

The socio-economic contribution of gold mining in Peru

Gold for Development workshop summary,
16 May 2012, Lima



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We provide insights into international gold markets, helping people to better understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

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Contents

Foreword: partnerships, procurement and poverty reduction Terry Heymann, World Gold Council	01
Overview of the event Enrique Castillo, workshop chairman, journalist and commentator	03
Enabling mining to deliver on its full development potential for Peru – Report of keynote speech by Jorge Merino, Minister for Energy and Mines	04
The outlook for gold mining in Peru Dr Carlos Santa Cruz, Newmont	06
Local economic impacts of gold mining in Peru Maureen Upton, author <i>The economic contribution of large-scale gold mining in Peru</i>	08
Mining, economic development and poverty reduction Dr Geoffrey Cannock, APOYO Consultoría	12
Mining, economic development and poverty reduction	
Understanding the basis of social conflicts Dr Beatriz Merino, former Prime Minister of Peru	15
Competitive development of local companies in Cajamarca Luis Campos Aboado, Newmont	17
Creating strategic alliances for development Alejandro Hermoza, Buenaventura	22
The role of mining in strengthening Peru's industrial base – Report of a presentation by Pedro Olaechea, Industrial Society	25
Government and mining working together	
Mining needs to lead to development if it is to command acceptance Martin Vizcarra, President of the Regional Government of Moquegua	28
Local government and mining working together: building local government capacities Fernando Ruiz-Mier, International Finance Corporation (IFC)	30
A commitment to local communities can help spread the benefits of mining Gonzalo Quijandria, Barrick Gold Peru	36
The next 50 years of responsible mining in Peru: future opportunities Diego Ortega, Gold Fields	38

This report is also available in Spanish:

La contribución socioeconómica de la minería de oro en Perú

1 As at 1st February 2013

Foreword: partnerships, procurement and poverty reduction

Terry Heymann, Director, Responsible Gold, World Gold Council



The World Gold Council was delighted to convene a workshop, attended by over 300 people from across Peru and other parts of Latin America, to examine the contribution of gold mining to Peru's social and economic development. The workshop, linked to the biennial Lima Gold Symposium, brought together representatives of national and regional government, industry and civil society. Against a background of media headlines about anti-mining protests in some parts of the country, the degree of common ground between participants was impressive.

The event was catalysed by the publication of the second edition of the World Gold Council's report on *The economic contribution of large-scale gold mining in Peru*. This highlighted both the macro-economic contribution made by the industry in tax revenues, investment flows and exports, together with the increasing success of the industry in building more extensive links into the national economy. 88% of procurement from the four major gold mines surveyed now comes from Peruvian-registered entities and the level of purchasing from community-based enterprises is escalating rapidly – to almost \$165 million in 2011. How this is being achieved was outlined, in particular, by Luis Campos from Yanacocha in his presentation of the work of the Asociación Los Andes de Cajamarca, and by Gonzalo Quijandria of Barrick who emphasised the importance of moving the debate about mining's economic contribution from a sole focus on tax and exports to also looking at the totality of its impact, including building skills and supply chain opportunities.

Realising gold mining's potential

There was recognition from Minister Jorge Merino, Carlos Santa-Cruz of Newmont and, former Prime Minister, Beatriz Merino, that gold mining has the potential to increase its contribution to development still further. There was also a shared recognition, of two limiting factors. First that mine development can only proceed if industry and government work together pre-emptively to address the issues that have sparked social conflicts. As workshop chairman, Enrique Castillo commented: "we need new ways of relating and co-existing between companies and communities and, in particular, new ways of building trust". Secondly, as Minister Merino and Diego Ortega of Gold Fields stressed, there is an urgent need to tackle the destabilising impact of illegal mining which involves poor social and environmental practices and feeds money to criminal networks.

Public-private partnerships

There was broad agreement on the importance of public-private partnerships. Alejandro Hermoza of Buenaventura, emphasised the centrality of creating a 'joint vision for development', and Geoffrey Cannock of APOYO Consultoría drew attention to the lessons of the recently ended 'Voluntary Contributions' scheme. This obliged local and regional governments and mining companies to work closely together in delivering programmes. The evidence is strong that this approach delivered significant efficiency gains and greatly improved the dialogue between government entities and the companies.

As the Regional President of Moquegua, Martin Vizcarra, observed, a problem arises when the benefits of mining are seen to be concentrated in the hands of too narrow a section of society. This is largely a distributional problem that must primarily be addressed by government, but no one disputed his proposition that mining investment should be done in a way which complements development and produces 'social inclusion, equality and prosperity for everyone.'

Building the capacities of sub-national government institutions

The imperative for local and regional government and mining companies to work together was also the theme of Francisco Ruiz-Mier's presentation, on behalf of IFC, on the importance of building the capacities of sub-national tiers of government. In many areas, poor service delivery and disappointing development outcomes – and therefore public resentment against mining – has arisen not because of a lack of resources but because of a lack of experience on the part of local government in managing the scale of resources generated by the 'canon minero'. Companies also want to align their social responsibility programmes with the government's regional development framework, but too often no such credible framework exists. IFC aims to bridge this gap.

In a passionate contribution, Diego Ortega developed this theme further. He lamented that the absence of an effective state presence in some areas leads local people to have unhealthy expectations of mining companies and a parallel fear that mines are not subject to proper supervision. This feeds in to the problem of lack of trust.

Mining and poverty reduction in Peru

A popular view is that mining produces national benefits, especially for the health of state finances but that local communities find it hard to participate in these benefits. If this is true in some instances, there is no inevitability about it. The work done by APOYO Consultoría, provides compelling evidence of significant reductions in relative poverty levels and of improvements in amenities and infrastructure. This data deserves wider exposure to understand its lessons for Peru and other countries.

Building the industrial base

A feature of the 'resource curse' theory is that exports of mining or other natural resources may inflate the exchange rate of producer countries, thereby crowding out other exports and making imported goods more competitive relative to domestic industries. In her presentation of the World Gold Council study, Maureen Upton showed that Peru is, in fact, becoming less dependent upon its (still substantial) gold exports whilst its economic base becomes increasingly diverse. Pedro Olaechea, President of the Industrial Society, showed how this may be occurring. Peruvian businesses are becoming increasingly able to supply a wide range of capital goods and have become significant exports of mine and metallurgy-related machinery.

Pedro Olaechea and Luis Campos also demonstrated how mine supply chain opportunities are facilitating the creation of 'clusters' in adjacent sectors such as metallurgy, construction, transport and, in some areas, because of capacity building and livelihoods programmes or infrastructure investment, agriculture and tourism. There are, in other words, encouraging signs that mining in Peru is becoming a catalyst for wider economic and industrial development.

Conclusions

The World Gold Council and our member companies strongly believe that responsible gold mining has great potential to contribute to the social and economic development of host countries and local communities. Peru has a long tradition of gold mining and, as the world's sixth largest producer, a strong resource base. The 'Gold for Development' workshop showed, on the one hand, the challenges that arise from an absence of trust and a lack of capacity to fully reap the benefits of mining; and, on the other, the impressive range of initiatives underway within the leading gold mining companies and at various levels of government to improve development outcomes. The workshop was memorable for the richness of the work that was shared and by the common ground revealed. Gold mining is already making a big contribution at national and local levels. One lesson from the workshop is that the diversity and breadth of that contribution is still not widely understood.

I would like most warmly to thank those who contributed to the event and I hope that you find this distillation of the presentations a useful reference source.

Terry Heymann is a Director at the World Gold Council and leads the Responsible Gold programme. A key pillar of this work has been the development of the *Conflict-Free Gold Standard*. Prior to joining the World Gold Council, Terry was a Principal at Marakon Associates, a leading strategy consultancy, where he helped clients in a range of industries on strategic issues and new product development.

Terry has an BA and a MEng in manufacturing engineering from Cambridge University and an MBA from Harvard Business School.

Overview of the event

Enrique Castillo, workshop chairman and respected journalist and commentator



External factors (higher prices, stronger demand, etc.) and internal factors (more and better information, greater expectations, etc.) mean that in Peru all matters relating to the extractive industries – with a particular emphasis on mining – have become both a major topic of national discussion, and a very reliable source of news and economic resource for the country. Unfortunately, much of the news relates to conflicts between communities, businesses and the state.

Today, many investors' eyes and many analysts' ears across the world are focused on the efforts of the Government and businesses to deliver major mining projects. Great creative effort will be required to seek new ways for companies and communities to relate and to coexist – and in particular to find new ways of building trust.

So it was very rewarding to hear at the World Gold Council 'Gold for Development' workshop – before a very large group of attendees from government, business, politics, academia and the social and media sectors – the most varied and interesting sharing of corporate experiences at a social and environmental level, as well as the testimonies of national and regional authorities and community representatives. A great effort will be needed to reinvent the relationship between mining and development. I hope that this level of engagement and of seeking joint solutions to problems is maintained and built upon.

Enrique Castillo Paredes is a journalist and columnist for Gestión and Perú 21 newspapers and is the host/interviewer of the Agenda Política programme on Channel N. He participates as a presenter, commentator and political analyst in television and radio current affairs programmes in Peru, Colombia and Chile.

Enabling mining to deliver on its full development potential for Peru

Report of keynote remarks by Jorge Merino, Minister for Energy and Mines



In opening the workshop, Minister Merino started by saying that he wanted to share some of the Government's perspectives on the role of gold mining in Peru's development and on the social opportunities it should present for those living where gold projects are proposed or under development.

He noted that Peru had been known as the 'country of gold' for hundreds of years and that it was an inherent part of the country's culture. This tradition explained why the country had made room for many of the largest companies in the gold industry, including many members of the World Gold Council. The Minister went on to note that gold and copper mining are closely related and it is, therefore, very important for the country to take a forward-looking approach in order to be attractive to investment in, and exploration for, both minerals. 'Thanks' he said, 'to its mining tradition, the enormous potential of its various metal resources and its policies for promoting and encouraging investments, Peru is aiming to be one of the world leaders in mining production.'

Formalisation of illegal mining

Peru is the biggest gold producer in Latin America and the sixth biggest in the world. Gold production, the Minister said, was currently in the hands of medium and large mining companies, but responsible artisanal and small-scale mining should also be promoted so as to increase gold production further.

However, the Minister noted that a significant part of the country's gold production cannot be accounted for, because it is mined illegally. Referring back to an earlier presentation at the Gold Symposium, he shared his concern that illegal mining had become a more profitable business than drug dealing for criminal groups in Peru. He described the problem as having become so serious that 'it corrupts society; and the worst part is that it destroys nature and leads to the exploitation of children'. Minister Merino said he wanted 'to reaffirm the vocation, the decision to remain firm in the fight against illegal mining, and above all to keep in force the legal mechanisms that exist.'

On the other hand, the Minister commented that further understanding was required as more than 100,000 Peruvians directly make a living from artisanal mining with an additional 400,000 people doing so indirectly. As such the formalisation of informal mining will have to be a gradual process, involving efforts from across government institutions and the private sector. The process of formalisation is complex and has many variables. Steps towards the goal of formalisation are being taken, but he acknowledged that there is still inadequate data on the pattern and location of informal mining. A further benefit, he observed, would be that formalisation would improve the orderliness of the country, as responsibilities for tax contributions and environmental stewardship would become more equitable across sectors.

He then turned towards the commercialisation of gold, which he said was an important part of the process of formalisation and referred to a programme being undertaken to this end by Activos Mineros, a state-owned company, with the help of Proinversión, the government's investment promotion agency. The formalisation of mining would create an opportunity to drive improvements in the quality of life for a great number of fellow citizens and their families through improved sanitation, housing and education. He added that 'if our country continues to be competitive for investments, we can expect those regions with potential gold reserves to be in a better position to receive resources for sustainable development.'

Table 1: 2002–2011: National gold production from mining extraction in thousands of fine ounces

Extraction	2002	2003	2004	2005	2006	2007	2008	2009	2010*	2011*
Total	5,065	5,550	5,569	6,687	6,521	5,473	5,783	5,916	5,275	5,273
Large and medium size mining companies	4,453	5,106	5,054	6,125	5,933	4,817	5,095	5,164	4,495	4,337
Small mining companies	10	31	40	44	79	129	150	197	168	212
Craft production		0	0	1	1	1	1	1	2	1
Alluvial gold/Sinks	602	413	475	517	508	526	537	553	610	723

Source: Ministry of Energy and Mining/*Preliminary figures

Finally, formalisation would facilitate opportunities to industrialise and develop opportunities to engage in value adding activities along the supply chain in areas where informal mining is currently carried out. Attempts have been made to do this in the past but because of the lack of a co-ordinating vision they have not been successful.

Investment and growth of production

Minister Merino commented that if investment and production growth were maintained some very important milestones could be reached. If all the proposed large-scale copper and gold projects were implemented, while avoiding social conflict, Peru could grow from being the second largest copper producer, to being equal first in the world. He said that this healthy competition is one that Peruvians should welcome and as such Peru would 'always receive investment with open arms'.

The Minister called for full support for these projects. He also noted the wider industrial and economic benefits that are increasingly being generated by mining, observing that: 'The resources generated by mining will be the driving force behind the development of other economic activities in the key regions'

However, he also noted that it is the projects where the most mineral resources are located where there tends to be the most social conflict. He said that this was because social expectations have grown along with the development of investments. Here, Mr Merino echoed the views of the Minister of the Economy that the quality of public spending in many regions needs to be improved. He said there are regions that have resources, but where spending is not correctly administered; meaning that the population does not see the benefits from the resources that mining is generating. To illustrate the point, he said that in 2011 5,284 million Nuevos Soles were collected in rights, royalties and rents by regional authorities from mining companies, all of which should be helping to drive forward sustainable development.

Conclusion

The Minister concluded that there was a 'magic triangle' comprising a partnership of the state, communities and business. He said that the country's competitiveness would, however, be determined not just by the availability of mineral resources but also by becoming better at avoiding social conflict. All participants, including investors and the government, must take responsibility and think about what measures they should take to prevent such conflicts from developing. By taking into account expectations and people's cultures, and through building trust, long-term, healthy coexistence between mining and communities is achievable to the benefit of all and the country as a whole.

Jorge Merino Tafur is the Minister for Energy and Mines. He has been responsible for promoting private investment in Peru's mining sector for the past 15 years, comprising the planning and implementation of over 41 promotional programmes which, in turn, have attracted the most important and largest mining companies to Peru.

He is the main initiator of the Trusts/Social Funds to promote the sustainable development of peasant communities in the areas of influence of mining projects. He studied Mechanical Engineering at the National University of Engineering (Lima) and has an MBA from the Business Administration School (Lima). He also holds a Master of Science degree from Ohio State University and is a graduate from PAD (Program of Advanced Management) of the University of Piura.

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The outlook for gold mining in Peru

Dr Carlos Santa Cruz, Senior Vice President, South American Operations, Newmont



It is in Peru's national interest that the country's gold mining industry is able to invest over the next five years in such a way as to restore production to at least 2005 levels. The total production promised by existing proposed projects may restore, or even go beyond, these levels but, to realise this objective, it is imperative that these projects can be delivered within predictable timeframes.

The challenge we are facing is that the social conflicts that have prevented several projects from coming to fruition in recent years, in copper as well as in gold mining, should not hinder mining from delivering its development potential for both the country and the relevant regions.

Here, a partnership approach between the state at all levels, companies and local people is critical. Respect for the rule of law and dialogue as a means of resolving differences are key to this process.

Mining has demonstrably impacted positively on the economic performance of, and of opportunities available to, the mining regions, as it has in Cajamarca, even during the periods when production has decreased. This allows us to assert with confidence that the beneficial impacts would have been even greater if all the proposed projects, including of course, those in Cajamarca, had been allowed to complete their proper regulatory clearances and proceed on a timely basis.

However, we must acknowledge that the struggle about how the wealth generated by mining should be divided, especially in some of the most isolated areas of the country, has generated tensions and social conflicts. These areas are often characterised by extreme poverty and dominated by very low productivity subsistence agriculture. Although mining offers an opportunity to break free from this cycle of deprivation it has generated tensions that have been the foundation for most social conflicts. Despite the huge resource transfer that the 'canon' concept entails, there have been very serious conflicts with local and regional authorities as the resources are always insufficient to meet the regional infrastructure, education, health and other public service needs.

The first response of the state in the face of increasing mining-related conflict was the 2001 mining tax law which provided that 50% of the corporate income tax was to be returned to the regions where the resource was generated. This law similarly provided that the 'canon' was to be distributed throughout the department, and especially, amongst municipalities and that these had to receive 75% of the 'canon' mining revenues. The regional governments, which had minimal functions in 2001 but now have many more, were assigned 20% of the revenues whilst the state universities were to receive the remaining 5%.

This transfer has increased significantly in recent years, but is still insufficient to mitigate the competition for the benefits generated by the mining industry, as this has also increased during the last decade.

On the other hand, the transfer of functions to regional governments has enlarged their importance as well as their responsibilities in relation to the municipalities, but their mining 'canon' allocation still remains at 20%. Moreover, it is commonly accepted that investments by regional and municipal governments have often not been disbursed very efficiently, primarily because they lacked both the required capacity to execute projects and proper mechanisms for the monitoring and control of such expenditure.

Better distribution and more efficient use of these resources are challenges that politicians and government must tackle with resolve and vision.

Government policy

The new Government of President Humala based its new mining policy on increasing the state's share of the income generated by the industry. Indeed, this was a campaign proposal and, in fact, the only tax increase proposed by the President of the Republic. The mining industry welcomed the President's willingness to discuss this tax increase with an open mind, despite the fact that a good number of the companies were protected by tax stability covenants.

The result has been a significant increase in the tax payments of companies that had tax stability contracts and a shift in the way mining royalties are calculated, from a fixed percent amount – 3% – to a variable amount linked to the magnitude of income. The increase in tax contribution from mining companies as a result is estimated for 2012 to amount to 3 billion soles, or more than US\$1.1 billion.

As an average, this has increased income tax from 30% to 40%, considering the current profit margins of the industry, and above 50% if we add other royalties and other charges. Thus, investors will now receive a little below 50% of the profits generated by the mining companies.

Minas Conga

Allow me to talk briefly about the Conga project which has become an emblematic project for the Government.

Firstly, let us remember that the Government requested the suspension of the construction process first, and an expert study to be carried out later, in order to clear all doubts remaining about the water resource assessment presented in the Environmental Impact Assessment (EIA), previously approved in October 2010, as well as on the mitigation measures to be adopted.

The company agreed to follow this path because it understood and wanted to address the concerns that some sections of the population may have had and also understood the Government's desire to remove all potential 'shadows' so as to enable the project to proceed to full construction.

Strengths

The international expert study has established that the water component of the EIA was correctly stated and was fully aligned with international standards. Likewise, it concluded that the surface as well as underground water assessments had been correctly performed so the mitigation and compensation measures adopted are those required.

Moreover, the study stated that the concept of 'headwaters', understood as the main source of water for a basin, has no foundation. Headwaters, they say, are nothing but a geographic location with a hydrological value in direct proportion to the surface of the area that the headwaters irrigate.

Opportunities

The international experts who carried out the study have offered a series of recommendations that are an opportunity to improve the project. Any project or study can be improved – as can all human endeavours.

In relation to water, the company has confirmed that the construction of the reservoirs will take place before the construction of the mine so they are operational before production starts. Secondly, we have agreed to increase further the amount of water available, despite the significant cost it entails, since this is aligned with our goal of increasing social investment to the benefit of local people.

Finally, I would like to emphasise that the gold mining companies, along with the rest of the mining industry, are ready to contribute even more to development both nationally and in the localities where we work.

Mining companies are willing to work with the state at all levels, to address and resolve the social conflicts that may arise as a result of public fears or misinformation or due to the continuing debate about the correct distribution of the wealth and opportunities generated by mining.

Carlos Santa Cruz has been the Senior Vice President, South American Operations of Newmont since 2002, and a member of the executive committee of Yanacocha since 2005. He joined Yanacocha in 1992 as Operations Manager. He is president of the board of directors of Asociación Los Andes de Cajamarca.

He graduated from the Pontifical Catholic University of Peru in 1981. He holds a master's degree in mining from the Michigan Technological University, a doctoral degree in mining engineering and a master's degree in industrial engineering from Pennsylvania State University as well as an Advanced Management Program Diploma from Harvard University.

Local economic impacts of gold mining in Peru

Maureen Upton, author *The economic contribution of large-scale gold mining in Peru*



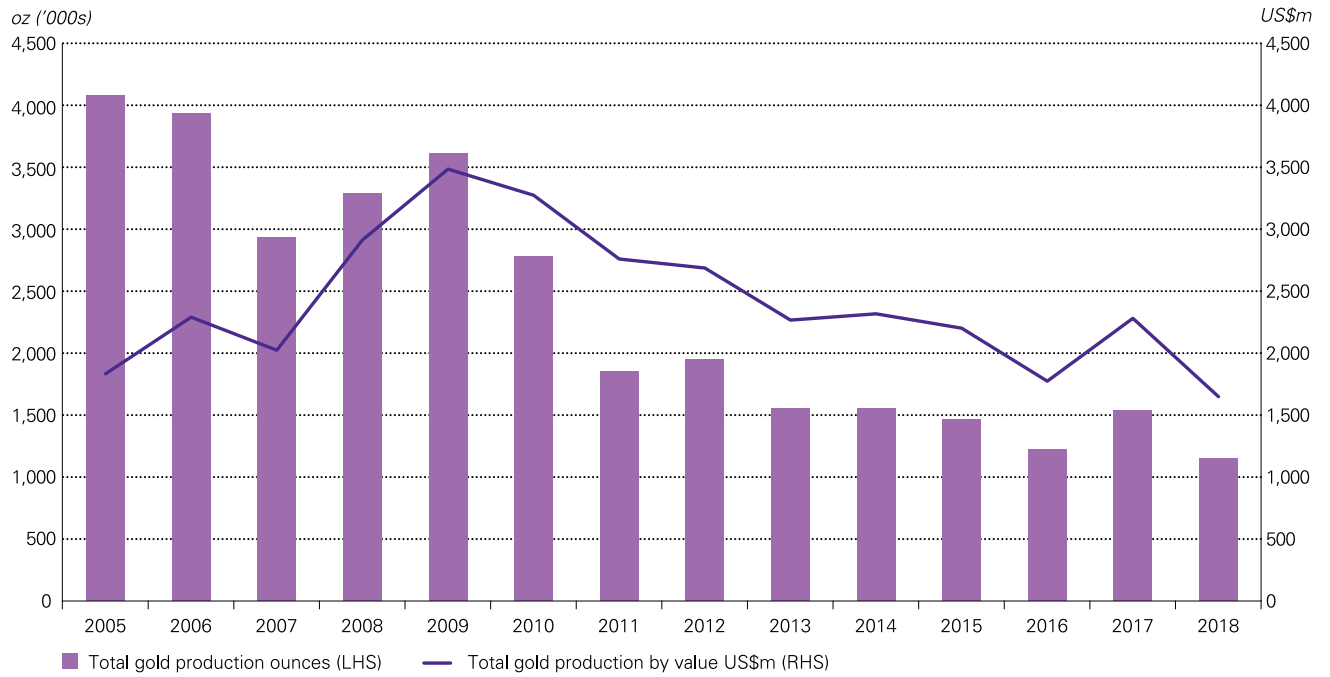
The positive economic impacts of large-scale gold mining in Peru are widespread, as set out in the newly-released second edition of the World Gold Council's report *The economic contribution of large-scale gold mining in Peru*. While the previous World Gold Council study in this area, 'The Golden Building Block: gold mining and the transformation of developing economies', primarily considered the national economic contribution of gold mining in Tanzania, the Peru study was commissioned with the goal of broadening the investigation to include local economic impacts in the communities surrounding large gold mines.

The sample mines represented in the report, which contributed investment and operating figures over the 14-year period from 2005 to 2018 for analysis, are the four largest gold mines currently operating in Peru: Newmont's Yanacocha, Barrick's Lagunas Norte, Buenaventura's Orcopampa, and Gold Fields' Cerro Corona (see Chart 1 for production levels). New in the second edition is the inclusion of selected data projected to be generated by the planned Minas Conga project sponsored by Newmont and Buenaventura.

For Peru, large-scale mining plays a key economic role. The sector accounted for 61%, or US\$21.7 billion, of Peru's total export revenues in 2010. With regard to gold mining specifically, exports totaled US\$7.7 billion in 2010. While four operating mines may seem to be a small sample, they are a useful representation of the overall gold mining industry in that they account for over 40% of these gold exports (see Chart 2).

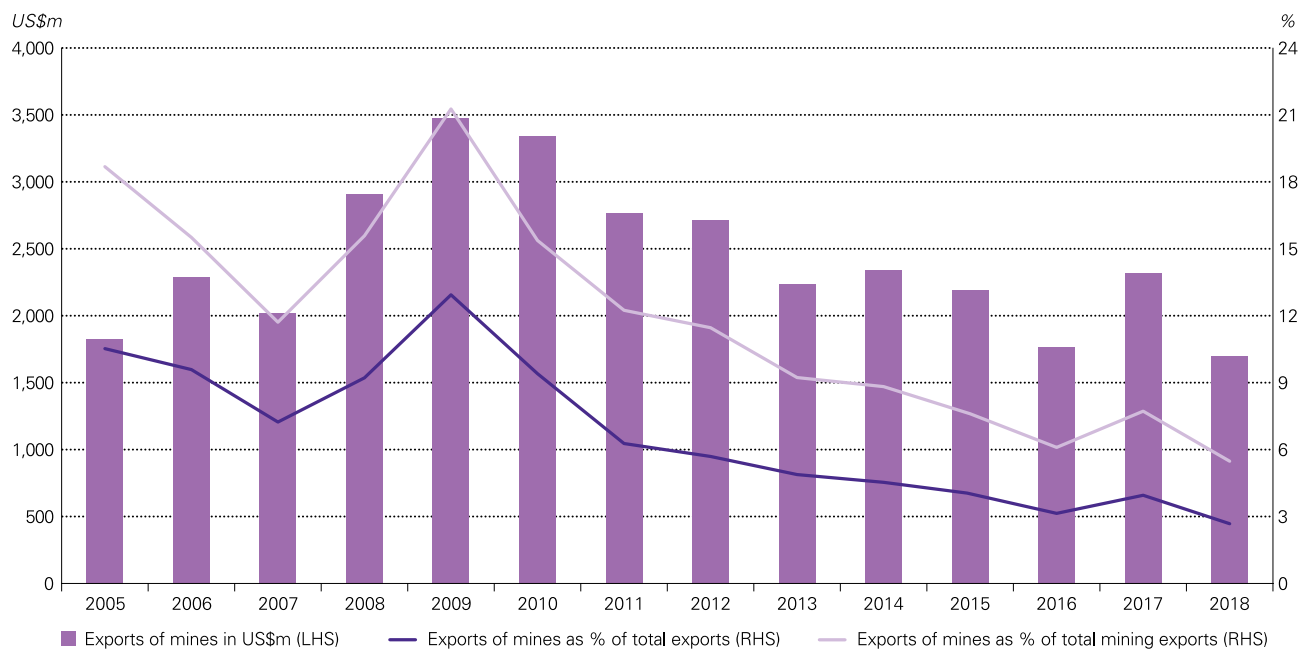
From macro-economic indicators such as foreign direct investment (FDI), foreign exchange earnings, government revenues, national income, job creation and poverty alleviation, to the human side of these quantitative measures at the community level, such as improvements in job opportunities, healthcare, infrastructure and overall quality of life, the impacts of gold mining and related activities is far-reaching for current and future generations of Peruvians.

Chart 1: Gold production: Yanacocha, Cerro Corona, Lagunas Norte and Orcopampa, 2005 to 2018



Source: Companies' data and Oxford Policy Management calculations

Chart 2: Contribution of the four gold mines to exports, 2005 to 2018



Source: Companies' data and Oxford Policy Management calculations

The second edition of the report differs from the first by incorporating figures from the Minas Conga project together with updated statistics from the four original mines. Also new is a discussion of the impacts of Peru's 'Voluntary Contributions' Programme and the inclusion of findings from a new in-depth, independent study on the socio-economic impacts of Gold Fields' Cerro Corona mine.

One surprising finding of the new report was that in 2010 direct employment in the formal mining sector jumped by 17% over the previous year. According to mining professionals, new projects and expansions of current mines have caused a labour shortage in the industry, from entry-level to senior management positions. The increased overall mining activity (for all commodities) translates into an expected lower relative share of exports from the sample mines. The decrease, from 21% in 2009 to 12% of mining exports in 2011, and from 13% in 2009 to 6% of total exports in 2011, is an encouraging sign in that it represents diversification in Peru's economy and serves as counter-evidence to fears of Peru falling prey to 'Dutch Disease'.

Since the sample mines studied in the report, like all mines, will eventually close, the data period of 2005 to 2018 includes the anticipated downward pattern in investment, employment and other indicators as the mines approach closure. This does not mean that large-scale gold mining in Peru will, in fact, decrease, since new projects such as Minas Conga should continue to come on-line, as conditions permit, well into the future.

Recent political developments and the corresponding suspension of activities at the Conga project are a reminder that, despite Peru's significant gold reserves, the potential economic contributions from their exploitation ultimately depend upon the investment climate and the ability of government and mining companies to build consensus among stakeholders in order to create a stable environment in terms of governance and the rule of law.

Based on the projections in the report, employment in the sample mines is expected to peak in 2013 at some 5,227 workers, 98% of whom will be Peruvians. The associated average salaries paid to these workers through 2018 is US\$337 million, with US\$67 million per year paid to residents of the local communities surrounding these mines – a significant input to these local economies.

Another effect of the increase in overall mining activity during 2011, and of the upward revisions in many indicators, is that the sharp drop-off in many indicators shown in the first edition has changed in just 12 months to patterns of stability in the second. For production, contributions to exports, trade balance and government revenues, stable patterns are now shown through 2018. For production and exports specifically (see Charts 1 and 2), the predicted contributions from Minas Conga were not reflected, yet fairly stable figures were found for the last seven to eight years of the data period for the original sample mines.

The 'Voluntary Contributions' Programme (PMSP) adds a social welfare component to the infrastructure focus of the Canon Minero, the mechanism used to transfer government revenues from mining back to the producing areas. Put in place in 2007 at the instigation of the administration of President Garcia, the PMSP was intended to last five years and, therefore, new contributions stopped at the end of 2011. Nevertheless, the stock of accumulated PMSP funds, some \$140 million declared by the four participating companies alone, continues to be spent on projects relating to social development including education, nutrition, and local government capacity building. Participants report increased community involvement in these social programmes as well as success in bolstering regional governments' effectiveness in the use of revenues generated by mining.

In many developing countries, it is unusual for large procurement contracts from major mining companies to be won by local businesses. The scale and sophistication of products and services required by international companies is simply not what typical rural businesses are equipped to provide. In this study, however, the opposite case was found as a result of Peru's relative maturity as a mining country and a pro-active approach by the major gold mining companies to the development of local suppliers. From 2007 to 2011, the mines spent 88% of their procurement budgets with Peruvian registered suppliers in dollar terms. Some US\$165 million in 2011 went to suppliers based in the local communities – up from US\$70 million in 2010. My interviews with the local business owners revealed that mining companies have been pro-active in seeking to recruit and train current and aspiring entrepreneurs in a conscious effort to maximise the mines' contributions to the local economies. Where there are insufficient skills, the mines have provided extensive training.

Where equipment was needed, from brooms to sewing machines to tractors, they helped local businesses access financing or made outright donations in some cases. The sharp increase in local procurement indicates that these programmes are having the intended effect.

The direct infusion of capital into the local economies via procurement alone – not counting the salaries of mine workers – is a major driver of growth in areas where economic opportunities are otherwise historically limited. Furthermore, building the long-term capacity of local suppliers is a key focus so that they can diversify into servicing the needs of other customers. Indeed, most of the suppliers interviewed for the report mentioned future business plans which do not depend on the currently operating mines.

In conclusion, the large-scale gold mining industry is not only a significant contributor to Peru's national economy, it also provides the opportunity for generational change at the qualitative, human level in mining communities.

What the positive macro-economic indicators do not convey is the magnitude of their impact on the communities in the same way that personal accounts of transformative change can. Some of these include the following comments made to me when I was researching the report by people involved in the local supply chain:

- *"I feel like I've come into my own; I've made it."*
- *"Before my kids were in school here in the country, now they attend the best schools, in town."*
- *"My daughter's studying at university, to be an engineer."*

See also the video: 'The economic contribution of gold mining in Peru' at www.gold.org

Maureen Upton is the founder of the consultancy Resource Initiatives. She publishes research and provides advice on economic impact, community relations, environmental stewardship, and workplace health and safety. Before founding Resource Initiatives in 2006, Ms. Upton was Director of Public Affairs & Communications for Newmont Mining Corporation.

Ms. Upton holds an MBA in Finance and a Master of International Affairs in Economic Policy from Columbia University in New York, a Diploma de Estudios Hispánicos from the Universidad Complutense de Madrid and a Bachelor of Arts in Philosophy from the University of California at Berkeley.

Mining, economic development and poverty reduction

**Dr Geoffrey Cannock, Partner,
APOYO Consultoría**



A widely-held perception among policymakers is that mining is good for the overall economy but that its burdens fall disproportionately on the communities located around the mines.

Studies carried out by APOYO Consultoría show that mining projects have indeed been contributing positively to the overall economy. Table 1 shows a summary of the results of an analysis of the contributions made by three major mines in Peru: Yanacocha (gold), Antamina (copper) and Cerro Verde (copper). Notice that the contribution to Peruvian GDP from each of them is between 1–2%. These projects have had quite positive impacts on employment and tax revenues, as well as on exports.

Not only have mining activities contributed to macro-economic indicators but also to the well-being of local inhabitants. The conventional wisdom, however, been that mining confers very few benefits to the local economy since it has historically worked as an enclave activity. That is, connected to the world but not to local communities. On top of this, the negative environmental impacts and externalities on traditional economic activities such as agriculture, have typically been used to make the case against mining.

Table 1: Contribution of mining to the Peruvian Economy

Mines	Yanacocha	Antamina	Cerro Verde
Type of mine	Gold & Silver	Copper, Zinc, Silver & Molybdenum	Copper & Molybdenum
Capex	US\$5,100 million	US\$1,289 million	US\$1,000 million
Impacts			
Evaluation period	1993–2006	2009–2029	2005–2010
GDP	US\$1,116 million per year (1.2% GDP)	US\$2,165 million per year (1.7% GDP)	US\$1,779 million per year (1.4% GDP)
Tax contribution	US\$260 million per year (0.54% overall fiscal revenues)	US\$368 million per year (0.67% overall fiscal revenues)	US\$225 million per year (0.43% overall fiscal revenues)
Exports	7% total exports	9% total exports	3.6% total exports

However, several recent studies suggest that local communities have also benefitted by probably the most relevant measure: poverty reduction.

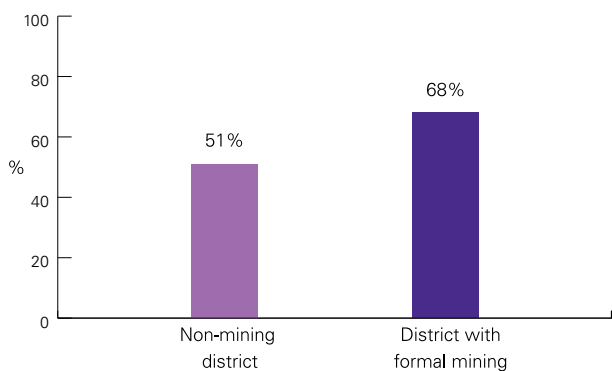
For instance, using the 1993 and the 2007 household and housing censuses a quasi-experimental approach was used. Taking the lowest political geographical units in Peru (districts), two groups were compared. Those that received the 'treatment', that is mining investment; and a control group, that is those districts that were pretty much like the districts that received the 'treatment', except for the introduction of mining.

The analysis concluded that non-mining districts had on average 17% more poverty and 12% more extreme poverty compared with mining districts. Similar results were obtained in later studies that focused in specific cases such as Antamina's. For instance, poverty rates in those areas under the influence of the Antamina mine were 6% less compared with similar non-mining areas.

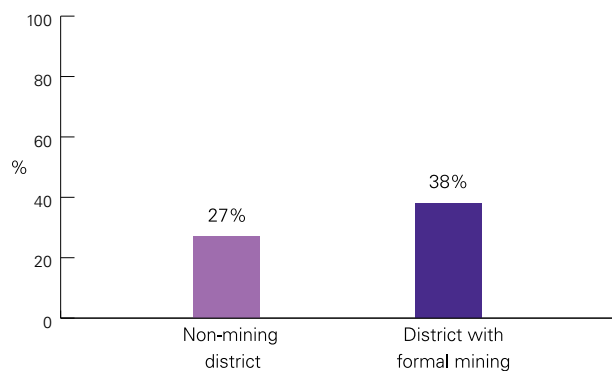
This reduction in poverty is also mirrored in significant differences in the levels of access to basic services indicators and the quality of housing as depicted in Chart 1.

Chart 1: Impact on access to services (2007)

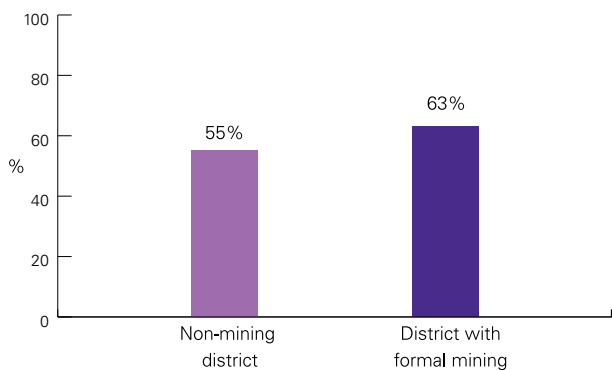
Households with access to potable water



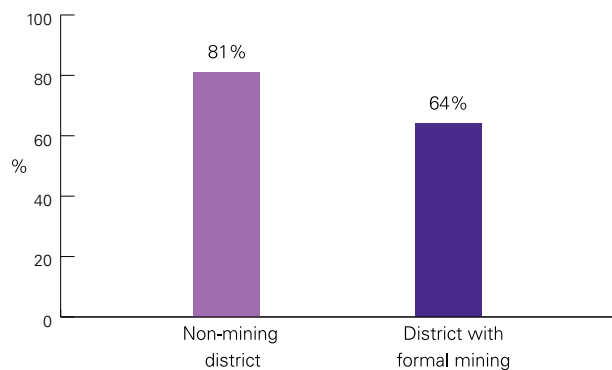
Households with sewerage service



Households with access to electricity



Households with dirt floor



Source: CENSO 2007

The main drivers that help explain these outcomes have been changes made by mine management, including approaches that increasingly emphasise local procurement and community employment; as well as corporate social responsibility projects.

However, the fiscal channel has not yet been working optimally. A significant proportion of the taxes paid by mining firms are required by law to be allocated to regional and local governments. But these 'canon' and mining royalties have not yet achieved their full potential in triggering good development outcomes. This is not due to a lack of resources: if these funds were to have been transferred directly to local inhabitants, poverty would almost certainly have been reduced substantially. For instance, if all the inhabitants living in the regions of Ancash, Moquegua, Tacna and Pasco received an additional income equivalent to their region's per capita mining fiscal revenue, then extreme poverty would have been eradicated in these regions.

The problem has been the low level of implementation of relevant expenditure programmes. In 2011, local governments only executed 58.2% of their investment budget, while the regional authorities only expended 61.7% of theirs. This situation is aggravated by the low quality of spending. A study prepared by APOYO Consultoría found that just 32.3% of the local government budget is invested in priority sectors (health, education, sanitation, public services), and the rest on secondary priorities (squares, sports complexes, etc.).

Last year the Mining Programme of Solidarity with the People (PMSP), the so-called 'Voluntary Contributions' mining funds regime, came to an end. The great advantage of these funds was that they aligned the interests of the mines with those of the local population and their local government structures. Its strengths were a flexible regulatory framework, a participatory system of decision-making and the implementation of private sector management standards. These characteristics helped projects financed by the PMSP revenues to avoid the cumbersome bureaucratic procedures necessary for public procurement. Funds not only served to finance and implement projects, but also contributed to capacity-building and the adoption of good management practices in local governments. They also helped to leverage resources from other organisations and firms for the execution of social projects.

The evidence shows that the funds have been more efficiently used than those typically expended by local governments. For instance, the costs per beneficiary in irrigation and sanitation projects were 1.5 times higher if carried out under the management of local governments. This is explained by the generally good management practices used for the 'voluntary' funds. So for example, a mining company from Cajamarca prepared 49 sanitation profiles using a single provider, while local governments often prepared each study individually without taking advantage of economies of scale and with higher transaction costs.

Despite its successes, the 'Voluntary Contributions' approach was left to expire in 2011 and in its place the direct tax burden on the mining sector was increased; but achieving a commensurate improvement in the quality of public spending is still pending. An alternative approach to improving the speed and quality of the investment would be to resume the PMSP. This mechanism generated management capacities in 40 mining funds. It could, for example, receive a portion of the mining royalties that are not currently used, or even help execute sub-national entities' overall budget.

Improving the management of the fiscal revenues will make the contributions of mining to the local economies much more powerful in securing an uplift in communities' welfare and hopefully will help to change positively attitudes toward large-mining projects.

Geoffrey Cannock is a Partner and Manager of Applied Economics at APOYO Consultoría. He holds a PhD in Agricultural Economics from Oklahoma State University and a BSc in Economics from the Pacific University (Lima). Mr Cannock has worked as an economist for the Inter-American Development Bank. He has also conducted several studies on the contribution of mining projects to the economy and their impact on rural poverty.

Understanding the basis of social conflicts

Dr Beatriz Merino, former Prime Minister and former National Ombudsman



At the present time, our country finds itself in a situation of social conflict, which gives some cause for concern. On the basis of information received by the Parliamentary Commissioner, the most frequent type of conflict is social and environmental in nature. Last year, 56.2% of all social conflicts were of this kind, and the figure so far in 2012 is 72.2%. This situation therefore represents one of the main issues to be taken into account in the drafting and implementation of policy in all sectors.

For this reason, I have to begin by defining the expression 'social conflict'. Eduard Vinyamata describes it as a struggle, a disagreement, an apparent incompatibility, a clash of interests between two or more parties, in which hostile perceptions or attitudes arise. He also says that it concerns life itself, that it is in direct relation to the effort needed to live and is linked to the satisfaction of basic needs. He goes on to say that it relates to processes of stress and feelings of fear, and the development of actions that may – or may not – spill over into aggressive and violent behaviour.

It is important to point out that while the existence of social conflicts may have negative consequences, they might also be regarded as an opportunity for social transformation. In this sense, the authorities are called upon to encourage dialogue between the stakeholders, that is, the interest groups or parties in conflict, or the people affected by, or involved in, the activities or running of an organisation.

Having defined social conflict as a confrontation of interests, we can now go on to state that the causes can be divided into three clear tendencies: ideological, psychological and cultural.

Ideological causes exist when there is a clash of ideas between the parties, that is, a difference of viewpoints. No such difference of views exists when the causes are psychological. The roots of psychological conflicts are moral, and include feelings of injustice or personal ill treatment, which extend to the group as a whole and give rise to the social conflict. A conflict of this kind occurs when a number of individuals share the same psychological condition. The expectations of the group are frustrated, as their way of life appears to be called into question. Of all the causes of social conflicts, however, those of a cultural nature are the most difficult to interpret and resolve in a peaceful manner.

It is important not to presume, however, that the economic needs that give rise to these social conflicts are in themselves negative. To deny private enterprise the chance to play an active part would mean that humanity reverts to the era of communism – which caused so much damage in both human and economic terms. It is not possible to condemn private initiative, reject investment and reduce economic growth because of the existence of conflicts that are inherent in human nature. It is correct to affirm that the stakeholders and authorities have to take action to prevent, manage and, where applicable, transform social conflicts. And strictly speaking, it would be inconsistent to expect Peru to hold back private investment and the resulting economic growth through such activities.

The economy cannot be regarded as an end in itself, but as a means for ensuring and guaranteeing basic services and exercising the fundamental rights of the population, and for developing the true notion of citizenship and genuine social inclusion. In this sense, it is the responsibility of the state to ensure that it obtains revenues, as it is only by means of economic growth that we can develop the resources to create and implement policies aimed at reducing poverty. I could, therefore, go so far as to summarise the concepts by stating that the more we invest, the more we stimulate growth, and the greater the growth, the less the poverty.

To conclude, I'd like to share with you a brief speech read by José María Arguedas, when he was awarded the 'Inca Garcilaso de la Vega' prize:

'No country is more diverse or has greater multiplicity in its landscapes and population. Here we have every degree of warmth and colour, love and hate, intrigue and artifice, symbol and inspiration. It isn't merely by chance, as the so-called common people would say, that this is the land of Pachacámac and Pachacútec, Guamán Poma, Cieza and Inca Garcilaso, Túpac Amaru and Vallejo, Mariátegui and Eguren, the festival of Qoyllur Riti and the Señor de los Milagros, or Lord of Miracles, the hot valleys of the coast and mountains, agriculture at 4,000 metres above sea level, ducks that quack in lakes at a height where the insects of Europe would be unable to breathe, humming birds that appear to fly up to the sun to drink of its rays and blaze above the flowers of the world. To imitate all this would be nothing short of scandalous'.

These words express the inclusive view of a man of our times, for whom the history of his country marks the evolution of an unparalleled cultural experience. I feel sure that, if he was with us at this meeting today, he would utter them with the same passion now as he did when he moved those who heard him speak them in 1968.

Beatriz Merino was the first female Prime Minister of Peru serving from June to December 2003. From 2005 to 2011, she was the National Ombudsman of Peru. She has previously been elected a Senator and a Congresswoman and has headed the National Tax Agency.

Dr Merino is Professor at the Business School of Peru's Catholic University and Director of the Center for Social Responsibility, Entrepreneurship and Sustainability.

Dr Merino graduated in law from the Universidad Nacional Mayor de San Marcos. She had completed postgraduate studies in taxation and economics at the London School of Economics and holds a Master's degree in law from Harvard.

Competitive development of local companies in Cajamarca

Luis Campos Aboado, Regional Vice President for Environmental and Social Responsibility, Newmont South America



The 'Project for the Competitive Development of Local Suppliers in Cajamarca' (PDP) was a pioneering national programme established in 2006 through a joint effort by Fondoempleo, the Los Andes de Cajamarca Association, Yanacocha and the Chamber of Commerce, with the support of such partners as Swisscontact and Recursos SAC.

The initiative was promoted by participants, who shared the aim of strengthening the capacity of local suppliers, from the perspective of learning and developing new skills, so as to create sustainable local opportunities from the procurement needs of large companies based in the Cajamarca region.

The underlying assumption of the programme is that mining investment should render a local economy more dynamic and create opportunities for new jobs in related and unrelated business activities.

The PDP aims to promote the competitive development of the companies of Cajamarca through four components:

- **Firstly, policies and plans for the development of local suppliers, under the guidance of the major purchasing companies, which establish key mandatory standards.** This has involved working with five major local purchasers (Aramark Perú, the Regional Government of Cajamarca, the Gloria Group, Minera Yanacocha and Transportes Línea), and preparing strategies, policies and plans for the development of selected local suppliers, in addition to following-up on the implementation process. At the same time, it was necessary to work with the Provincial Authority of Cajamarca to simplify administrative processes and reduce 'red tape'.
- **Secondly, training, technical assistance and support for local companies,** on the basis of their internal diagnostic processes and competitive position in the market, so as to enable them to implement a realistic business plan. Training and technical assistance was provided to 190 local companies to strengthen their administration, Total Quality Management systems, implementation of standards, support for certification processes and financial assistance.
- **Thirdly, commercial development and diversification of customers** through business contacts, with a view to strengthening the self-reliance and commercial sustainability of the companies. Technical assistance was provided to carry out market surveys; and support and managerial coaching were offered for the negotiation and formalisation of major contracts of at least one year's duration and/or non-regional contracts. Negotiating skills training sessions were organised, and support provided in closing deals. A market observatory was also set up.
- **Fourthly, strengthening the Chamber of Commerce and Production of Cajamarca, as a support institution for the PDP.** This involved the provision of funding for the drafting of institutional reinforcement plans, support for the implementation of such plans and assistance with equipment and support for the creation of new services.

Results

The first component of the programme (development of local suppliers) are set out in Table 1.

Table 1: Development of local suppliers

Indicator	Target value	Result
Supplier companies with local purchaser policies	88	194
Administrative simplification process in the provincial municipality of Cajamarca, to be consolidated by the year-end of the year	2007	2008
Promotion of private investments by the Regional Government in Cajamarca, by means of incentive policies	Policy set up	Policy set up
Establishing working groups to deal with local supplier policies within major purchasing groups	4	6
Strategic guidelines for the development of local suppliers to major purchasing groups	4	5
Implementation of supplier development policies by major purchasers	4	5
Monitoring the administrative simplification process in the Municipality of Cajamarca	2008	2008
Distribution strategy for supplier development policies by major purchasers	2	4
Drafting document to support major purchasers in creating supplier development policies	Document	Document
Drafting and validation of the competitive policy within the mining sector	Document	Document

The following results were achieved in the second area of activity:

Table 2: Training, technical assistance and support for local companies

Indicator	Target value	Result
New investments by suppliers assisted in the Total Quality Programme (US\$)	1,000,000	816,838
Reduction in processing costs for the suppliers assisted in the Total Quality Programme (US\$)	3,000	20,852
Market survey reports on the company development services	1	3
Companies assisted through the Total Quality Programme	44	49
Assistance for community enterprises in the Total Quality Programme	6	18
Optimised access to the financial system for the companies	44	52
Optimised access to the financial system for community companies	6	17
Companies with access to bank credits as a result of assistance made available through the project	20	21

The following results were achieved in the third area of activity:

Table 3: Commercial development and broadening the customer base

Indicator	Target value	Result
Companies receiving technical assistance in acquiring contracts of at least one year's duration	45	42
Contracts of at least one year's duration, a maximum of two per company	36	51
Value of contract transactions of at least one year's duration closed (US\$)	3,000,000	10,398,143
Companies receiving technical assistance in acquiring non-regional contracts	30	22
Non-regional contracts, a maximum of two per company	12	30
Value of non-regional contract transactions closed (US\$)	1,000,000	10,347,308
Organisation of negotiating sessions	3	3
Total value of transactions completed in negotiating sessions (US\$)	14,400,000	17,302,833
Implementation of market observatory	Implemented	Implemented
Value of credits obtained through the banking system (US\$)	600,000	1,352,450

The following results were achieved in the fourth area of activity:

Table 4: Strengthening the Chamber of Commerce and Production of Cajamarca

Indicator	Target value	Result
Preparation of a diagnostic system for the Chamber	2006	2008
Drafting and validation of an institutional reinforcement plan	2006	2008
Implementation of the strategic plan for the Chamber	70%	90%
Increase in the number of members of the Chamber	20%	113%
Organisation of events focussing on social responsibility by the Chamber	18	19
Total companies taking part in the events organised by the Chamber	720	904
Mean assistance offered to businesses for events organised by the Chamber	40	48
Implementation of a reinforcement plan within a regional corporation	1	-
Support for the implementation of equipment at the Chamber	Deed of transfer	Deed of transfer

The development of a local employment and purchasing policy at Yanacocha, involved a process of executing contract annexes with very demanding requirements for the recruitment of local personnel and purchasing of goods and services in Cajamarca. These requirements were applied at Yanacocha, and with contracting companies, in order to create opportunities for local companies, professionals and technical specialists, while satisfying all the requirements and standards.

Lessons learned

A number of important lessons have been learned through programme implementation, including the following eight points:

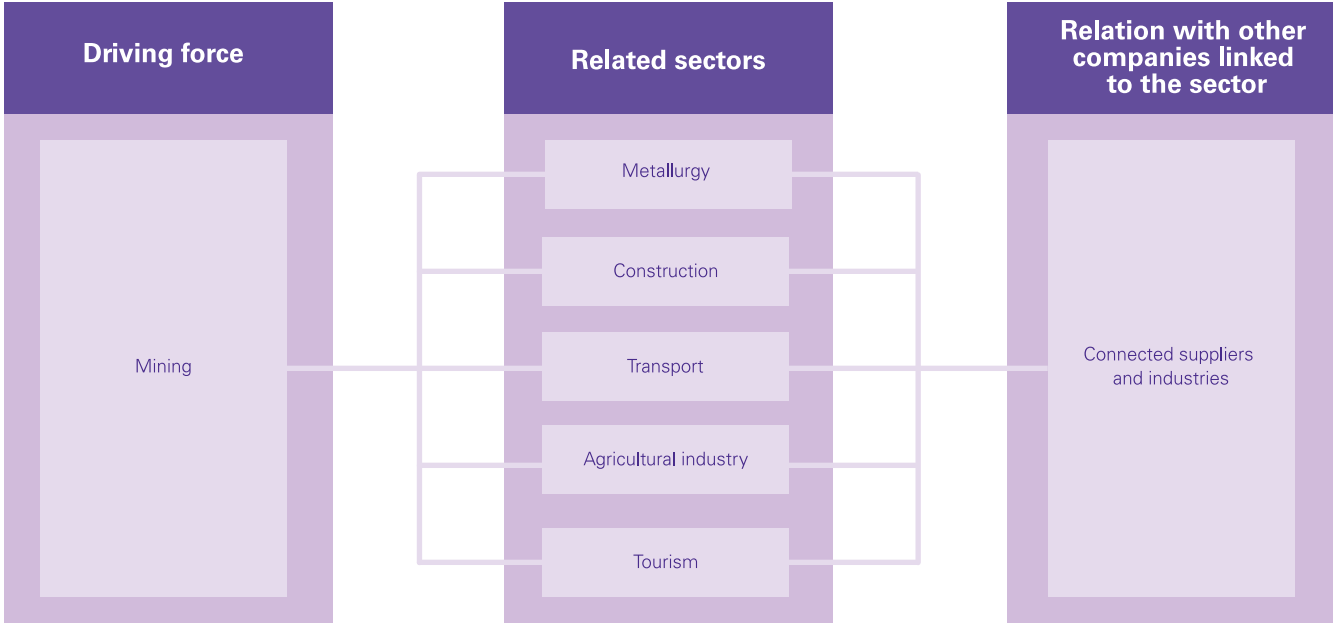
- Major investment in areas where economic development is poor undoubtedly creates significant opportunities for local suppliers that are supported in achieving international certifications. Such certification opens up international opportunities for the more advanced companies.
- Assisting large companies to formulate supplier development policies has proved to be an effective intervention, accelerating local business development processes and transforming the local supply chain through the generation of business opportunities and sustainable jobs.
- The generation of trust and confidence among the parties, both within the major companies and within local interest groups and suppliers, is of fundamental importance. This is no easy task, and we found that the creation of common objectives is the essential starting point.
- The identification of suitable partners is vital.
- Strong support and involvement from senior management is crucial.
- Monthly meetings between the major purchasing companies and their suppliers provide an important institutional underpinning. For tracking progress and planning for the future. Minas Yanacocha provides a particularly significant example, where such meetings have been taking place for more than five years.
- The market linkages mechanism helps entrepreneurs to develop successful businesses through drawing on more than five years of the PDP's knowledge and understanding of the market. The market linkages programme organises Business Days which allow interaction between sellers and buyers of goods and services. This gives PDP participants the opportunity for mutually beneficial engagement.
- The experience of the PDP is that financial returns can be accelerated at participating companies by focusing on improving core business processes.

Creating clusters

The Competitive Development Programme for Local Suppliers in Cajamarca has sought to ensure that there is a growing network of linkages between mining and other sectors of the local economy such as metallurgy, construction, transport, tourism and agriculture. In the case of Cajamarca the following points need to be considered:

- The mining sector has the potential to create clusters of expertise, with more new players drawn to the region. In the vision of Harvard's Professor Michael E. Porter on the creation of local business clusters, this is a factor requiring promotion and planning.
- The key suppliers in the identified priority local sectors, once they have been supported in delivering to the standards expected by demanding international companies, should become increasingly competitive.
- As the metallurgy, construction, transport, tourism and agriculture sectors are strengthened, this may in turn create the conditions for the development of other adjacent industries.
- Co-operation and partnership between the government and local business organisations helps the coordination and promotion of a favourable operating environment for the consolidation of the mining cluster, as each of the local supplier sectors develops in turn.
- The consistent will and engagement of the mining sector is needed to build and sustain the environment for the consolidation of the cluster.

Figure 1: The importance of the supply chain for the interaction and reinforcement of the capacities of the players



Success and repetition factors

As a result of the implementation of the Competitive Development Programme for Local Suppliers in Cajamarca, it has been possible to demonstrate two success factors, judged in terms of sustainable development:

- In this programme, mining was like a locomotive driving the development of enterprises in sectors to which it was directly linked
- These sectors in turn generated business opportunities for another level of suppliers of goods and services, usually smaller local companies, creating jobs and incomes for local people.

Luis Campos Aboado is a specialist in environmental and social responsibility issues. He has worked in the mining industry for 17 years at operations and projects in Peru, Ecuador, Indonesia, the United States and Australia. Since 2008 he has been Regional Vice President for Environmental and Social Responsibility issues for Newmont South America, which has included responsibility for operations and projects in Cajamarca, mine closure in Bolivia and projects in Surinam.

Creating strategic alliances for development

Alejandro Hermoza Maraví, Vice President, Social and Environmental Affairs, Buenaventura



Modern, responsible mining seeks to minimise and control inherent risks by promoting its positive impacts: growth and sustainable development in harmony with the environment and with local communities. To this end, it is necessary for the industry to work on the basis of an overall development perspective which aims to give an impetus to the productive potential of local communities. This involves a continuing process which starts from the first stage of a mining project and looks forward to future sustainability.

This cyclical process or 'virtuous circle' is expressed in Figure 1. Some other important examples are shown in Table 1.

It is from this perspective that responsible mining can make a contribution to local development, demonstrating that it can co-exist with other activities – such as agriculture – with mutually beneficial effects. Through mining it is possible to achieve real sustainable development when this is matched by the active participation of the community and local government. That is why we speak about Shared Social Responsibility. This sees as its fundamental component the promotion of 'public-private alliances' such as formal undertakings between the state, the company and society to deliver projects of mutual interest, based on a shared vision.

What is needed is to promote a social responsibility model in which the company is no longer at the centre of the relationships as the hub of the various social participants, but rather a model in which a network of partners is established and in which the focal point is the shared vision for development.

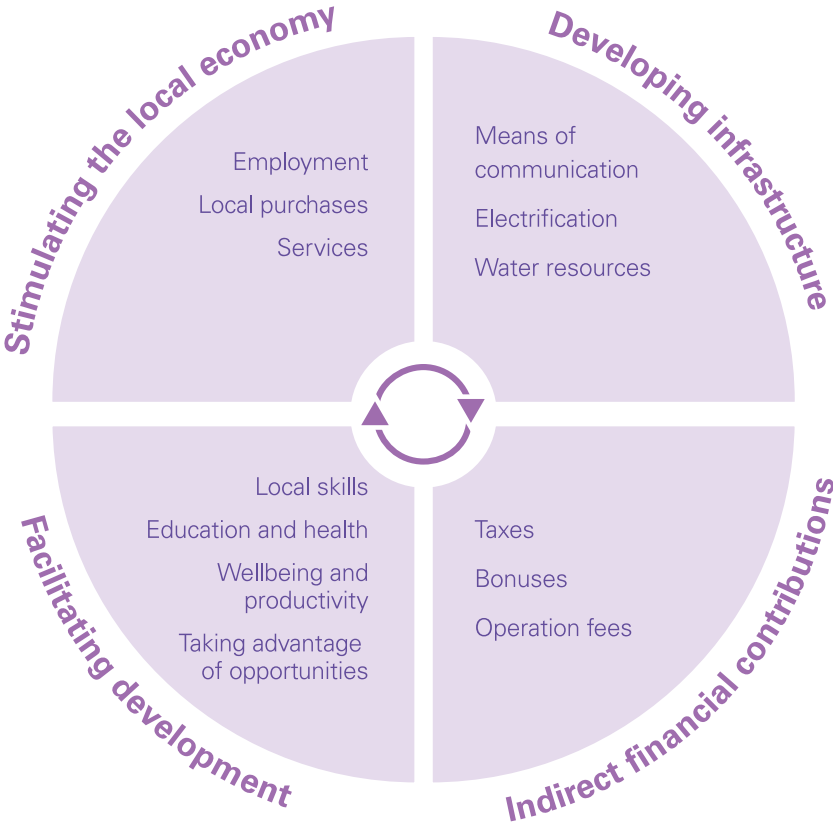
The starting point for this process of creating public-private alliances is the joining of forces behind a vision for development. This makes it possible to develop mechanisms that help identify opportunities or requirements which reinforce the process of dialogue between the relevant, interested sectors. The aim is to establish agreements with three fundamental elements: social validity, technical solvency and a strengthening of relations between institutions. With these three elements it is possible to stimulate economic and social development initiatives and infrastructure projects that will have a significant impact on the well-being of the surrounding populations.

A successful example is the collaboration between Buenaventura Mining Company, the Raura Mining Company and the Los Quenuales Mining Company, and the construction and asphaltting of the Churín/Oyón highway which forms part of the Huaura-Río-Seco-Sayán-Churín-Oyón-Ambo corridor. It was through a public-private alliance between the three companies, the Ministry of Transport and Communications, the Regional Government of Lima, the district municipalities and the communities, that it has been possible to realise a project that was more than 40 years overdue. The private investment amounted to 30 million soles, leveraging an overall investment of more than 100 million soles.

Table 1: Public-private alliances – examples of projects delivered

Nature of the Project	Region	Clients	Total sum invested	Commercial contribution	Management
Sanitation	Lima	Municipality, Company, Community, Ministry of Economy and Finances	S/. 24,000,000	S/. 5,000,000	
Roads	Lima	Regional Government, Ministry of Transport and Communications, Municipalities, Communities, Companies	S/. 286,000,000	S/. 27,000,000	
Road /Tourism	Arequipa	Regional Government, Congress, Ministry of Transport and Communications, Local Governments, Community	S/. 53,500,000	S/. 6,500,000	
Asphalting of roads	Arequipa	Regional Government, Municipality, Company	S/. 5,500,000	S/. 2,600,000	
Sanitation	Arequipa	Housing, Municipality, Company	S/. 3,705,134	S/. 500,000	
Irrigation infrastructure	Arequipa	Regional Government, Municipality, Communities, Company	S/. 6,800,000	S/. 2,500,000	

Figure 1: Mining and development – creating a virtuous circle



Public-private agreements are able to deliver the following eight key benefits:

- They make it possible to develop initiatives and undertakings in a straightforward, dynamic way, where this would not have been possible using traditional mechanisms (state investment, citizen initiatives, etc.)
- They establish a clearly defined framework of obligations and benefits for the participants, reducing the risk of conflicts and disagreements
- They ensure the transparency and social validity of the initiatives, contributing to their viability and sustainability
- They contribute to generating and realising community visions and objectives, creating opportunities and channels for dialogue and negotiation
- They overcome the traditional paternalistic, vertical approach, enabling more fluid, horizontal relations between participants
- They combat dependency, giving local and regional participants a direct, active role in the development of agreements
- They enable the development of the skills and capacities of local authorities and beneficiaries
- They stimulate the growth of experience and expertise on the part of the participating actors, establishing the basis for carrying out more ambitious projects in the future.

It is clear that when working in concert with others, a mining company can be a catalyst for facilitating development. From the start of their exploration activities, companies can give a dynamic boost to the local economy by generating jobs and services which often go far beyond their own operations. In addition to facilitating state participation through indirect financial support (taxes, bonuses and operation fees), it strengthens the legitimacy of the democratic system and the institutional nature of regional and local governments. Similarly it brings to light opportunities to generate synergies for joint infrastructure projects, which have direct and important positive impacts for on the population.

Is it possible to heighten these positive impacts? Absolutely, whenever emphasis is placed not only on contributing to works or investments, but also on stimulating productive potential in key areas, thereby not only linking the entity's own activities – in this case the use of natural resources – to the local economy, but also making the most of the comparative advantages of a locality, and in particular converting them into competitive advantages.

An example of these comparative advantages is the Valle de los Volcanes (Valley of the Volcanoes) in Andagua, province of Castilla, in Arequipa. This valley has the potential to become a worldwide attraction as a unique landscape, an untouched destination with living cultures, not far from the Valle del Colca (Colca Valley) which is visited by thousands of tourists from all over the world. To give impetus to this sustainable tourism project the commercial contribution lies in facilitating the involvement of all participants (central, regional and local governments, communities and the private tourism sector), as well as contributing to the construction of the Ayo-Huambo highway (technical requirements and works) and the participation of consultants and technical management in the project. For their part, the relevant communities share a vision for the future of tourism as providing a new economic impetus, additional to mining and agriculture. This involves the recovery of cultural heritage and improvements in the services infrastructure and hotels.

The public-private alliance approach is focused on the sustainability of interventions by responsible mining companies and makes it possible to offer an integrated vision in terms of the projects carried out. This goes far beyond the minimum standards and requirements for a mining project. We believe that if the obstacles to effective government and strategic management can be overcome, then the improvements in the quality of life available for affected citizens could be enormous.

Alejandro Hermoza Maraví is a Mechanical Engineer, with a degree from the University of Maryland, a Master's Degree in engineering from the same university and a Masters in Administration from the University of Applied Sciences – UPC. He was formerly Development Manager at the National Confederation of Private Enterprise Institutions (CONFIEP). He has worked at Buenaventura since 2003. In 2011 he completed the Advanced Management Program at Harvard Business School.

The role of mining in strengthening Peru's industrial base

Report of a presentation by Pedro Olaechea, President, Industrial Society of Peru



Mr Olaechea opened by saying that the connection between mining and Peruvian industry is strengthening and that Peru is now exporting metallurgical and mining-related machinery to other parts of the world. While the amounts are still relatively small, exports have grown to almost US\$700 million a year. He noted that this had happened without any central planning.

He said that such exports ranged from standard equipment to sophisticated tools including drilling machines and parts as well as copper bars. 'It is,' he said, 'incredible that Peru is exporting grinding mills to China'.

Table 1: Exports of metallurgical and metal mechanical products related to mining

Product	(Millions US\$)
Copper and steel bars	132
Car radials	74
Machinery and parts	68
Vehicles and parts	52
Drilling and boring machinery and parts	32
Generators	24
Iron and steel wires	10
Other products	278
Total	672

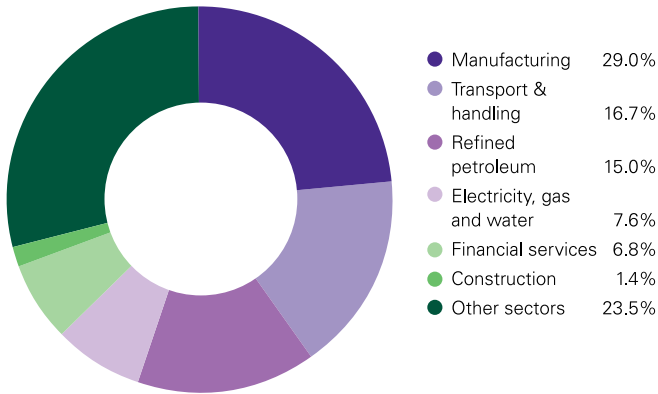
Source: SUNAT

He added that this was a market-driven development: '[It is] an unintended consequence of mining. It was not planned. The mining industry has demanded it'. He referred to the World Gold Council report on gold mining in Peru that showed that 88% of the requirements of the mining industry were now being met by Peruvian registered companies. This demand from mining is driving increasingly sophisticated and competitive production processes. As a result, the range of products and equipment being offered by Peru is getting ever larger.

He mentioned that further evidence of the impact of gold mining on the national industrial base can be found in the national input-output tables. For example, nearly one-third of the demand created by mining companies in Peru is for manufactured goods (see Chart 1). The sector is also creating demand for financial services such as insurance and credit.

He contended that 'the mining industry is becoming ever more the motor that drives national development because its requirements are fostering the generation of new knowledge and capacities in manufacturing industry' continuing that 'If mining stops, we also stop'.

Chart 1: Demand from Peru's mining industry for products from other sectors, according to input-output table



Source: INEI

Mr Olaechea cited many examples of projects developed by Peruvian industry, using domestic technology and engineering, which show how the links between mining and industry are driving commercial and industrial progress.

National industry had searched every corner for every detail to make this happen. As an example, Mr Olaechea said that Peru used to import the hydro-coolers used for asparagus processing. By looking at the imported machines, Peruvian engineers had worked out how to build them domestically and now the country was exporting them. The same had happened in the mining industry. When a mining company said it would bring in grinding mills that were not built in Peru the response was 'it does not matter, we will learn to use it, we will learn to fix it and then we will learn to build it. There is no problem, we will not be troubled by it.'

Peruvian companies were studying the fundamentals of imported mining machines and then assessing whether they could be built by domestic factories. When it could be achieved, Peruvian manufacturers did so with quality and precision. Just as with the asparagus coolers, Peru was now exporting the mining machinery that it used to import.

He said that Peru's national industry could deliver many benefits to mining companies if they worked together in a spirit of mutual collaboration.

These benefits include:

- Knowledge of the real 'on-the-ground' situation in Peru
- Optimised, made to measure solutions
- Competitive prices and completion times
- Quality and technology (ISO certification)
- Fast reaction times
- Specialist local assistance
- Work carried out by Peruvians with consequent development benefits for the country.

To unlock these benefits Mr Olaechea said that there should be an emphasis on the following factors by the mining industry:

- Providing project information at an early stage
- Outreach and mutual understanding
- Collaboration to enable machinery and equipment made in Peru to contribute to the competitiveness of the mining industry
- Strategic alliance between the mining sector and national industry, with long term commercial relationships
- Priority given to Peruvian industry in engineering, procurement and construction (EPC) projects.



Housing units in Antamina built for miners that live at 3800 metres above sea level or more.



A Peruvian plant that builds sophisticated equipment required for mining production such as this cyclone.

Conclusion

Mr Olaechea concluded that Peruvian companies see in the growth of the mining industry an opportunity to sell goods and services and to grow alongside it. He called for a strategic alliance to develop a mining and industrial cluster which will enable small, medium and large companies to become involved in mining-related activities. This, he said, should take place under competitive conditions in order to ensure that the clusters are economically sustainable.

He then posed the question of what was required specifically of the mining industry? He reiterated his earlier point that a support industry for mining in Peru was growing without specific plans and policy. However, if national firms continue to work alongside the mining sector, this will increase the contribution to national development still further.

Pedro Carlos Olaechea Álvarez Calderón studied at the Pontifical Catholic University of Peru where he graduated with a BA in Economics, and later an MBA. He has also studied at Henley Management College in the United Kingdom. Mr Olaechea has been Director of Viña Tacama S.A. and Directory President of Fabrica De Envases Fadesa Perú, adviser to Microsoft Perú, Director of Perú 2021 and President of the Directive Council of CITE VID.

Mining needs to lead to development if it is to command acceptance

Martin Vizcarra, President of the Regional Government of Moquegua



For national and regional governments, mining companies and local communities co-operation is not only a possibility but a necessity. If they do not work together, problems will continue to exist and the development of new mining projects will become unfeasible.

Too often we hear speakers say one thing to one audience and something different to another audience. This breeds confusion and distrust. As President of the regional government in Moquegua, my main responsibility is to have a message that is consistent regardless of the audience. The main purpose of having someone to represent the state is to have a single view, support it and justify it before the different audiences.

In this case the message is that mining is necessary to maintain Peru's growth. However development does not necessarily follow growth. Development cannot be generated by decree. Rather, it requires proper involvement from the state and from the companies themselves.

When I made the same points at a meeting with farmers in the region of Moquegua, they labelled the local authority as pro-mining. However, the key point I want to get across is that we must ensure that mining investment is done in a way that is consistent with development – not to be pro-mining or anti-mining.

There is an apparent contradiction at the heart of the debate. If Peru is growing thanks to the mining industry, and if poverty has decreased thanks to the mining industry, then why does a significant part of the population hate the mining industry? Why does Cajamarca reject Conga? Why does Arequipa reject Tía María? What is the cause of this rejection?

Something needs to change. Continuing in the same vein will not lead to the acceptance needed to build new investments. There needs to be an environment of harmony that welcomes new investments that generate growth, that welcomes the profitability of mining companies, but that also improves the well-being of the population.

Perhaps part of the reason for this rejection by the people is to do with the concentration of economic value in the mining sector. The GDP per capita of Moquegua is almost triple Peru's average. That number by itself could lead to the conclusion that Moquegua is doing wonderfully. However, looking more closely at the detail, we find an extremely high GDP per capita in the mining sector, of more than US\$200,000 and an extremely low GDP per capita in agriculture of around US\$500. Mining only involves 2.6% of the economically active population, whereas agriculture involves 27% of the population. As such there is a low GDP per capita where most of the workers are, and there's a very large GDP per capita where very few people are involved.

If this wide gap between mining and agriculture is not closed, new mining investments will not be welcomed. So how can this situation be reversed? This is a role that the state needs to take on. Some level of self-criticism is required in order to realise what is being done wrong, what needs to be fixed and what the state and the mining companies have to do to close the gap.

In my speech in Moquegua, I called for mining that generates different results by not distorting the economy. I think this can be done if there is sufficient will. However, if new mining investments generate the type of distortions where 2.6% of the population is doing very well, and a great percentage of the population is barely surviving, then the people will run out of patience with mining.

So what can we do? The industry and government must each play their respective roles. My regional government is doing its part by building infrastructure and working to improve health and education. Mining companies have to help too, for if they do not support us in reducing these distortions, there is no prospect of changing the way many people think and feel. The regional government of Moquegua is willing to work together with industry to achieve this, because we, like the people of Peru, want to see a region and a country where there is social inclusion, equality and prosperity for everyone.

Martin Vizcarra is the Regional President of Moquegua. He is a civil engineer who graduated at the National University of Engineering (UNI), with a diploma from ESAN in Company Administration. Mr Vizcarra has been Dean of the Association of Engineers of Peru (Departmental Council of Moquegua), Operations Manager at C&M Vizcarra S.A.C., Executive Officer of the Special Pasto Grande Project, member of the Board of Management of EGESUR, Director of the National Society of Industries (Moquegua) and member of the Consultative Committee of the CONCYTEC National Council of Science and Technology (Moquegua).

Local government and mining working together: building local government capacities

Fernando Ruiz-Mier, Regional Coordinator, Strategic Community Investment in Latin America and the Caribbean, IFC



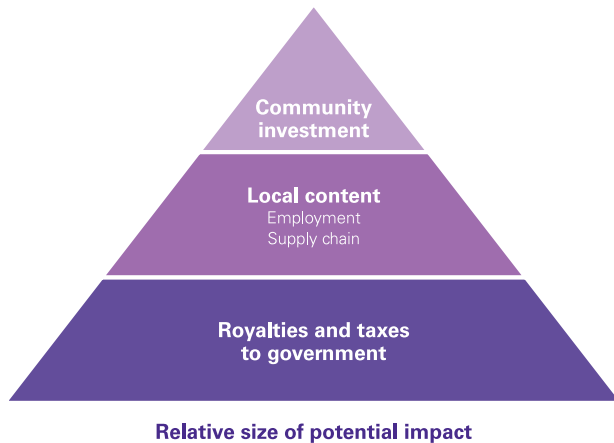
This article briefly addresses some aspects of how local governments and mining can work together. It makes the case that the fact that mining companies and local governments share some challenges and operate in the same territorial space, provides ample opportunities and motivations for collaboration. Drawing on International Finance Corporation's (IFC's) experience of supporting local governments in Peru, it then highlights: a couple of conditions for joint work to be effective, some lessons learned from experiences of deciding what to work on together, and how to go about it.

What is a mining company expected to deliver?

The extractive industries have increasingly incorporated environmental and social considerations into the way they do business. Companies have skilled-up in the environmental area over the past two decades. Mining companies, particularly large ones, have also become increasingly active in the social arena for some time now, primarily through initiatives contributing to better health and education services for surrounding communities. Arguably, however, the majority of companies lack the necessary depth of skills to play the part of 'development actor'. This has become more evident as the industry has become increasingly capital intensive and, in the process, generates fewer jobs. At the same time, extractive industries are affected by a rising tide of expectations about what they should deliver. In the case of mining companies, not only national governments but also communities and regions feel they ought to benefit more.

In general, the notion that communities should end up better off as a result of mining activities has been gaining momentum; challenging companies to take a more activist approach on topics like capacity building, supply chain development, and other ways in which they can generate local benefits. As extractive activities move to more remote areas with limited development, expectations of what companies should deliver have also increased. In such areas the lack of resources or the inability of local governments to provide essential services is often accompanied by the perception that companies do have the resources and are, therefore, in a position to address communities' needs. As a result they are increasingly expected to contribute to services and infrastructure that address basic needs, something that is really a state responsibility. What companies should do, and how they can promote local development without substituting for local government, is not well defined and remains very much an open discussion.

Figure 1: Three ways in which mining can deliver positive impact



Mining does not automatically lead to development

Mining often represents a unique opportunity to improve the living conditions of a local population. While that is generally recognised, experience shows that positive impacts do not happen automatically. Key stakeholders, local governments among them, need to do their part. This means they must have, in addition to good intentions, the right skills. This is particularly the case in those countries that have adopted schemes for transferring a proportion of the taxes and royalties generated by mining companies back to local governments. While making resources available in areas with significant needs is welcome, putting them to good use can be a significant challenge for local governments which often do not have the skills or the experience of managing this scale of resources.

Often, local governments, instead of focusing on how best to deliver services, get distracted by the presence of a mine and focus instead on getting the company to contribute towards, or even take responsibility for, individual initiatives or projects. The question is whether the relationship of a local government with a mining company can move beyond that of bargaining for resources?

Why should mining companies and local governments work together?

As key players in the same territorial space, local governments and mining companies cannot ignore each other. What they achieve will depend on how they relate to each other and the extent to which they can work together in a co-ordinated manner. While they are often on opposite sides of a negotiating table, both face similar expectations from the local population. Thus, although their motivations may be different, the two confront the same challenge of how to deliver results. From the local government's perspective it is how to ensure that living conditions for the population improve. From that of the mining company it is how to ensure that surrounding communities and the population derive benefits from its presence and, thereby strengthen its license to operate. While not always recognised, this means that local governments and mining companies could achieve better results working together. The question is 'how?'. There is a wide set of options that range from a certain degree of coordination of initiatives to deeper and more structured co-operation. The latter can result in changing the company's role from that of substituting for government to helping local government to do its job better.

What makes joint work effective?

The basis for any significant and productive joint work is a clear and agreed vision, together with a sincere commitment on both sides to develop a long term relationship.

A clear vision that defines priorities and specifies what is to be achieved provides the necessary foundation. Defining such a vision is the responsibility of the local government. Regrettably, local governments are often too weak to have a clearly defined set of priorities, let alone a well-defined development vision. Often, to the extent that they might have well defined priorities, these are rarely stated explicitly. In the absence of a clear set of priorities a substitute is to identify and agree on a specific initiative with a well-defined objective.

For a mining company and a local government to develop a long term relationship a sustained effort to establish and maintain an open and sincere dialogue is needed. Open dialogue contributes to understanding each other's motivations and constraints and helps build trust. This is not always easy, given that local governments are often focused on obtaining resources from companies, while companies have a natural inclination to focus on what they feel will most directly contribute to their relationship with surrounding communities. Also, the two entities are likely to have cultural disconnects and work to different time horizons with the leadership of local governments often eyeing the electoral cycle. Thus, supporting local governments may not produce results as quickly as undertaking projects directly with communities.

However, it is important for a company to establish relations with local governments and other entities beyond its immediate area of influence, and to consider the impact it has and can have, in a space wider than its immediate vicinity.

Developing a long term relationship often means changing the dynamic from the one that currently prevails, based on a 'what do I get from you?' logic, to one aimed at finding ways to work together. For this to happen, the commitment of both sides is necessary. It is also important to recognise that when it comes to building trust the process itself is important. It is done one step at a time, and it takes time.

The two conditions mentioned are not always present. When that is the case, the question becomes one of how to work together when there is uncertainty, lack of clarity, lack of trust, or even opposition to mining?

IFC's experience with local governments and mining companies in Peru

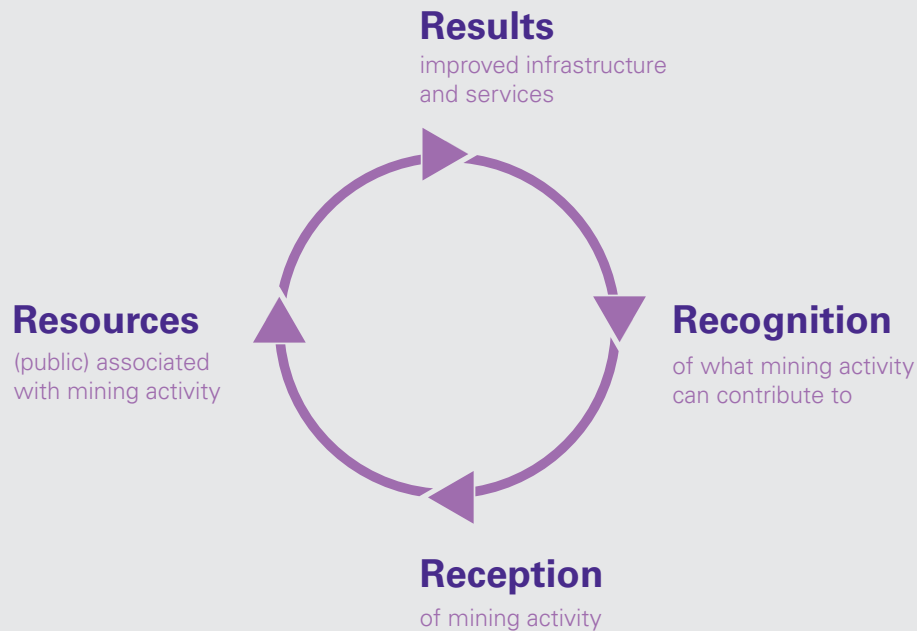
IFC's experience of helping local governments to build capacity to undertake much needed investment provides an example of the type of work local governments and mining companies can tackle together as partners. Many of the characteristics and lessons can apply to other areas in which local governments and companies might choose to partner.

The need and challenge – as a result of the Mining Canon Law enacted in 2004 some local governments (municipalities) have been receiving significant resources. Many of the communities living in municipalities now receiving sizable transfers are also some of the poorest in Peru. This means that the resources being received by the municipalities represent a great opportunity to lift communities out of poverty. However, such municipalities often have difficulty in translating resources into projects that deliver tangible benefits for the population. Their limited investment capacity means that significant resources are not being used and that the potential benefit that could accrue to communities from extractive activities is not being fully realised.

The nature of the work undertaken – over the last six years, IFC has been supporting municipalities to build their investment management capacity. Our work focuses on promoting the adoption of good practices across the investment cycle so that municipalities will be better positioned to invest more effectively and implement projects more rapidly. Key areas of work are prioritisation, multi-annual programming, and investment monitoring. The effort to promote the adoption of good practices is accompanied by helping municipal officials to handle everyday challenges as they appear. Some of this work was done as a tripartite effort with mining companies partnering with local governments and IFC. The results observed are generally increased investment, better structured investment programmes (reduced dispersion and atomisation of projects), and greater alignment between projects and local government's stated priorities.

Among the lessons learned, two relate to choosing the sort of projects on which to collaborate and another three relate to how to work together. They illustrate how simple, commonsense criteria can provide good guidance.

Figure 2: The '4R' virtuous circle for high development impact: A snapshot of IFC's approach



Rationale

- Increasingly royalties and taxes paid by extractive industries flow to local governments, but local government often doesn't have the capacity to invest those resources in projects that provide tangible benefits to communities, and communities are often unable to hold local authorities to account

Conditions

- A poor, mostly rural municipality with mining activity of national importance
- Receiving significant resource transfers from the government
- The municipality lacked the capacity to invest the resources in projects
- The residents were not receiving tangible benefits and were unable to hold the mayor to account
- The area remained conflict-prone with some opposition to mining

What IFC saw

- *Opportunity* – Potential for high development impact
- *Challenge* – Unleash a virtuous 4R circle

IFC's Approach

- *Municipalities* – Assisting local governments to improve local investment, leading to more and better targeted local public investments
- *Civil Society* – Working with local institutions to promote community dialogue and hold local government officials accountable for the use of resources

Objective

- Help ensure relevant communities receive benefits derived from the presence of extractive activity.

Choosing what to work on

Choose an area of need that is of common interest – working together is much easier when interests are aligned. Turning the unspent resources into improved services and infrastructure clearly represents a challenge to local governments. The unspent monies are also a challenge for mining companies who recognise that it is in their interests for resources to reach the population – otherwise they are likely to face growing pressure, discontent, and allegations of bad faith.

Focus work on concrete challenges – do not cover too much. Do not over-reach in terms of scope, but at the same time be sure to understand the whole challenge and address key bottlenecks. A common mistake when trying to help municipalities improve their investment performance is to hire consultants to prepare technical specifications for projects. That is only the first step in the investment cycle; capacity to cover the whole investment cycle is also needed. At the same time, however, there is no need to do it all (address all weaknesses); rather, choose what to focus on (the key restrictions) taking into account the local government's absorption capacity.

Defining how to work together

Pay attention to how an initiative is defined – the way of specifying what is intended has an effect not only on what is achieved but on the opportunities to build a stronger relationship. It is important to focus not only on the outcome but on the process for getting there. There is a difference between framing the support provided as helping local governments to accelerate investment as compared with helping them to increase investment management capacity. The second produces results in the form of higher levels of investment but it also contributes to improvements being sustainable – rather than just generating a one-time gain. Furthermore, focusing on building capacity at the municipal level provides a rich opportunity for engagement and contributes to forging relationships.

Provide structure to support change and favour simple solutions – change is easier to implement when it is supported by tools to help those involved to adopt new or better practices. Simple tools will often suffice and are easier to adopt. Furthermore, tools contribute to imposing discipline and consistency in the new way of doing things. The adoption of the different practices proposed in IFC's projects was supported by a variety of tools, often nothing more than spreadsheets or other formats to help organise information or to track the implementation of previously agreed decisions.

Don't lose anything in translation – local governments and mining companies represent two different worlds, and use different languages. Communication may not be straightforward. Using a third party that can bridge the differences, acting as a 'translator', may help to overcome this.

Conclusions

Joint work on initiatives orientated towards improving the living conditions of the population and promoting local development provides an additional dimension to the relationship between a mining company and local government. It opens up the possibility of a different type of conversation enriching the relationship, previously often one-dimensional, based on a negotiating logic in which a company focuses on responding (or not) to requests from the local government. By doing so it can set the basis for a more productive relationship. Put simply, collaborating can have some important benefits, for example, to the company's social licence to operate, in addition to creating greater impact on development.

Collaboration can contribute significantly to local governments and companies developing trusting relationships. At the same time, to be effective collaboration depends, at least initially, on personal relationships. Changes in personnel, be they in local government due to political cycles and the associated changes in authorities and officers, or in the company because of staff rotation, pose challenges because they make the relationship less stable. Experience has shown that a more complex combination, involving local government, mining and civil society might be necessary. A wider conversation involving recognised representatives of civil society can provide stability to the relationship. It can also help balance requests from communities with the initiatives to be undertaken with local government.

Fernando Ruiz-Mier is IFC's Regional Coordinator for Strategic Community Investment projects in Latin America and the Caribbean. He has been working on Strategic Community Investment projects in IFC for the last five years and has led the development of the approach and methodology IFC applies in revenue management projects.

Mr Ruiz-Mier holds a PhD in Economics from Purdue University. He has experience in consultancy, the public sector, and academia. He was Manager in Charge of Reviewing Operations at the Andean Development Corporation (CAF) and headed the consultancy practice at KPMG in Bolivia. He has served as Vice-Minister of Social Policy and Investment in the Ministry of Human Development, as Vice-Minister of Public Investment and External Financing in the Ministry of Planning and as Vice-Minister for Monetary Policy in the Ministry of Finance, all in Bolivia.

A commitment to local communities can help spread the benefits of mining

Gonzalo Quijandria, Director of Corporate Affairs, Barrick Gold Peru



The most evident contribution made by gold mining companies, at least the one that has the greatest impact in the media and is most readily recognised by public opinion, is their tax payments and the inflow of wealth to the country resulting from gold exports.

Much less is known, or understood, about the added value that the mining sector generates through local purchasing and hiring, practices that have a direct impact on local economies, as has been shown in the World Gold Council's recent study.

Experts agree that in order to generate a greater development impact, certain social and economic conditions and measures are required in the areas around mining operations – including preventing mining from being an 'enclave' activity. Therefore, to be able to increase local purchasing and the hiring of local labour, mining companies must try proactively to close the gaps in local skills that may exist, starting from their project phase.

Many of these gaps are related to low quality public education, and others to the lack of support and training for improving production methods for the industrial sector and for farming, including stockbreeding and local trade.

This situation has a profound impact on the chances of success of mining companies' social programmes. In response, Barrick has promoted a model that seeks to change the paradigm for mining companies' social intervention. It promotes the development of local skills by establishing partnerships between the company, civil society and local government in order to start eliminating the barriers that keep local people from making the most of the possibilities that mining has to offer.

Consequently, Barrick has persuaded a group of public, private and civil society institutions to work together around a shared vision of social responsibility, respect for people's fundamental rights and promoting a culture of peace and dialogue by joining the programme known as the 'Alto Chicama Commitment'.

This Commitment consists of a strategic alliance of institutions committed to social inclusion, sustainable development and the reinforcement of human skills that can help to improve the quality of life in the less-favoured communities of the provinces of Santiago de Chuco, Sanchez Carrion and Otuzco in the region of La Libertad.

Through this new vision, Barrick seeks to move away from the traditional relationship between mining companies and their partner organisations, whereby the companies limit themselves to financing social programmes, and the latter offer to deliver defined outcomes in target communities. Instead, the new vision aims to mobilise the support of all the entities that participate in the Commitment so as to deliver on a number of jointly agreed pre-determined indicators, aimed at eliminating some of the factors that have been identified as constraining local development.

Let us take, for example, the development of the target area's agriculture which, in spite of various state interventions (agrarian reform, assistance with fertilizers, donation of farming equipment, etc.) has not been able to break free from subsistence farming.

In this field, Barrick has joined USAID (United States Agency for International Development) and the Peruvian farming-promotion agency, Sierra Exportadora (Exporting Highlands), in a project designed to improve the commercial performance of small farmers.

This programme identifies which products are in demand and provides technical assistance and information, thereby allowing the beneficiaries to reach the market with good products and identified buyers. Through this programme, more than 400 producers are now successfully commercialising meat, kiwicha, golden berry, tara, broad beans and avocado, amongst others.

Barrick has also entered into an association with the Instituto para una Alternativa Agraria (Alternative Farming Institute), whose objective is to improve the livelihoods of farming communities by using easily applied and maintained production technologies. The basis of this programme is the management of water through family micro-reservoirs. For example, over 200 families in the Cahuide farming community have improved their food intake and nutrition and have generated a production surplus which they are now able to sell in local markets.

Pursuing both projects simultaneously in the same area allows for both the improvement of local skills, through the use of technologies that are appropriate to the highlands, and the identification of markets where the products can be sold.

The lack of good-quality public education is another factor that contributes to maintaining the cycle of poverty in the mining areas. To tackle this problem, Barrick, in association with the BBVA Foundation, is implementing the 'Reading is Being Ahead' programme, which seeks to improve the levels of reading comprehension of 3rd, 4th, 5th and 6th grade students. To date, more than 11,700 students and 531 teachers from 228 schools from Santiago de Chuco, Sanchez Carrion and Otuzco have benefitted from this initiative.

With this same purpose in mind, Barrick is implementing, in alliance with the APOYO Institute, the 'Mathematics for Everyone' programme which promotes better understanding of mathematics among students, by using examples from their everyday life, attractive tools and learning materials, as well as providing work guides and training for the teachers. To date, more than 38,000 students and 1,400 teachers from 693 schools have benefitted from this programme.

We expect that the improvements made to local public education through these two programmes will have a significant impact on the number of young people that can be progressively trained in more advanced occupations, both at mining operations as well as in other productive activities, rendering them capable of taking advantage of the economic boost generated in the mining areas.

These are two examples of how collaboration in a mine's area of influence can enable ordinary citizens to take advantage of the possibilities offered by its operations.

The Alto Chicama Commitment is open to others who share our objectives. As a result, after the public launch of this commitment in the city of Trujillo last March, a new and essential strategic partner asked to join: the Regional Government of La Libertad, the highest political authority in the region where Barrick's Lagunas Norte mine operates. Consequently, this new vision of the company's social intervention is reinforced, as private companies, civil society and the local authorities now share the same goals.

Gonzalo Quijandria Fernandez has been Director of Corporate Affairs at Minera Barrick since 2010. He previously worked as Manager of Corporate Affairs at Antamina Mining and as News Manager in APOYO Comunicaciones S.A.

He is a law graduate from the Pontificia Universidad Católica del Perú and has undertaken studies in journalism at the Nieman Foundation of Harvard University. He has a postgraduate Specialist Degree in Mining Management from the Pontificia Universidad Católica of Chile and has followed leadership courses in the Theodore Haus Academie of Gummerbach, Germany and of Community Relations, in Orissa, India.

The next 50 years of responsible mining in Peru: future opportunities

Diego Ortega, Vice President, Sustainable Development for International Growth Projects and Exploration, Gold Fields



If mining's significant contribution to Peru's economy is to be maintained then the national government needs urgently to take a lead by setting out a clear, new strategy. This strategy should focus on the role of the government in overseeing mining projects and also on defining the right level of state involvement, especially at the early stages of project development, so that mining companies do not have to act in isolation, especially on issues like sustainable community development.

Currently large-scale mining is regulated, supervised and audited by national authorities from Lima; but in spite of decentralization efforts, there is no real government presence in many of the remote areas where mining activity often takes place. This lack of presence generates distortions regarding the roles, duties and responsibilities of each of the stakeholders involved – national, regional and local governments, companies and communities.

Today in Peru, mining companies commonly set-up camp, engage with communities, start doing work in the field and invest in social programmes without the participation of the national or regional government. It is the mining company which informs local people about the activities they are proposing to undertake, the impacts this may cause and mitigation measures along with opportunities for the affected communities.

It is only when the permitting process starts, months or years after the company has arrived, usually through workshops or public hearings, or in a crisis situation, that the national/regional government gets involved. The problem is that by this time, local residents, authorities and leaders have already acquired perceptions and expectations, without having mapped clearly the role of the authorities.

This absence of governmental authorities in these remote areas, together with no clear national strategy towards mining, creates distortions. We can bear witness that the lack of information, knowledge and understanding on the part of most local communities regarding formal mining operations, including environmental standards, positive and negative impacts, safety, the overall regulatory framework, audits and illegal mining, creates false perceptions that are too easily leveraged by local leaders with personal or political interests. This is one of the main reasons why 'mining' in general, is perceived as a 'bad' activity. There is no space in the public discourse to differentiate. The perception is that 'all mining is the same' and yet we are not!

Not all the news is bad! In spite of current controversies and tensions, there are many positive aspects and engagement success stories. But, the lack of national/regional government involvement on the ground impacts directly on the perception that people have regarding the role of formal mining companies in society. This role should be perceived as a potential catalyst for development but the boundaries of a company's role should be clearly understood and defined from the beginning.

To avoid generating limitless expectations and to clarify the mining companies' role we seek the presence of government. We ask the various layers of government to take on their role, through the relevant authorities, to inform people and to build trust; to impose fines on us when it is justified, as well as to recognise our positive contributions, standards and best practices when this is deserved. Government has the opportunity to use mining companies as a bridge to get to the people living in the remote areas where we operate, with a view to consolidating their own social programmes.

Mining companies do not seek to hide from scrutiny; but neither do we want to be in the spotlight. What we want is to ensure the sustainability of our business, to invest in local social programmes against poverty and malnutrition, to develop economic clusters around mining, to promote employment and education and to implement development programmes that are able to survive beyond the lifespan of a mine. But if such programmes are to be successful and sustainable, they need to be implemented in partnership with government in an institutionalised manner. This means that the initiatives and programmes should not be forgotten or left aside by the person in charge at the time, because the current government or minister thinks differently from the previous one. Politics, as well as lack of continuity within governments, explain why many mining company investments are isolated from governmental planning frameworks.

We acknowledge that Mr Humala's national government and, especially Minister Trivelli, Minister for Social Welfare, are dedicating valuable time to developing tools and systems that ensure the sustainability of national social programmes, free from the political calculations that have stifled many good initiatives before. This work will encourage mining companies to support national initiatives to achieve specific targets on health, education, and others; we only seek sustainable programmes led by competent authorities.

This is an example to be followed by other ministries and in other tiers of government. There are various mechanisms to improve the way in which government and companies work together that should be promoted more actively, such as through facilitating investment in public infrastructure and the provision of tax benefits and public-private initiatives which enable mining companies to invest in sustainable projects and programmes jointly with regional governments.

Joining national and regional government entities in clear development initiatives, setting political calculations aside, will help not only to change unrealistic perceptions about the role of mining companies in the development of the country but will also allow us to differentiate ourselves more clearly from the negative social and environmental impacts of illegal mining.

Responsible mining companies working in the formal sector seek to co-exist respectfully with other economic activities such as agriculture, livestock farming, infrastructure and tourism.

Mining companies should be perceived as agents of development not development agencies; as part of the economy and the system, not as bearing the sole or primary responsibility for the development of the areas where we work. But a shift in perceptions will only be achieved through a new strategy that strengthens government's role from the beginning of projects and, in the process, builds trust between all the stakeholders.

Finally, it is important to recognise that, of course, mining companies make mistakes – many times. But the idea that mining is bad *per se* can and should be changed. This change will come not only through a more active role for government, but also through our own actions. As responsible mining companies, we have to differentiate ourselves more clearly from less responsible actors – to listen, amend where necessary, and use the positive changes that we are capable of bringing to the places where we operate, in order to convert the image of mining into a positive one.

These actions and our work with government in building skills and capacities and in promoting sustainable social investment projects will allow us to move forward and project a new face for sustainable and responsible mining.

Diego Ortega is Vice President, Sustainable Development for International Growth Projects and Exploration, Gold Fields. Prior to this he was Regional Manager of Corporate Affairs and Legal for South America (2008–12) and Corporate Affairs Manager for Peru for Gold Fields (2006–2008). Between 2000 and 2006 he was a Senior Associate with Osterling and Grau, both law firms specialising in natural resources. He graduated in law from the University of Lima and has a Masters in Law from Duke University. He is also a graduate of the General Management Programme at Harvard University.



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