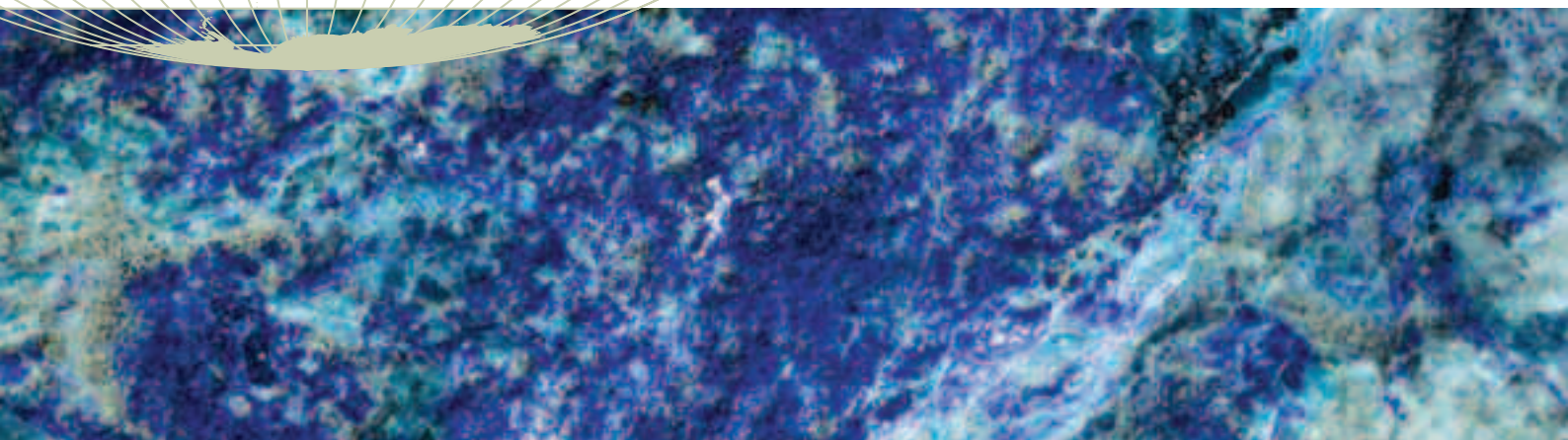




Peru: From boom to broad-based development?

The Challenge of Mineral Wealth:
using resource endowments to foster
sustainable development

September 2008



Peru: From boom to broad-based development?

With Peru enjoying booming revenues from mining but with social tensions around the sector also increasing, the latest phase of the work of ICMM's Resource Endowment initiative in the country sought to foster a stronger focus on partnerships which could enhance the industry's contribution to broad-based development

The mining industry in Peru has recently boomed, creating an important opportunity for national economic development and poverty reduction. Since opening its doors to foreign mining investment in the early 1990s, Peru has become the world's largest producer of silver, for example, and is also a significant player in copper, zinc and gold, among other commodities. Amid hundreds of other mining companies now operating in the country, nine out of 18 ICMM member companies already have, or are in the process of developing, major mining operations in Peru.

This surge of investment, coupled with the more recent boom in mineral prices, has certainly provided a welcome boost to Peru's economy: this expanded by over 10% percent in the first half of 2008, on the back of growth of 9% in 2007, already its fastest pace for over a decade. There have also been dramatic increases in *Canon Minero* revenues (a state fund which returns a proportion of the tax on mining industry profits to mining regions); encouragingly, too, latest government data show a 5% fall in poverty last year.

At the same time, popular expectations that this boom should translate into much broader-based economic development are running high – expectations that have yet to be fully realized. Still, for example, around 40% of Peru's population live below the poverty line, with the poverty rate in many rural areas much higher still. Social tensions are also apparent at the local level around various mines: a report by Peru's national ombudsman in June 2007, for example, highlighted some 21 overt social conflicts directly related to mining in the previous year.¹

This spotlight note summarizes the main findings and outcomes of the third phase of ICMM's Resource Endowment initiative (REi) in Peru. The work involved in this phase was aimed precisely at identifying and encouraging practical steps which might enhance mining's contribution to broad-based development in the country. Notable among its successes was a multi-stakeholder Natural Resources and Development Forum in April 2008, which attracted high level political and business involvement, and which helped build consensus on developing additional partnerships to tackle challenges in this area. An extensive mapping of existing initiatives relating to mining was also conducted (this has the potential to be transformed at a later stage into an interactive database to help share best practice).

To set some brief context on the Resource Endowment initiative as a whole, this was launched by ICMM in 2004 to identify ways to enhance the socio-economic outcomes of mining. In the first phase of the REi, literature on the so-called 'resource curse' was reviewed and an analytical framework developed to help assess the local, regional and national socio-economic impacts of mining. The second phase of the REi then focused on understanding mining's impacts in four countries – Peru, Ghana, Chile, Tanzania – using the framework and tools developed in Phase 1. A core finding across all four country studies was that delivering broad-based socio-economic benefits would require the mining industry, host governments, the voluntary sector and international organizations to work more closely together, developing collaborative partnerships in the following six 'priority areas':

- Enhanced Revenue Management
- Regional Development Planning
- Poverty Reduction
- Socio-economic Development
- Increasing Local Content in Mining Projects
- Dispute Resolution

The in-depth case study of Peru in Phase 2 highlighted a situation in which mining has contributed significant economic benefits at the national level, but in which poverty and social inequality remain high. The case study also indicated that, while there is certainly room for improvement in the way companies manage their own impacts, incomplete governance reforms seem to be a critical factor holding back trickle-down benefits.

All this work set the basis for a third, more practical and action-oriented, phase of the REi. In Peru, the process for Phase 3 began with several months of work to identify existing partnerships and initiatives. This 'mapping exercise' involved both a desk-based review and in-country research. The subsequent multi-stakeholder forum was designed in turn to address the issues highlighted by the mapping exercise, and to develop an action plan to take the REi forward in Peru. The rest of this note sets out the findings and outcomes of these two main elements of Phase 3 work in the country.

A map of an uneven landscape

One overall, very encouraging picture to emerge from the mapping exercise is of the multitude of partnerships between government, donors, companies and community organizations, particularly at the sub-national level. Of the six priority partnership areas, enhanced revenue management and dispute resolution have received most attention from stakeholders. In terms of revenue management, for example, the Peruvian government has signed up to the Extractive Industries Transparency Initiative (EITI), and is also collaborating with the World Bank's International Finance Corporation which has helped to create a series of tools to guide *Canon Minero* investments.

Similarly, a number of initiatives are in place to monitor and mediate conflicts around mining. Notably, the national ombudsman (whose data on mining-related controversies was mentioned previously) provides monitoring of social and environmental conflicts, and mediates complaints about

¹ Reporte de Conflictos Sociales No40, Defensoria del Pueblo. Cited in Institute of Development Studies (University of Sussex), Working paper 300.



Participants at the Partnerships fair in Lima, April 2008.

inappropriate spending of *Canon Minero* funds. A social team at the Ministry of Energy and Mines is also tasked to monitor agreements between companies and communities, and a Mining Dialogue Table at both national and regional levels provides a multi-stakeholder forum to negotiate conflicts.

At the same time, many of the initiatives have been launched only within the last several years, making any assessments of their success or failure as yet premature. The mapping does suggest that building collaborative partnerships may be more promising at the regional and local levels than at the national level. There is also clearly scope for more sharing of experiences and lessons between stakeholder groups, a process which might encourage experimentation, replication and scaling up of partnerships.

A less than encouraging picture, meanwhile, emerged from the examination of activities in some of the other six priority areas. For example, the mapping found that regional development plans appear to be largely absent, dated or driven by a few individuals. Some mining companies have placed emphasis on increasing local content, for example by assisting local enterprises to acquire business licenses. There are also many examples of initiatives in relation to social and economic development and poverty reduction. But the overall picture in these areas, too, is one of uneven engagement. In some cases, mining companies have assumed responsibilities in the absence of government leadership, but this can create its own problems (for example, of dependency on, or unrealistic expectations of, company provision).

In short, across the six priority areas, the mapping exercise highlights various challenges, in addition to all the positive work and partnerships so far developed. These challenges are summarized in Table 1.

Challenges, as well as successes, are also apparent viewed from the perspective of the main stakeholder groups involved in partnerships. In this respect, the mapping exercise found, for example:

- Differences in the size, structure and ownership of *companies* within the mining industry lead to different priorities and views on the pace at which the challenges should be addressed. There are, for example, no formal

requirements with regard to mining companies' involvement in local economic development or increasing local content and differences in approach often lead to tensions within and between different communities. Though company performance in terms of managing socio-economic impacts ranges widely, reports of poor performance tend to dominate, contributing to negative perceptions;

- The *government* has recognized the inequities inherent in the *Canon Minero*: when profits are high, mining areas receive considerably more funds than non mining areas. Reform, however, will be difficult as any change inevitably would involve losers as well as winners. The government also recognizes that capacity is weak at regional and local levels and that building capacity takes time. The government is, however, committed to decentralization and there are signs of progress in some regions and municipalities;
- *Civil society and NGOs* are often engaged to broker solutions when disputes arise. However, these arrangements have often been ad-hoc rather than institutionalized and as a result the assistance has been more 'fire fighting' than building long term collaborative working relationships;
- *International organizations* have provided considerable support in the past but as the economy grows, Peru has become less of a priority and aid will be more focused on particular issues which reflect donor priorities.

Forum *conveniens*

By highlighting both the successes and challenges of the array of current partnerships, the mapping exercise laid important groundwork for the second element of the REI phase 3 work in the country: the Natural Resources and Development Forum. Held in Lima, Peru's capital, on 23rd April 2008, this high-profile event brought together a range of stakeholders with the aim of discussing and forging stronger consensus on the importance of a partnership approach. It was organized by a Natural Resources and Development Committee established by the SNMPE (Sociedad Nacional de Minería Petróleo y Energía), an industry group, with the support of ICMM.

Participants in the forum included senior government representatives, including Prime Minister Jorge del Castillo, Minister for Energy and Mines Juan Valdivia and the Minister

Table 1: Challenges across six priority areas

Goal	Key challenge
1. Enhanced Revenue Management	How to ensure efficient and effective spending at regional and local level
2. Regional Development Planning	How to institutionalize strategic planning at regional and local levels and ensure linkages with industry initiatives
3. Poverty Reduction	How NOT to become a substitute for the government in providing social infrastructure such as schools, health clinics, and roads
4. Dispute Resolution	How to manage and resolve disputes at the local level
5. Socio-economic Development	How to overcome structural/administrative barriers to increase/scale up productive supply chains
6. Increasing Local Content in Mining Projects	How to overcome structural/administrative barriers to increase local content and embed mining operations in the local economy.

This document is one of a series of publications produced by ICMM under its Resource Endowment initiative, which aims to better understand how large scale mining activity in low and middle income countries impacts the socio-economic development of host countries. This action-research project is being done together with UNCTAD and the World Bank Group, with broad stakeholder engagement. For the latest information on the initiative, including details of publications, activities and partners visit www.icmm.com/resource-endowment

The International Council on Mining and Metals (ICMM) is the industry's peak CEO-led organization. It comprises the leading international mining and metals companies as well as regional, national and commodity associations. ICMM's vision is a respected mining and metals industry that is widely recognized as essential for society and as a key contributor to sustainable development.

ICMM, 35/38 Portman Square, London W1H 6LR
 Telephone: +44 (0) 20 7467 5070 Email: info@icmm.com

for Production, Rafael Rey. The high level of political involvement clearly reflects the growing importance attached to mining and development issues in Peru. The forum had two parallel components:

- A conference attended by over 300 people; and
- A partnerships fair in which 22 organizations exhibited sustainable development and capacity building initiatives reflecting emerging best practice.

In opening the conference, Dr John Groom, chairman of ICMM's REi Working Group highlighted the overall research finding of the REi that the 'resource curse' is not inevitable. Though Peru had historically performed less well in terms of the impact of mining investment on poverty and social indicators, it had the opportunity now to become among the better performing mineral-rich countries. One subsequent focus of the debate in this respect was the potential for Peru to replicate the example of Chile in developing a stronger domestic 'cluster' of mining supply chain businesses (and thus generate more employment from mining as well as other potential benefits).

In his address, Prime Minister Jorge del Castillo said that the *Canon Minero* needed change. Distribution, for example, had to be more equitable. Similarly, companies' responsibilities, he argued, extend beyond paying tax. Child malnutrition was highlighted as a particular priority which mineral revenues could help tackle. In his closing address, meanwhile, the Minister for Energy and Mines, Juan Valdivia, said the forum had provided practical tools for sustainable development. He emphasized the link between the mining agenda and the national agenda. Mining companies needed to be active and involved in communities, creating direct and indirect employment and skills through training.

In terms of the partnerships fair which accompanied the conference (which was opened by the Minister for Production,

Rafael Rey), this provided useful opportunities for delegates, particularly those from municipalities, to gather information about different partnership approaches. The high level of discussion and participation, together with initial feedback from exhibitors and delegates, suggest that it was a success – and that new projects and multi-stakeholder initiatives may result from it in the months ahead.

The overall outcomes and developments resulting from the forum, together with the challenges highlighted in the mapping exercise, are summarized in the diagram below (Figure 1). In addition to strengthening an overall consensus among stakeholders on the need for more collaborative partnerships, for example, the forum was followed by an announcement by SNMPE of a \$2 million promotional campaign on the benefits of mining aimed at building greater trust in the industry. Importantly, the forum also inspired the creation of new opportunities to share best practice through more regional events – several authorities in Northern Peru, for example, have requested that a similar event be held there. The potential for a database of partnership initiatives identified by the mapping exercise is also being explored. The SNMPE has agreed to review progress on these efforts in one year's time.

In short, amid the conjunction of Peru's mining boom and the ever-increasing expectations on the sector to help deliver broad-based development, the forum is likely at least to have helped create a more conducive climate for successful collaborations in this area.

ICMM would like to thank all of the individuals and organizations in Peru that contributed to the Lima Forum in April 2008, in particular the SNMPE and members of the Natural Resources Development Committee for helping to organize the event, senior government representatives including Prime Minister Jorge del Castillo, Minister for Energy and Mines Juan Valdivia and the Minister for Production Rafael Rey for their active participation, and the Peruvian team including Beatriz Boza and Antonio Bernales.

Figure 1: Priority areas for collaborative partnerships – current challenges and Forum outcomes

