and competitiveness, mainly in palm oil and palm heart. In spite of some conflict, their efforts are complemented with the participation of large private enterprises and international markets present a very favorable behavior for the regional products. Alternative development reaches its maturity, with a set of policies, instruments and activities in diverse fields, coordinated between the multiple economic and social actors; it becomes an integral development proposal. Thanks to the economic growth, never before seen in the economic history of the Country, the Peruvian State now has the resources invest significantly in economic infrastructure (roads and bridges) and social infrastructure (schools and health clinics), at the central, regional and local government level. The regional government of San Martin makes a strong commitment with this integral strategy, acquiring notorious efficiency and leadership.

With this confluence of factors, the results do not take long and the region shows the best economic and social indicators in the Country. San Martin is the region with highest reduction of poverty level in Peru; in the period from 2001 to 2010, poverty went down from 70% (it was even higher in the decade of the eighties) to 31%, a reduction of almost 40 percent. According to the National Statistics Institute (INEI) the San Martin Region reduced its poverty index in 13% only in 2010, the highest reduction of all. In economic terms, the regional gross domestic product has grown at a rhythm of 7% annually during the last 10 years, being one of the regions responsible for the magnificent national growth of 6% annually, the highest in Latin America.
The regional GDP per capita has grown 59% between 2001 and 2009, one of the highest rhythms in the country. The same holds true for the aggregated value, which has increased 73% for the same period. The region, according to a report from CENTRUM of the Catholic University, has improved in four of the five competitiveness pillars between 2008 and 2010: economy, government, people and infrastructure.

The agricultural sector is the most important in the economy of the region, participating with 30% of its GDP, and generating 46% of the employment. In 2001 it had 252,000 hectares of cultivated and planted areas of different agricultural products, and for 2010 this area had increased to 445,000 hectares, an annual growth of 6.5%, the highest in the Country. San Martin has become the first national producer of the following products: oil palm with 79% of the national production, cacao with 33%, and rice with 19%. It is the second producer of bananas and papaya and the third coffee producer, with 19% of the national production.

This good performance of the region becomes even more notorious if we compare it with other nearby regions, with similar environmental, climatic, social and economic conditions. While in the period 2001-2009 the regions of Huanuco, Cajamarca, Pasco and Junin have grown between 32 and 39%, the San Martin region grew 65%, almost double. In the case of the agricultural sector for the same period, the contrast is even greater. While the Huanuco region grew only 8%, Pasco 9%, Junin 15% and Cajamarca 36%; San Martin grew 80%.

All these figures confirm the excellent performance of the San Martin region, practically in all economic, social and institutional indicators, explaining why this process is referred to as the “San Martin miracle”.

The concept of Alternative Development is approximately 30 years old. It began being applied in the Chapare region of Bolivia and in the decade of the eighties also in the Upper Huallaga region of Peru and in Bota Cauca in Colombia. The United Nations turns it into an official concept in June 1998 during the General Assembly, understanding it as part of a more global strategy for drug control. A single approach to Alternative Development does not really exist, but rather multiple approaches which vary according to the organism applying it, national or international. Thus, UNODC emphasizes the association of small farmers and the greater value added to agricultural products; The United States Agency for International Development (USAID), emphasizes a market approach, social services and complementary infrastructure works; the German cooperation (Alternative Development Programa in Tocache and Uchiza – PRODATU) emphasizes the industrialization of agricultural products, the formalization of small farmers and
financing; the National Commission for Development and Life without Drugs (DEVIDA), Peru’s national drug council, emphasizes an integral approach that includes social and environmental sustainability.

Alternative Development has been undergoing a notorious confluence of approaches and practices of the different organisms dedicated to this task, especially since year 2000, when the majority of these organisms learned lessons from many attempts, errors and partial programmes with different degrees of effectiveness and impact. With the experience accumulated over nearly 20 years of experience, it is during the first decade of this century that the greatest results are achieved in the field of Alternative Development, as we have been able to prove with the figures presented.

The controversy is not within Alternative Development (AD) itself but rather in relation with the other components of the drug control strategy, particularly, in relation with coca bush eradication and interdiction of chemical precursors. In Peru both tasks are performed by the Ministry of Interior, in coordination with DEVIDA. For some international organizations, eradication should come before, and for others, it could even be after. In the latter case, the reasoning is that small farmers will be convinced of the goodness of licit crops, voluntarily abandoning coca bush cultivation. Controversy is also raised regarding the nature of eradication, which can be: (i) forced or programmed, and (ii) voluntary (self-eradication) and/or concerted. In Peru both modalities have been applied, with different results. Up to date, no consensus has been reached between the institutions involved on which is the most effective and what the official policy should be. Currently, a combination of both is taking place.

Where there is an absolute consensus between the different organizations working on Alternative Development is that the main actors are the small farmers. This is the subject of all programmes and activities conducted, and in the case of the San Martin region, this actor has had a spectacular performance. The small agricultural producers and their families have decided to abandon coca bush farming, risking their lives\(^2\) and switching to crops suggested by alternative development technical experts. They have accepted and participated willingly in training and technical assistance activities promoted by the Cooperation and national organisms, leaving behind decades of individualism, mistrust, and bad reputation of this type of associative organizations. They have taken the risk of giving their products an added value, undertaking industrial activities, placing their

\(^2\) See the book “Histories of a change. From illicit coca to development” elaborated by USAID’s Alternative Development Programme in 2011. This publication documents the life histories of a number of small farmers and their directive members.
products in international markets, abandoning the provincial short term vision, adapting their products to global tastes and tendencies.

In order to collect and systematize the decisions, activities and achievements of small farmers in the San Martin region, we have used the Local Economic Development (LED) approach in this study, which from our point of view, can best accomplish this task. This approach is based on the analysis of the action and interaction of the different local and regional economic and social actors, differentiating productive, economic, social and environmental levels (with a special focus on productive chains),

The value chains which we have studied are coffee, cacao, oil palm and palm hearts (piujuay). These first two chains (coffee and cacao) are very similar; in the primary production phase they are formed by 23,000 small farming units, with an average cultivated area of 3 to 5 ha. each. In the case of coffee, 27% are organized in cooperatives, and in the case of cacao it is 34%. In the processing phase, primary and industrial, there are medium private firms, cooperatives and small farmer associations. In the commercialization phase, in the case of the national markets supermarkets and detail distributors are present, and in the case of exports, this activity is conducted by the cooperatives themselves and tradings specialized in coffee and cacao.

The panorama for the oil palm chain in its primary production phase is dominated by a very large private firm, and by cooperatives formed by small farmers, as well as small and medium farming units. The large private firm and several private firms formed and owned by the cooperatives in the first phase are present in the industrialization phase. All oil palm derived products are sold in the national market (since Peru is a net importer or edible oils), supplying the demand of industrial firms and final consumption.

The palm heart (piujuay) chain is dominated by small farmers, the majority of them organized in associations, although there is a group that works individually. The industrial process is carried out by producer owned firms and by private firms located in the nearby cities. Commercialization is carried out for the national and international market; in the first case the sale is directly to supermarkets and in the second case to foreign importers.

The main socio-economic actors of the cacao chain are the ACOPAGRO cooperative that has 2,000 members and a cultivated area of 6,000 ha., the Tocache Agroindustrial Cooperative (CAT) with over 600 members and 1,800 ha., as well as four associations with more than 600 members and 300 ha. In the case of the coffee chain, the main socio-economic actor is
the Oro Verde cooperative with 970 members and over 1,900 cultivated ha.

In the oil palm chain, the main actors are the Palmas de Espino firm with 8,000 cultivated ha., the associative firm INDUPALSA, with 440 member and 1,700 ha., and the associative firm OLPESA, with 1,500 members and 5,800 ha. There is a balance between the private enterprise and small producer organizations. The participation of FREDEPALMA (Federation of Palm Tree Producing Enterprises) is also important, integrated by 158 members, between enterprises, associations and direct producers. For the palm heart chain the production is limited to two associative enterprises: ASLUSA and Alianza, the first with 230 members and 370 cultivated ha., and the second with 250 members and 780 ha.

The four productive chains have continuously grown and increased their competitiveness, in the three phases of the chain (production, industrialization and commercialization), introducing changes and innovations in each phase and improving the participating organizations. This process is known in the terminology of the Duke University as “upgrading”. In the last few years, and as a product of the productive support to alternative development programmes, seeds have been improved, using new varieties, closer to the changes of the global market. Producers have been shifting to organic production, also using fair trade mechanisms, without abandoning traditional markets. Final products have been certified, improving labor standards, and increasing environmental protection. Commercialization channels have expanded, increasing the number of clients in the country and in the world. There has been participation in international fairs and in coffee and cacao quality contests, winning global awards, among other objective indicators.

In addition to the main actors, direct producers and their associative organizations and the private enterprises participating in the different phases of the chain, the international cooperation agencies, UNODC, USAID, PRODATU, together with the national drug council, DEVIDA, have also had a decisive role. All these institutions have worked directly with the small producer, financing support programmes executed by diverse institutions, as was the case of INADE (National Development Institute) in the decade of the eighties; ADEX (Exporters Association), CARE (International NGO), CEDRO (Information and Education Center for Drug Abuse Prevention), PRISMA Benefit Association, in the nineties; Chemonics, North American consulting firm, since 2002. All these institutions have undoubtedly played an important role. Although not all of these were present in the final stages of AD, where very positive results were presented, many of them served to accumulate the necessary experience, through the trial and error method.
On behalf of the State, the San Martin regional government has been the institution that has given the greatest contributions to AD, providing its political support, long term vision and its ability to bring together and commit multiple actors in the region. It has given AD the right priority and provided the necessary support to eradication initiatives. Most importantly, it has completed significant investments in infrastructure and social projects, as well as in social services (prioritizing quality education). It is tangible proof of how an efficient and honest government committed with its citizens can make a difference. The local governments, particularly the provincial municipalities of Tocache and Saposoa, among others, also played an important role in their respective localities.

Simultaneous to the development and life improvement efforts being undertaken by social and economic actors in the region (cooperatives, associations, enterprises, cooperation organisms, local and regional governments), there were other political, economic and social actors that were undertaking efforts in the opposite direction. We are referring to drug trafficking and its current partner, terrorism. Drug trafficking comes to the San Martin region in 1976, in the village of Paraíso in Tocache; first the Medellin cartel appears, followed by the Cali cartel, when the first is weakened in Colombia. In the mid nineties law enforcement forces in Colombia capture the leaders of the Medellin cartel. The demand for coca leaf and coca base dropped, and the prices tumbled down. The price fell from $2.5 per kilo in the mid eighties to a meager 0.04 cents per dollar. Although the aerial interdiction undertaken at the beginning of the decade of the nineties had a certain impact on the reduction, the greatest reason was due to the drop in the demand from Colombia. This forced coca bush producers to look for alternative income sources for their subsistence.

In the case of the San Martin region, there was a historic coincidence between the reduction of coca leaf prices and the expansion of AD programmes in the second half of the nineties, which certainly benefitted the latter. However, the same price reduction happened in other regions of the country, and these did not take advantage of this to change their crops and to seek economic and social development.

It is in this period, from 1996 to 2000, that the bases for the San Martin Model are set. On one hand, the first results of AD are achieved, and on the other coca eradication campaigns are intensified. This counterpoint between AD and eradication opened the doors to the spectacular development of the region, starting in 2002. An average of 3,700 ha. of coca bush were eradicated annually during these five years. In this same period, the Oro Verde, Tocache and ACOPAGRO Cooperatives were
created, and over 100 million dollars of international cooperation were invested in the whole Country (a percentage of which corresponded to San Martin). In the case of the Huanuco region, neighbor of San Martin, very little eradication takes place, mainly due to lack of political will of regional and local authorities, and although coca cultivation also decreased, it maintained much higher levels.

All this meant that the second coca boom in Peru, that initiated in 2000, this time headed by Mexican cartels, did not affect the San Martin region, and it maintained its tendency to the reduction of coca growing areas. The opposite occurred in Huanuco. This region increased coca cultivation from 9,000 ha. in 2000 to nearly 18,000 ha. in 2009. Thus, we can say that, San Martin, the region in which a virtuous combination between AD and eradication were given, remained immune to this second coca boom, whereas Huanuco and other regions, succumbed to it.

There has been an increase of the area of coca bush cultivation in the country as a whole, increasing from 38,700 ha. in 1999 to 61,200 ha in 2010 (UNODC figures). This crisis situation in the country, expressed by the increase of coca bush cultivation (the only variable measured systematically), the increase of coca base and cocaine, as well as the increase of exports to global markets (basically Europe and the United States) has generated a negative public opinion, stating that AD and eradication have failed. This judgment could hold true at the country level, or for the majority of coca regions in the country, but it certainly does not hold true for the case of the San Martin region. The objective of this study has been precisely to explain why and how the cultivated area in San Martin has dropped, at the same time that the area of alternative crops has increased.

To answer this question it is convenient to understand what the “San Martin model” consists of and how it works. Manuel Estela of Macroconsult initiated a debate on this subject in 2010 presenting a mathematical model that specified the variables that explained the success in the San Martin region. We have continued developing this model, which we will now present.

The Alternative Development of San Martin depends on the following variables: (i) strategies and actions of productive development, (ii) the local population’s and institution’s will to change, (iii) the direct promotion of small farmers through association, (iv) coca bush eradication efforts, (v) productive investment to give greater value added to agricultural products, (vi) social and economic infrastructure investments, (vii) the favorable behavior of global markets for the four star products in the region (cacao, coffee, oil palm and palm heart), and (viii) social capital that generated the necessary trust to reach the alignment and consensus of almost all economic and social
factors involved, and (ix) the growing international demand for cocaine, a factor that represents a permanent threat for small producers of the region, that cannot be excluded from the model.

The confluence of these nine variables is what explains the success of the model in the San Martin region. While the country was debating between the chaos of terrorism and hyperinflation during the decade of the 1980’s, international cooperation, mainly UNODC and USAID, decided to apply an alternative productive development policy to the coca bush cultivation. They mobilized their national and international staff and experts and invested significant financial resources for this task. They persuade the existing government administrations to accompany them through DEVIDA and other public institutions, but moreover, they dialogue and coincide with local and regional organizations and institutions in order to change the situation of violence of poverty generated by coca, drug trafficking and terrorism. With this local approval and commitment, they begin working directly with small agricultural producers, the leading actors of the San Martin model. At the beginning, the errors in the approach and adverse political climate did not allow major results; but since the decade of the 1990’s, and especially since the first decade of the current century, the spectacular results mentioned above began to be seen.

The most successful promotion policy applied by the cooperation was to foster the association between small farmers, which allowed them to reach the economies of scale needed to correctly face the following two challenges: in the first place, give their primary agricultural products greater value added through transformation and industrialization (which allowed to generate greater wealth that remained with the farmers), and secondly, to guide their work to satisfy international demand, which has greater requirements in terms of product quantity and quality. Small farmers underwent highly significant changes in mentality, vision, agricultural practices, management models, sales mechanisms, product quality improvement, relations with the State, private businesses and international organisms. These changes were made possible thanks to the quality of professionals and technical staff involved, and the continuity of cooperation policies, beyond the errors, weaknesses and obstacles experimented.

An innovation, possibly at a global level, in these associative policies, was to apply the concept of “minimum size” for small farmers that wished to join the cooperatives and producer associations, to ensure that they could deliver significant amounts of products to the organization, but also, because with this size (which was between 3 to 5 ha. of cultivated area) they could provide an adequate income to their families.
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One of the key institutions in these results was the San Martin Regional Government, allowing the creation of the adequate institutional framework and the accumulation of sufficient political will to conduct alternative development activities. This institution achieved the levels of efficiency, long term vision, and transparency needed to become the leader of the productive, social and institutional transformation in the region. The Regional Government’s main contribution has been the investment in economic and social infrastructure, which increased notoriously since 2002, together with the Peruvian economy’s growth, the increase in tax collections and the central government’s investments. In order to increase its investments, the Regional Government transformed the tax exonerations (which did not achieve the effect expected in all regions of the jungle) into a trust fund, with which it has been able to raise significant financial resources.

In addition to all this, was the favorable behavior of international prices in the four products: cacao, coffee, oil palm (although this product is entirely oriented to the internal market, the international prices influenced the income obtained by farmers), and palm heart. Though this is clearly an exogenous variable, cooperatives have been orienting themselves to produce coffee and cacao varieties that have mostly increased their demand and prices, which is a correct internal decision.

The coordination levels between the public sector (at the regional, local and national levels) and the private sector, between cooperatives and private businesses, between national sellers and international buyers, can only be explained by the greater levels of trust that has been building up in the last ten years, which can be summarized in the idea of regional social capital.

The international demand for cocaine is a variable that has not acted in a direct and notorious manner in the case of the San Martin model, but it would be a grave error to relegate it to a second level and even more so to ignore it. The global cocaine market, as well as drug trafficking is a global organization, and they are always going to be present as a threat for the return of coca bush cultivation. If the San Martin region, its authorities and institutions, and the organizations of small producers put their guard down, slow their economic performance, lower farmer’s income, eradication stops, the drug can perfectly come back and throw overboard all the progress made. That is why we must insist on maintaining the international demand at bay (all alternative being discussed at the global level are welcome) but especially, local and international mafias which are still alive and kicking must continue to be repressed, as they are a threat to small farmers.
The other variables of the model, such as the international demand for cocaine, anticorruption policies, interdiction of chemical precursors, national demand of alternative products as well as of the drug, have acted, but have not had such a decisive influence as the eight variables previously mentioned. Nonetheless, they cannot be taken out of the model, since by considering them the final results in economic and social development can be improved and the quality of life for families in the region can improve.

To explain the success of the San Martin model, one must keep in mind that behind each of these variables, important quantities of human and financial resources have been invested. Between 2003 and 2011, some 2,094 million dollars have been invested in the region, which means an average of 232 million annually. The government accounts for 79% of this amount, the private sector for 20%, and international cooperation for 1%.

For all this evidence and all these reasons, we consider that the San Martin AD model is about to obtain the level of sustainability that will make state or international cooperation intervention unnecessary. Only a few cooperatives and associative organizations have reached the necessary level of efficiency, and some of them have still not reached the necessary efficiency levels that industrial production requires, with its greater levels of technological and administrative demand. It is considered that these deficiencies will be corrected in 3 to 5 years.

Regarding the model’s replicability, even though there are a number of circumstances which have occurred (and are documented) that are unique to the San Martin region, that will not be able to be replicated in other places, the great majority of variables specified in the model can be reproduced (at least partially) by public policies from any region with demographic, geographic, economic, social and institutional characteristics more or less similar.

The decisive elements to obtain similar results are the quality of human resources involved, the amount of financial resources invested, the persistence of policies, the efficiency, transparency and honesty of the public institutions involved.

Coming back to the term “San Martin miracle”, we should conclude by saying that these results have not been product of divine forces or circumstances, but rather of a very earthly miracle. It has been the responsibility of people of flesh and blood located along the productive chain, the group of public and private institutions involved, that has set forth a maximum effort, their commitment, their responsibility and dedication to themselves, their families, their organizations, with their region and their country. It is dozens of thousands of people who are
responsible for this miracle, and all of them deserve our recognition, as well as our gratitude for showing us the way.

It is not possible to mention each one; however, there are some that have had an outstanding performance and that could represent them all. Such is the case of Cesar Villanueva, President of the San Martin region, Jochen Wiese, Chief Technical Adviser in Alternative Development of UNODC, Gonzalo Rios, general manager of the ACOPAGRO Cooperative, Fernando Hurtado, ex-manager of Alternative Development of DEVIDA, and General Carlos Moran of the Peruvian National Police.

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