



MINING COMPANIES AND LOCAL DEVELOPMENT

**Latin America:
Chile, Colombia and Peru**

EXECUTIVE SUMMARY

**International Development Research Centre (IDRC, Canada),
Mining Policy Research Initiative (MPRI / IDRC)**

Executive Summary

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Community Development Activities by Mining and Other Natural Resource Companies in Latin America and the Caribbean

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INTRODUCTION

The project “Community Development Activities by Mining and Other Natural Resource Companies in Latin America and the Caribbean” was designed and coordinated by the Mining Policy Research Initiative (IIPM / MPRI) of the International Development Research Centre (IDRC, Canada).

The project concentrated on three countries of the region: Chile, Colombia and Peru. Research teams were formed in each country for its implementation. These teams were linked by a coordinating centre and worked within terms of reference and with methodologies previously agreed upon by them in workshops.

With the aim of contributing towards improved levels of well being in mining regions and generating long term local and regional development processes, the project’s objective was to acquire knowledge about the workings of tri-sector partnerships for local development. On the basis of case studies it sought to provide recommendations for the improvement of linkages between companies, governments and community organisations. The project proposed to:

- identify and analyse the social policy and local development programs promoted or sponsored by mining companies, examining how they have evolved, their present situation and their appropriateness for the local social environment;
- analyse the existing linkages between governments, companies, affected communities and other primary stakeholders in the context of these programs;
- analyse the areas and types of participation of the different stakeholders in these programs and related decision-making processes and;
- analyse stakeholders’ perceptions of these programs.

The research project had two phases:

- An initial phase analysing the economical, political, socio-territorial, legal and institutional context of each country in order to provide a background for the analysis of local development initiatives by companies.
- The second phase consisted of analysing two case studies in each country.

The selection of the case studies was based on the following criteria:

“... There is a direct relationship between the potential contribution of mining to local development processes, and the quality, capability and opportunity of public management, the environmental and social performance of mining companies and the exercise of informed public participation in decision-making processes regarding mining projects.”

“... Latin America faces the challenge of ensuring that the exploitation of its wealth provides an opportunity to improve the quality of life and level of well being of its inhabitants, especially those living in areas that host major enterprises.”

Cristina Echavarría and
Patricia González, MPRI / IDRC

- the size of the operation (one medium and one large) based on the hypothesis that their size would determine the degree of social impact;
- the origin of their capital (national and transnational), on the basis that this factor could influence the environmental and social policies of the mining companies;
- the selected operations should be located in different geographical zones of each country, since each socio-environmental situation could generate different challenges and interactions.

The most relevant results of the project are summarised in the electronic book “Mining Companies and Local Development”, available on CD-ROM and on the IIPM / IDRC Web page.¹ The first chapter, written by the Peruvian researcher Camilo León Castro links the hypotheses and conclusions of the study, using a comparative analysis of the different case study results. The following three chapters are summaries of the national studies and case studies made in each country. The work is completed with four appendices comprising the terms of reference for political and governance aspects, the general guide for interviews, the Colombian survey guide and the questionnaire used in Peru.

1. *Without prejudice to this, the complete reports and all the documents generated by the project are available for the public on <http://www.iipm-mpri.org>.*

Table 1 • General characteristics of mining projects studied in Colombia, Chile and Peru

Country	Project	Ownership	Start exploitation	Annual Production	Location
Colombia	Cerro Matoso	Cerro Matoso S.A. (BHP Billiton Group)	1982	44,529,411 pounds of ferronickel Period: 1982-1999	Municipality of Montelíbano, Dept. of Córdoba
	Carbones del Caribe	Castro Jaramillo Investments Ltd., MACEL, Carbones del Caribe S.A. (Antioqueño Union), CARBOMED (from Spain)	1987	1,383,530 Mt. coal Period: 1996-2000	Municipality of La Jagua de Ibirico, Dept. of Cesar
Chile	Chuquicamata	Codelco Chile (Chilean State)	1910	1910 638,566 Mt. of copper cathodes Period: 1996-2000	Municipality of Calama, 2 nd Region, Antofagasta
	Zaldivar	Zaldivar Mining Co. (Placer Dome)	1995	153,000 Mt. of copper cathodes Period: 1999-2000	Municipality of Antofagasta, 2 nd Region Antofagasta
Peru	Torata-Cuajone and Toquepala	Southern Peru Copper Corporation (Mexico Group, Cerro Trading Co., Phelps Dodge)	1976	257,730 Mt. of copper Period: 1999-2000	District of Torata, Province of Mariscal Nieto, Dept. of Moquegua
	El Porvenir	Milpo S.A (shareholders mostly Peruvian)	1949	150,000,000 pounds of zinc, 46,000,000 pounds of lead, 3,000,000 ounces of silver. Period: 2000	District of Yanacancha, province of Pasco, Dept. of Pasco

1 SEEKING PARTNERSHIPS FOR LOCAL DEVELOPMENT

An initial problem that motivated this research is the paradox of historically poor zones of Latin America coexisting with profitable mining projects. Even more paradoxical because of the large social investments made by many companies, the likely increase of local employment and demand for goods and services in mining localities, and the increase of mineral rent and taxes generated by mining activities, part of which returns to these zones.

The study therefore focused on the local socio-economic impacts of mining activity, analysing social policy in core aspects of mining operations, as well as specific community development activities promoted by mining companies, both within each national institutional and social framework. Two subjects were evaluated simultaneously, the degree of community participation, and the level and type of linkage between company, state and social organisations in order to implement local development strategies.

Community participation in the design, implementation, and monitoring of projects is acknowledged as a strategy to facilitate the compatibility of development objectives and available resources. Since mining activity has a limited life cycle, community participation in determining the objectives of projects in which it is involved and in their implementation, is a key tool for creating the necessary production and manage-

ment capabilities for long term local development, beyond mine closure. In view of this, the study incorporated participation as a parameter for evaluating the degree of sustainability of development activities promoted by mining companies.

Another aspect of participation on which this study focused was on the actual workings of partnerships between company, community and public sector, for the joint construction and management of local sustainable development strategies.

Social and economic context

Mining operations happen in both rural and urban areas, and in both poor and relatively developed social environments. This study shows that the relatively high human development index found in mining zones, which is based on regional per capita income, often hides low average levels of literacy and life expectancy. Mining activity tends to create income concentration, generating or deepening social inequity in the zones where it operates.

The different economic weightings and institutional frameworks, within which each mining operation develops, help to explain the different linkage strategies between mining activity and local development.

In most cases social conflict arises from environmental impacts and the use of resources such as land and water. In some places, where water is particularly scarce, mining activity competes with farming for its use. In other situations, environmental and social impacts are dealt with by the companies in accordance with their environmental impact evaluations and environmental management plans, but in fact, this is also one of the main drivers for their local development activities.

Why engage in social support activities?

One hypothesis of the project was that mining companies engage in development activities as a response to increased pressure from different stakeholders. The study shows that the main motivation for mining companies to engage in social programs is to maintain good relations with local stakeholders, who constitute a key element for the smooth running of operations.

In most cases environmental impact has generated strong demands from communities for compensation, particularly in the case of older projects. Especially before the advent of environmental protection laws, mining has been an important source of polluting effluents and emissions which have caused land, air and water quality degradation. This fact is acknowledged by the companies themselves and by the governments of the studied countries.

Nevertheless, some companies are reluctant to admit that their development activities are driven by the need to compensate communities affected by their mining activity. In many cases, environmental conflicts between companies and communities are very old and have led to acrimonious judicial disputes. For this reason, some companies expressly claim that they do not have an obligation but that their local community social development activities are expressions of their voluntary “good neighbour” and social responsibility policies, or are implemented in order to comply with requirements of national legislation.

New mining projects operate in a different legal environment, which requires them to comply with environmental standards. However, communities are distrustful of company environmental management and government supervision. The accuracy of information provided by the companies and the government is not trusted, while the environmental impact monitoring carried out by the state, the owner of the resource and promoter of its exploitation, is not seen as being impartial.

In the case studies different company approaches to social issues can be seen as responses to: the requirements of national laws to promote local linkages; corporate policies; concern with reputation or a need to have an appropriate public image in the eyes of distant stakeholders such as NGOs from their country of origin; clients with “ethical suppliers lists”; financial agencies whose loans are conditional upon compliance with social and environmental management guidelines; and the guidelines of international industry associations and organisations.

In spite of the existence of different motivations within the mining industry for implementing social development programs, a clear trend can be perceived towards the homogenisation of social and environmental policies based on the concept of sustainable development.

Who does the company benefit?

Another hypothesis of the research project was that the companies apply different criteria in selecting the beneficiaries of their community development activities: groups suffering direct impact from the project; groups capable of affecting the project; groups with greater capability for participation (both in mining operations and community development); and highly vulnerable groups. Other factors are also taken into consideration, such as geographical location, length of residence and the pre-existence of other community programs.

The results of the study indicate that communities involved in company development activities are mostly ones that are affected by the project and those with whom the use of resources such as land and water has to be negotiated.

Mining operations and local development

A third hypothesis, largely confirmed by the study, was that impact on local development originates from two main sources: the core needs of mining operations (access to resources, employment and provision of goods and services) and activities specifically directed towards community development.

The policy of employing local personnel faces some difficulties. On the one hand, the lack of sufficient skills in local human resources makes training necessary in order to meet labour requirements, which implies time and resources. On the other hand, subcontractors who sometimes have a greater potential for generating employment in the zone, may not perform to the same standards or with the same social requirements as the mining companies.

In all cases, the disparity between goods and services offered at local and regional level and mining company requirements in terms of quality and quantity is a hindrance to the establishment of mining clusters. The problem may not be so much how to generate these clusters but, bearing in mind the limited life cycle of a mining operation, how to use the resources produced by it in order to generate local long term sustainable economic activities.

All of the companies analysed mentioned environmental management as one of their priorities. This is because of their need to comply with national environmental regulations and international standards to which foreign companies are subject. The environmental issue is also intrinsically linked to the management of conflicts with affected communities and the need to generate harmonious relations with local people.

A crucial issue concerning mining operations is their intensive use of land and water. The impact of the appropriation of lands for mining use in Colombia and Peru is considerable, yet there are no explicit mechanisms aimed at compensating the affected communities by means of sustainable development programs. However, in southern Peru and northern Chile conflict over water usage is a key element in determining the beneficiaries and content of mining companies’ community development activities.

In connection with company activity dedicated specifically to local development, the most frequently recurring programs are ones aimed at promoting production and management capabilities in farming and commerce. These activities complement local employment policies in that they represent a possi-

bility for the generation of alternative sources of employment and income at a time when the trend in mining is for increased productivity and reduced employment of unskilled workers.

Other development activities favoured by mining companies are healthcare, local infrastructure and formal education programs. The implementation vehicle varies: some companies use a specialized department within their own structure; others create a foundation which is relatively independent from the mining project. Affected communities have different degrees of participation in these programs, depending on the development strategies adopted by each company.

Community participation

The hypothesis of the study was that local communities would participate, in different degrees, both in the design of the operations that affect them (employment, goods and services supply, land and water use, and environmental management) and in community development programs promoted by the companies.

The study indicates that local communities participate only in a limited way in the determination of policies regarding environmental and social management, surface land acquisition, the hiring of personnel and the purchasing of goods and services.

Regulations of the studied countries require companies to carry out an Environmental Impact Assessment (EIA), which includes consultation with affected communities, before the implementation of a mining project. But it is the government who decides whether or not the responses of the company to community concerns and demands are satisfactory. This limitation, added to the lack of timely and sufficient access to advice for communities, and their weak training for proper participation, has generated criticisms of this form of consultation.

With respect to the use of territory belonging to indigenous peoples, a potentially important legal tool is ILO Convention 169, which requires signatory countries to undertake prior consultation with communities, that is, before authorizing any prospecting or exploitation activity. Only the Colombian Ministry of Environment implements this mechanism, applying it both in the case of indigenous peoples and Afro-Colombian communities.

It is important to emphasise that the use of surface land is an aspect of mining activity that generates great social impact. The ceding of land, whether compulsory or negotiated, implies the limitation or total elimination of the key livelihood asset that a rural community has. Hence, companies give priority to development activities with communities with whom there is some form of negotiation for the use of their resource base.

The hiring of personnel is managed exclusively by the companies, in most cases with market and/or "compensation" to affected communities criteria.

The degree of local community participation in company development programs varies greatly. In approximately half of the cases there is a low level of participation. Three of the studied companies have programs with elements involving a high degree of participation and have policies deliberately aimed at avoiding paternalistic relationships with affected communities and promoting the development of management capabilities among them.

Community perception of company development activities is very positive when there are no environmental conflicts. Where conflict exists, perceptions vary according to the

stakeholder. In general, communities have a favourable view of programs that have a real local impact and are participatory in nature. However, labour unions, and especially local governments, consider that such activities constitute insufficient compensation for the environmental damage that has been caused.

State and company - partners?

Another working hypothesis was that in mining zones linkages or partnerships exist between state and company for the joint promotion of local development. The results show a clear tendency in mining companies to work with the state, but there are several obstacles to be overcome.

Without exception, mining companies seek to integrate themselves with already existing public development programs in their zone by supporting them in different ways. They also seek to attract state agencies to co-participate in development programs aimed at addressing needs identified in their area of operation. In all the cases studied there are local development co-operation agreements between different agencies of central government and the mining companies.

Local government is one of the main public bodies that participate in local development, as it receives part of the mineral rent and income generated by mining activity. However, many local governments have proved to be incapable of utilising and managing these resources in a productive and efficient way. As a result, the communities and companies are both equally critical of the lack of preparation of central and local governments for effective co-operation in local development programs.

Government officials have a positive perception of mining company social programs, but some municipal authorities consider that the companies compete with local government. Whether responsibility for development lies exclusively with the state and the mining industry's social role ends with its economic contribution, or whether the companies have to go beyond this limit, is a question that is present in all the cases studied and which generates a diversity of opinions.

Reality seems to coincide, however, with the initial hypothesis of this study according to which the social participation of companies is not voluntary, and their motivation for it does not arise from ethical concerns but from the pressure of different stakeholders, at local, national and international level. This being so, the limits of their social participation are determined more by the particular relationship that a company has with its different communities of interest, than by a general principle.

Partnerships with different stakeholders

The last hypothesis was that mining company development programs would link with different institutions such as NGOs and churches. The study ascertained that these institutions have varying strategies in regard to mining activity.

Some NGOs dedicated to environmental conservation have engaged in drawn out conflicts with mining projects. Other NGOs, such as those specializing in farming production, have been contracted by companies to promote community development activities. In the case of the Catholic Church there is collaboration with some mining projects in aspects of local

development, in other cases it has participated as a mediator in conflict situations, and on other occasions has been in open opposition to mining projects.

Conclusions

■ National and local socio-economic environments influence the community policies of mining companies

National legal frameworks affect the form in which mining companies establish links with local and regional economies. The local social context is also crucial in understanding mining company social policies. The affected communities and local authorities have in the last decade become important pressure groups. As a consequence mining companies have responded with measures aimed at producing the social peace necessary for developing their operations.

The implementation of community development projects can often be explained by the pressure of foreign interest groups, such as international banks or clients with “ethical suppliers lists”, who influence the policies of the corporations that own the mining projects.

■ The Sustainable Development Model is present in the philosophy of the mining industry, but rarely translates into practice

Based on the degree of community participation the study suggests that two mining company social policies can be broadly distinguished:

One is the policy of “Social Support”, centred on transactions for the use of land, the employment of local personnel, donations and the financing of projects directed by the company, with low community participation. The other is “Sustainable Development”, incorporating community participation in different phases of the project life cycle and seeking to generate joint community and state projects, which guarantee the continuity of development processes beyond mine closure.

Without exception, the predominant discourse of companies is “Sustainable Development”, but only some of them translate that concept into corresponding activities and programs. Nevertheless, there is a tendency towards the progressive elimination of paternalistic and assistance practices and an increasing movement towards sustainable strategies of co-participation for local development.

■ The state and local economic agents have serious deficiencies for linking with the mining industry in development programs

Local government and government departments suffer from a general lack of material, financial and human resources. These weaknesses make partnerships between local governments, companies and local communities difficult and jeopardise the good use of funds generated by mining activity which are distributed to mining regions.

Parallel to this, the inability of local economic agents to make good use of employment and business opportunities created by mining projects has led some mining companies to include in their programs not only the improvement of social and economic indicators but also the improvement of production and management capabilities.

“When more mining companies that are committed to the sustainable development of a region enter into partnership with strengthened and more capable state and civil society agents, the most probable result will be that the co-existence of poverty and mining will be broken.”

Camilo León Castro

■ There are differences of culture and interests between the government, the companies and the communities

Agrarian communities and industrial societies do not perceive the natural and human worlds, or the use and measure of space and time, in the same way.

Mining companies and indigenous peoples have widely differing concepts regarding natural resources such as land and water. Companies consider them to be assets, with a determinable value and transferable ownership. While indigenous peoples and traditional rural communities, see them as an intrinsic part of their social and spiritual life.

These cultural differences are more noticeable in the relationship between indigenous peoples and the state; the latter deals with each natural resource separately (land, water and minerals) while for the communities they are intimately linked.

The clash of different needs and conceptions regarding space and time can be approached with studies that contribute to an understanding of the cultural and socio-economic differences between communities and companies, and with forms of consultation and participation that help to identify convergent interests.

Recommendations

With the aim of improving linkages between companies, governments and communities and of generating long-term development processes in mining localities, the following recommendations are offered:

- The promotion of participation and partnerships between communities, companies and state institutions.
- The strengthening of state institutional presence and capability.
- The compilation of available information about ongoing local development programs.
- The informing of communities about their rights, especially over resources such as land and water.
- The implementation of means to promote greater coordination among government institutions.
- The strengthening of local government by the training of its officials in public management and development issues.
- The implementation of local development plans which include a diagnosis of priority problems and opportunities in the region and include aims, proposed actions and implementing agents for the use of funds accruing from mining projects. The main local and regional public and private entities should participate in the design of this plan.
- The training of different stakeholders in negotiation and conflict management.
- The enhancement of mining clusters, and more importantly, sustainable development projects.

2 CHILE: A HEAVY INHERITANCE OF SOCIAL PATERNALISM

On several occasions Chile has been the leading world producer of gold, silver or copper, and additionally has a large-scale production of iron, saltpetre, coal, hydrocarbons and other metallic and non-metallic minerals.

From 1990 to 2000, there was a mining boom in the country that tripled national copper production, which was already the largest in the world in 1990. To a large extent this was the result of a process of economic liberalisation, the main characteristics of which were the reduction of taxes and tariffs, an opening to foreign investment, and the promotion of exports.

Today in Chile mining constitutes 10% of GDP, and in 2000 it rose to be 46.4% of the country's exports. Chilean mining exports totalled 6,414 million US dollars in 1998 and are expected to exceed 10,000 million US dollars at the beginning of the next decade.

However while production figures have increased, social development indicators have not shown a corresponding rise.

Conflicts over resource use

Companies that exploit natural resources in Chile face an underlying problem relating to the concept of "territory". In indigenous cultures territory is an indivisible whole: ground and underground, air, water, forest, etc. In Chilean law however, for each resource there are separate laws regulating the rights of use and exploitation. Coexisting with surface ownership of the land, mineral resources belong to the state, while the right to explore and exploit minerals belongs to the mining concessionaire. Similarly, competition exists for water as a result of its great scarcity in the arid climate of northern Chile. The New Water Code of 1981 separated water rights from land rights, allowing parties to obtain rights over water located in historically communal lands.

Competition over resources has not triggered aggression among the parties. Rather conflict is expressed through judicial disputes over indemnities or the constitution and regulation of water rights.

Political, institutional and legal framework

Chilean law demands of concessionaires the payment of an annual mining license fee, which does not constitute a tax but is an indirect form of inducing the development of the activity. An amount equal to the mining license fee must be distributed to the corresponding regions and

municipalities of the country for investment in development projects there.

The Chilean tax system has two direct taxes on profits that are relevant to the mining sector, the 1st Category Tax and the Additional Tax. The latter is imposed on withdrawals or remittances abroad of profits originating in Chile, with a general rate of 35% but with a credit equivalent to 16.5% already paid through the 1st Category Tax. Mining company tax payment has recently been the subject of a debate in Chile because it has become apparent that some companies make use of various legal loopholes to reduce their payment of these taxes. In this context the possibility of imposing royalties on mining activity is being analysed.

The 1994 General Bases of the Environment Law and the 1997 Environmental Impact Evaluation System Regulation rearranged the existing diverse collection of environmental requirements for the authorization of projects and activities, including mining.

The legal and political framework for mining company community development activities comprises multiple regulations without an organic structure. These regulations give legal authority to diverse bodies that in most cases lack coordination among them. The concept of community development does not appear in state mining policies, because legislation applicable to this sector regards the community only as a source of workers and a market, or as a supplier of goods and services for mining operations.

The legal form most used by the companies for social activities is donation to charities. The Chilean legal system specifically encourages donations from big companies by means of a tax credit or exemption. In this way the state finances social development through tax reduction.

Company policies and activities for community development

The current institutional, political and economic framework imposed on the mining companies a progressive separation from their old assistance role with their workers and the community. At the same time in the last 10 to 15 years there has been a trend towards the establishment of a greater link between the mining companies and the local community, but different from the traditional one.

In general, in Chile it is possible to identify three types of mining companies with different significant trends in their policies or approaches towards local communities:

- Ones that have clearly established policies of community involvement;
- Ones that make isolated actions for community development; and ones that;

- believe they are fulfilling their “social role” by incorporating environmentally and socially responsible behaviour into their operations.

Not many companies have community development policies although most of them have a department for community issues. Those that have corporate community-relations policies implement them through a public relations department, or something similar. Nevertheless, practical interaction with communities in connection with projects is more common than having explicit community policies.

Additionally many of the mining companies subscribe to the principles of sustainable development, but in fact they are referring to environmental issues, and this is expressed in their compliance with current national environmental legislation. In turn, the passivity of local communities contributes to the companies not being more active and explicit in this matter.

The most frequent way of supporting communities is by means of contributions or gifts, followed by support to projects in collaboration with local government. This reinforces the idea that companies tend to establish a paternalistic relationship with communities and governments, implementing assistance policies and not true local development policies.

Company foundations and associations have grown in efficiency and gained legitimacy among mining stakeholders. Foundations are created with an initial fund donated by the company. The fund is managed by a governing body, which includes representatives of the company and of the local community.

Stakeholder perceptions

Local community participation is generally low; this tends to be slightly higher in the project implementation phase, less in the conception phase, and least of all in the design phase.

In the case of certain programs some of the beneficiaries are dissatisfied with the mechanisms provided for participation. According to interviewees, the use of surveys alone is not enough to incorporate the opinions of the community, and indigenous issues are excluded from the process.

It is rare that initiatives to form a co-operative partnership come from the public sector, and when they do, it is in the form of a request made to the companies for specific contributions. The regional public sector is criticized for its low level of technical and management capability for implementing these partnerships.

Synergy for development

The various stakeholders in Chilean mining regions do not generally approach community development activities in an integrated and coordinated manner. As a result there is weak synergy for local development. Although the legal and institu-

tional frameworks allow for these types of processes, lack of knowledge about existing mechanisms or the lack of interest of some stakeholders inhibits their use.

Additionally, the traditional social traits of the region –passivity and weak community participation, reluctance to engage in conflict, and entrenched paternalistic practices– conspire against action being taken in conjunction with the companies, the state and other stakeholders to promote community development.

Lastly, there is an implicit disagreement about the social roles and responsibilities of mining companies and the state in community development. Some see them as the job of the state exclusively, utilising the redistribution of mining taxes, while for others the companies should assume greater responsibility for the development of the communities that are directly or indirectly affected by their activity.

CASE STUDIES

Zaldívar Mining Company and Codelco’s Chuquicamata mining complex are the two case studies selected in Chile. Both are located in Antofagasta, the 2nd Region, characterized by a desert ecosystem whose main vulnerability is water scarcity.

The urban municipalities in which industrial and port activities are concentrated comprise 96.6% of the regional population, and have a high standard of development compared to the country as a whole. On the other hand, rural communities inhabiting the foothills of this region are among the poorest in the country. The population includes a high proportion of indigenous communities, mainly Atacameño peoples.

Although historically the percentage of labour union membership in the 2nd Region has been one of the highest in the country, the percentage of participation in community associations is the lowest, which indicates a culture favouring social integration through unions rather than through community organisation.

Socio-environmental conflicts

From before the Spanish conquest indigenous peoples settled in the region, living on subsistence agriculture and cattle raising in the narrow valleys and on the high Andean plateaus. Today in these same areas indigenous communities live together with large-scale mining activity established there from the beginning of the 20th Century.

The scarcity of water, characteristic of the region, and the mining industry’s need for large volumes of water, have historically generated conflict and very strong competition between the communities and the companies over access to and use of this resource, a conflict extending to the controversy surrounding the Water Code.

CASE 1: ZALDÍVAR MINING COMPANY (ZMC)

Zaldivar began its operations in December of 1999. Its high tech production process is said not to generate pollution. Water is extracted from high in the mountains with procedures determined by a study of the water catchment area, and supervised by environmental authorities.

In 1999 and 2000 Zaldivar produced 158,000 and 148,000 tons of copper cathodes, providing direct employment for 813 and 775 workers respectively. Approximately 24 sub-contractor companies work for ZMC and its projects under construction, most of which are local companies or have facilities in Antofagasta.

The stakeholders involved in ZMC's community development activities comprise groups of company workers, state institutions, local authorities, non-government organisations (Hogar de Cristo, etc.) and poor rural communities who receive support from the company and its workers.

In the case of Zaldivar two areas of influence can be identified: rural communities with low Human Development Index (HDI), San Pedro de Atacama and Taltal, and urban communities, Antofagasta and Mejillones, where economic activity is concentrated and which have a higher HDI. San Pedro in particular has a low standard of education, and in this area Zaldivar provides assistance through a scholarship program. Apart from in San Pedro ZMC does not have any links with indigenous communities.

Company social policy and programs

ZMC's community policy arises from Placer Dome's Sustainability Policy, and is focused on two areas: education and social development. ZMC has established communication channels for the exchange of information about its mining activity and for the identification of communities and/or stakeholders with whom to create development opportunities.

The Sustainable Development Superintendence and its Environmental Section were created in 1999 as departments with specific responsibility for local community relations and the implementation of development programs.

52% of ZMC's supplies are purchased in the region, almost 100% of its employees are Chilean and 60% of its 469 workers are residents of Antofagasta. Only in management posts are there foreign professionals.

Community participation in the programs developed by ZMC is restricted to specific cases and issues. Communities and organisations participate principally as beneficiaries of ZMC donations.

In education, the scholarship program stands out. Since 1997 it has been assisting economically deprived students, exceptionally talented students, secondary and university students, athletes and teachers. Additionally equipment, teaching material and books are supplied to schools in Antofagasta, San Pedro de Atacama, Mejillones and Taltal.

The Ministry Regional Department of Education (SEREMI) and local governments and schools of the mentioned municipalities participate in the implementation of this program. There is no coordination with other community or public stakeholders in the design, implementation or evaluation of the program. In the field of social development ZMC supplies resources and equipment to charities such as Hogar de Cristo, which is an organisation of the Catholic Church. Additionally, in poor areas of the zone, groups of ZMC workers do voluntary assistance work using materials contributed by the company.

Finally, through the Industrial Association of Antofagasta, ZMC and other national and foreign companies discuss the development of a mining cluster in the 2nd Region to support small and medium sized local companies.

Other stakeholder perceptions

The communities have a generally positive perception of the company and its policy. Basically their requests are to increase company contributions and to guarantee their continuity.

To some it is an advantage that the company can make contributions directly, whereas others point out that the absence of a regulatory system leaves the contributions dependent on the "good will" of the companies.

Public sector perceptions in the 2nd Region relate more to mining activity in general and to the demands that the region makes on this sector, and not specifically to the activities of the Zaldivar Mining Company.

The fact that ZMC has made contributions to community education even though they do not need to compensate for negative impacts is valued, as is the direct link that the company has with schools and municipalities without bureaucratic hindrance.

The public sector, and also the communities, emphasise the need for mining companies to contribute infrastructure for development.

CASE 2: CHUQUICAMATA – CODELCO

Codelco is the biggest producer of copper in the world and is one of the industry's most profitable companies. Codelco has generated over 18% of exports and 4% of the Chilean GDP in recent years. Its contribution represents 8% of total fiscal income.

Chuquicamata, the largest opencast copper mine in the world, began operating in 1910, under the administration of an American company. In 1967 it became jointly owned by the state Copper Corporation (Codelco) and the Anaconda Copper Company, and passed totally to Codelco in 1976, after the nationalization of copper.

Chuquicamata directly employs 7,286 workers, and indirectly provides employment for approximately 4,200 through companies contracted for specific projects and tasks.

El Loa province, where the mine operates, is characterized by socio-economic disparity between urban and rural areas,

and by the presence of a large part of the indigenous population of the area: 21 Atacameño communities, eight of which are located in Calama, and a Quechua community in Ollagüe.

The stakeholders involved in community activities undertaken by Codelco's Chuquicamata mining complex are: the 2nd Region's government; decentralised public institutions, such as the National Corporation for Indigenous Development (CONADI), the National Forestation Corporation (CONAF) and the Gendarmerie; the indigenous communities of Calama and Ollagüe; and indirectly, the urban population and schools of Calama.

Socio-environmental conflicts

The relevant conflict that affects all the indigenous peoples of this zone and which directly involves Codelco's Chuquicamata mining complex is competition for the scarce water resources of the zone.

Company social policy and programs

The new socio-environmental demands of the international market drove Codelco to close their Chuquicamata camp and transfer its population to Calama, which was not prepared for the change. This situation gave rise to Codelco's Good Neighbour policy and the open doors strategy that is applied at present.

The Good Neighbour policy expresses itself in community development activities, environmental protection, training and education, the provision of information to the community, research support, the promotion of culture and recreation, and in community relations. For the implementation of its policies the company seeks strategic partnerships with regional institutions.

The company participates in regional development through the Calama Strategic Plan for Urban Development (PEDUC) and the Plan of Integration into New Calama (PINC). These include road works, urban embellishment and improvement of the town's educational and sanitary infrastructure.

Through an agreement with the regional government, in rural areas Codelco takes action to support indigenous communities whose use of water has historically been affected by mining activities, which have been given precedence over the needs of indigenous communities. This project is known as PAC. It coordinates various public institutions and includes Calama's forestation projects.

PAC covers three areas: agricultural production, rural development and support for the Calama oasis. A project worth noting, which benefits indigenous farmers of Calama and Ollagüe, is the lining of irrigation channels with recycled conveyor belts from the mines. Parallel to this, is an endeavour to improve water delivery to properties.

The common characteristics of the communities encompassed by Codelco's agricultural program are poverty, social risk and marginality. An additional characteristic is the indigenous origin of the rural communities. Although indigenous peoples are formally protected by the Indigenous Law and by CONADI, they still suffer from negative discrimination.

Codelco and local government officials comprise the PAC Administrative Body. It directs the program on the basis of requests from the communities and on its own proposals, in line with the strategies of both institutions. Community participation is limited to consultation and the reception of suggestions by the communities.

Other stakeholder perceptions

From the perspective of the communities, PAC proposes and imposes projects without being receptive to their ideas and initiatives. Community participation in decision-making is very rare, with the result that priority is not given to projects more appropriate to its needs.

PAC uses a diversity of channels for the implementation of its projects. This is considered a weakness because it creates coordination problems between the communities and the program team.

In spite of its deficiencies, the indigenous leaders acknowledge that in general PAC has been beneficial for the communities by providing training, giving the companies and the public sector an increased knowledge of the communities, promoting community work and improving irrigation, among other things. Nevertheless, some members of the community consider that the number of communities which benefit is very small.

Public sector representatives take the view that it is necessary to guarantee the availability of water resources required for the survival of local agricultural communities. The communities have development needs, but the priority is the acknowledgement of, and respect for, their ancestral rights over land and water.

Local government also points to the need for projects aimed at promoting the training of communities and a commitment to their own development.

CONCLUSIONS

Traits of state paternalism and company paternalism persist in Chilean mining regions. In this context, the weaker side, with less organisation and decision-making capability, is the community. However, social expectations concerning the companies and their influence were identified, as were demands for a different approach to local development.

The regional government sector lacks the necessary leadership to convoke the different stakeholders to implement cooperative activities for community development. The historical centralism of the Chilean state may be engendering much of the negative perception that exists concerning opportunities to be found within the legal and institutional framework.

The report concludes with recommendations to improve stakeholder linkages for the promotion of community development, among them the enhancement and support of social initiatives on the part of mining company workers, the strengthening of intermediary local organisations, and the development of leadership for co-operation in all sectors involved.

3 COLOMBIA: BETWEEN COMPANY VOLUNTARISM AND SOCIAL RESPONSIBILITY

Colombia has a great diversity and richness of mineral resources, which have been exploited from the times of Spanish colonisation. Today there are around 17 active mining areas, including large, medium and small-scale operations, located in most of the country's ecosystems.

Minerals constitute 15% of national exports. In 1998 foreign investment in this sector was approximately 103 million dollars, which represented 2.6% of the total for the country. Between 1996 and 1999 the mining industry provided 1.6% to 1.1% of national employment and 60% of energy/mining sector employment.

Territorial conflicts

The evolution of mining has been associated with the destruction of indigenous peoples and cultures. Disputes and clashes continue but political and legislative processes for the protection of communities and their patrimonial and cultural rights have been initiated through legal acknowledgement of territories belonging to indigenous peoples, that nevertheless bear in mind the nation's strategic interests concerning the exploitation of mineral resources. Today, in almost 50% of national territory, potential mining areas overlap with areas which have restrictions on extractive activities, either because they are protected indigenous areas or protected natural areas.

Political, institutional and legal framework

The Political Constitution of 1991 re-affirmed the state's immanent ownership over public property and over non-renewable natural resources. It gave to the legislative body the right to determine conditions for their exploitation, stipulating that the royalties accruing from this exploitation belong exclusively to the territorial entities.

The National Royalties Commission and the National Royalties Fund administrate the royalties, the proceeds of which must be allocated to the promotion of mining, environmental preservation and to the financing of regional projects and priority investment projects, mainly in the regions and areas where the exploitation is located.

Though weak in its regulation and application, the environmental legislation establishes that environmental licenses are mandatory for all mining exploration and exploitation projects. Several instruments for environmental and social supervision are used, principally the Environmental Impact Study (EIS) and the Document of Environmental Evaluation and Management. Additionally conditions are set for the use of resources by land-use planning, territorial ordering plans and programs for the rehabilitation of areas degraded by mining.

General fiscal regulations and incentives for investment in resource development also apply to the mining industry, as do other regulations that allow for tax deductions through donations to charities and investments with social benefits.

Finally, there are general regulations, which, under similar conditions, require companies to give priority to the employment of personnel and the purchasing of goods and services from within national and regional boundaries. Other regulations provide for the formalisation of agreements between companies and local governments for the construction of infrastructure, the cost of which may be considered as an advance payment of taxes.

Company policies and activities for community development

Mining companies consider that their activity promotes local development through the provision of jobs, the training of personnel, and the favouring of goods and services acquisition in their zone of influence. In relation to the purchasing of land, they consider that their contribution is in the payment or in compensatory works of social benefit. The companies also have environmental and social management plans in accordance with the regulations in force, and they apply their own environmental controls to emissions and other impacts which result from their exploitation.

From the company perspective, their social actions are motivated by: corporate values of responsibility for local communities and regional development processes; obligations arising from the environmental impact study; management priorities; and the need to comply with international, national and local regulations.

Education, healthcare, housing and infrastructure are areas in which the companies frequently participate, although they also participate in environmental education and the promotion of economic activities. In general, as they don't have a concept of integral development dynamics, they consider any intervention in the local social environment as a contribution to development.

Community development activities are implemented by different means such as through foundations, specialized departments of the companies, external contracted consultants or NGOs, other associations (financial co-operatives or employee funds), joint enterprises or organised groups of the communities themselves.

The companies regard the community as the user and beneficiary of its social projects. They endeavour to involve it in different phases of the implementation cycle, with a stronger emphasis on follow up and evaluation activities and, exceptionally, in decision-making.

Stakeholder perceptions

The national government acknowledges its lack of policies for mining company local development programs.

The EIS is considered to be a useful instrument that includes a social component. In some cases a linkage between the different stakeholders has been achieved, but mostly the emphasis is put on royalties, with social investment being seen as a voluntary contribution.

The companies view the state's lack of knowledge about mining activity as the main cause for the absence of control over resources allotted to municipalities and the lack of integration of mineral resources into land use planning.

Labour unions consider that the company's social actions are not voluntary but are a response to different pressures and the need to project a positive image in the eyes of the community, in order to avoid conflicts. They insist that new legislation is necessary to clearly define the environmental responsibilities of the different stakeholders.

Synergy for development

Since 1991 the new political and institutional framework increased the requirements on mining companies to establish harmonious relationships with the natural and social environments. However, the environmental authorities' limited capacity for monitoring and control has resulted in weak use of these mechanisms.

Although local governments speak about private sector participation in local development dynamics, this does not generally translate into concrete actions, and dialogue between authorities and companies is rare.

Finally, municipal authorities lack the necessary instruments for promoting company investment in local development. Furthermore, the monitoring and control of company environmental compliance in their jurisdictions lies outside their remit.

CASE 1:

CERRO MATOSO S.A.

The Cerro Matoso project began in 1970 in the Department of Córdoba, in northern Colombia. At present its production represents 46.2% of the department's industrial GDP. The total direct and indirect employment generated by the project was 5,674 in 1999 and 6,697 in 2000.

With regard to environmental performance Cerro Matoso S.A. complies with both national and World Bank standards. At present it is preparing the implementation of its Environmental Management System (EMS) based on the requirements of ISO 14001/96.

The municipality of Montelíbano, hosts the mine, the offices of Cerro Matoso S.A., the San Isidro Foundation and all

the employees. It suffers from deficiencies due to a slow and limited development of services and amenities. It has only one hospital, and deficient educational infrastructure, coverage and quality.

Between 1989 and 1998 the municipality received approximately 11 million dollars from royalties, 39.2% of which was used for the servicing of its debt, 22% for education, and 11.7% for road works. Community participation in these decisions is limited, or non-existent, and frequently the community expresses the view that the royalties have been inappropriately managed. This dissatisfaction expresses itself in repeated requests for the company to intervene in the administration of royalties.

Continuous rural migration to the municipal capital generates a proliferation of low quality housing and ever growing demand for public services. The presence of the mining project has also created inequalities in Montelíbano between mine employees on the one hand, and the rest of the population on the other.

Socio-environmental conflicts

In the Department of Córdoba social conflicts are mainly caused by: the significant levels of inequity and inequality in social development, which generate situations of extreme poverty; the inefficiency of the state or its lack of attention to community development; and by the fact that basic needs are not being met. In addition, impacts generated by the armed conflict intensify the precariousness of the social situation.

Water management is one of the most conflictive issues because of the sharp increase in demand for water for human, industrial and agricultural consumption, associated with urban and industrial growth, including mega projects. At the same time, severe pollution of water sources is resulting from the disposal of industrial, mining, agrochemical and residential waste into the Sinú and San Jorge rivers and their tributaries.

Company social policy and programs

The social policy of Cerro Matoso S.A. goes back to the beginning of the mining project, when its main objective was to establish good relations with the local communities from the outset. The first approach of the company was one of assistance, but today it expresses its commitment to the principles of sustainable development and corporate social responsibility.

The social policy of Cerro Matoso S.A. is implemented through three foundations, two of which serve the company workers and their families. In 1981 Cerro Matoso S.A. and the Upper Sinú and San Jorge Prelature created the third one, San Isidro Foundation (FSI), for the promotion and development of company social policies with regard to local communities.

FSI policies cover three areas: employment and income creation, the training of leaders and members of community

organisations, and institutional strengthening and community development. The projects serve: i) communities affected by specific phenomena; ii) communities which present project proposals within the requirements of FSI and iii) communities which participate in the programs of the foundation, and have gained its trust. In 1999 the foundation programs involved 42% of the population of its area of influence.

FSI statutes do not provide for a community representation in the direction of the institution, but do provide for its participation in the formulation, implementation and follow-up of projects, as well as in the management of monetary resources. The company partially funds the projects and requires counterpart contributions from communities and other private and public institutions.

In 1998 Cerro Matoso S.A. initiated a process of strategic planning with the participation of the communities from its area of influence. Its main objectives were: the provision of support to the community and to municipal administrations in the construction of common goals, in order to orient their actions; the identification of weaknesses in local administrations; the fostering of awareness of the need to understand themselves as a region; and the creation of a shared proposal for the strengthening of municipal resources. This participation process gave birth to the Zone Planning System (SPZ), an instrument that has facilitated the strengthening and extension of community work to encompass the development of the three municipalities in Cerro Matoso's area of influence. The SPZ has become a key tool in the design of local development plans, generating improved community leadership and strengthening the local management of development processes.

In addition to Cerro Matoso S.A., this process received the support of Montelíbano Diocese, the Colombian Oil Pipelines Foundation, the municipalities of Montelíbano, Puerto Libertador and La Apartada, 350 leaders of Community Action Councils, teachers and several local community organisations.

Finally, it is the policy of Cerro Matoso S.A. to give priority to the local and regional purchasing of goods and services, by evaluating existing available supply, training potential suppliers and fostering the creation of supplier micro-companies.

Other stakeholder perceptions

According to the results of SPZ, community priorities in Montelíbano are: the improvement of public services; the creation of business enterprises; increased employment opportunities not dependant on Cerro Matoso; and the strengthening of the community, with emphasis on the creation of means for fostering improved governmental participation and peaceful coexistence.

From the point of view of the beneficiaries of FSI projects, the foundation makes a valuable contribution, it respects regional characteristics, strengthens the community, and works for a stability that is not dependent on the presence of the company. However, in addition to the training that is provided, they request facilities for investment in enterprises that would allow them to apply the knowledge that they have acquired.

On the other hand, from the point of view of those who are not beneficiaries, the company has not fulfilled the expectations generated by the project, and they question the mechanisms that are used. They point out, for example, that the requirement for community contributions to the projects does not take into account that sometimes the problem addressed by a project is in fact a government responsibility.

The present local government considers that relations with Cerro Matoso S.A. are good and has been seeking collaboration with the company and FSI through the proposal of project ideas and the contribution of resources. However, there is a gap between government intentions and its actual actions.

The local government views the presence of Cerro Matoso as a great opportunity for the development of Montelíbano, but considers that its contribution is still insufficient to compensate for the negative impacts that it has generated. Local authorities feel that there is still not enough employment of local personnel, and that there is insufficient information available about the company's environmental management.

CASE 2:

CARBONES DEL CARIBE S.A.

The Caribe Group of the Antioqueño Economic Group founded Carbones del Caribe S.A. in 1981. Its establishment was driven by the need to reduce the energy costs of their cement companies by using coal as an alternative to electricity. The main operation of Carbones del Caribe S.A. is located in the municipality of La Jagua de Ibirico, in the Department of Cesar. The mine has around 650 direct employees.

This is traditionally a farming region, but at present it is experiencing a productivity crisis. The disorganised growth of the municipality, due to migrations provoked by mining activity and armed conflict, has generated endemic problems of poverty, high unemployment and insufficient public services.

Several different minerals are found in Cesar, the most important being coal, the exploitation of which has produced significant employment in the region. The municipality received royalties from mining amounting to 3,355,335 US dollars in 2000. The local government determines how this income is used, without the participation of local communities. The latter repeatedly insist that mining companies should have greater influence in decisions regarding the investment of royalties. However, Carbones del Caribe S.A. has maintained its decision not to interfere with local government.

The communities seek the greatest possible benefit from mining activity but some groups feel excluded from the positive impacts and, at the same time, affected by the negative ones.

Socio-environmental conflicts

No explicit conflicts have occurred resulting from the activities of Carbones del Caribe S.A., in spite of the continuous complaints of various stakeholders who insist that their environment has been adversely affected by mining activity. In the department of Cesar there have been no environmental evaluations of the pollution generated by this company. Although some government authorities acknowledge the presence of negative environmental impacts, particularly the pollution and disappearance of water sources, only ephemeral claims have been presented over the actions of Carbones del Caribe S.A. and these have been resolved without difficulty by the regional environmental authority (Corpocesar).

The La Jagua de Ibirico local government sees mining activity as the cause of significant negative impacts on the environment, mainly resulting from atmospheric pollution, and the discharge of solid bearing effluents into the main waterways.

In the eyes of local authorities one of the greatest hazards caused by coal mining is the destabilization of the catchment area for the community's water supply; other problems are increased droughts and landslides.

Company social policy and programs

Carbones del Caribe S.A. does not have an express framework for its social policies but its objective is the implementation of sustainable development production projects that enable communities to increase and improve their capabilities.

The social policies of the company comply with regional, national and international regulations and standards, as well as with obligations taken on in its EIS. These policies also foster the regional, national and international acknowledgement of the company and mitigate conflicts with local groups and communities.

The social programs of Carbones del Caribe encompass different areas but their priority is the formation and strengthening of community associations, as well as the creation of sustainable employment opportunities not dependant on mining activity which respect local abilities and give an organised framework to pre-existing activities. The company considers that its social work should address those issues not prioritised by the local government.

The Carbones del Caribe Foundation (FCDC), created in 1992 to administer the social programs of the mining company, is directly linked with the latter's internal management. FCDC began with an approach of assistance but today it seeks to support economic diversification projects which integrate stakeholders in a shared plan, not dependant on the future of mining activity.

Through training workshops and discussions in community assemblies, the 2000 Socio-economic Diagnosis has been an important project in terms of community participation and as a source of knowledge about the local social environment. For the foundation this diagnosis enables it "to be more focused in decision-making", offering a basis for municipal de-

velopment plans and contributing key elements for the strengthening of land use plans.

The projects are implemented exclusively by the foundation, but the Mine Management Dept. and/or the General Management Dept make the big decisions. The evaluation of project performance is made together with the communities.

The legal forms used to implement the programs are the traditional ones used in contracts with the state. The agreements endeavour to link the efforts and resources of the foundation with those of public entities.

Carbones del Caribe S.A. gives priority to the purchase of goods and services in La Jagua but the supply available there is not enough to address its demand. 80% of the company's workers are from Cesar and most of the administrative employees come from this region.

Other stakeholder perceptions

The priorities of the communities of La Jagua are: an increased number of production projects, environmental rehabilitation, training in agricultural production and in mining, acquiring knowledge of legal mechanisms for community participation and organisation, and housing.

The view of communities that have benefited from CDCF programs is that it always pays attention to their concerns and proposes solutions. But some consider that in the past it was easier to present project proposals. The communities acknowledge the limitations of FCDC's work, but Carbones del Caribe S.A. is the only mining company in the municipality that maintains relationships with them.

Relations between local government and mining companies are better than in the past, but with Carbones del Caribe S.A. they are optimum and most CDCF activities can rely on resources from the local government.

The view of the local government is that Carbones del Caribe S.A. is the company with the greatest sense of social responsibility, but they consider that what has been done by it does not compensate for the negative impacts and there is a concern for the future when the mine closes.

CONCLUSIONS

The performance of Cerro Matoso, through 20 years, is one of the outstanding examples in Colombia of awareness that mining companies have responsibilities for community development in their area of operation, and of a progressive contribution to that development.

Carbones del Caribe, although lacking political and practical organisation, is a case worthy of consideration as it is the only company in the zone interested in working in a direct and positive way in and with the project's neighbouring communities.

The study of Colombia ends with an enumeration of challenges that could orient the discussion and identify the most appropriate courses of action for the integration of mining companies into community development processes in their areas of direct influence.

4 PERU: SOCIAL PEACE OR SUSTAINABLE DEVELOPMENT?

In the last three decades minerals have constituted the largest export sector in Peru, while in the period 1990-99, they represented 6% to 8% of national GDP. In 1999 the mining industry provided direct employment for 60,000 people and indirect jobs for 240,000.

In the nineties the mining industry was privatized and incentives for foreign investment were approved, which were higher for the natural resources sector. In the middle of the decade this process triggered a mining boom in the country, which was accompanied by a wave of exploration that promises to maintain the rhythm of investment in the sector for the near future.

This increase in operations was accompanied by a new organisation of production and a new social approach based on the creation of greater ties with local populations.

Conflicts over resource use

The legislation for access to and control over land stipulates that if companies and owners do not reach an agreement, it is possible for the government to impose mining easements (right of way). In other words, state expropriation. Although this mechanism has not been used by the state, companies use it in their negotiations with communities to induce them to cede lands at low prices. Rural communities involved in negotiations and transactions with mining companies consider these regulations unfair and coercive.

Institutional, political and legal framework

The 1993 constitutional reform, under the Fujimori government, instigated a neo-liberal redefinition of the state's role. The Promotion of Investments in the Mining Sector law followed the Framework for Private Investment Growth law, the objective of which was to guarantee free market conditions and investment security.

In 2001 the Ministry of Energy and Mines published a Guide for Community Relations (without legal force) with guidelines for social impact assessments, public consultation mechanisms and corporate social responsibility. In the same year the National System for the Evaluation of EIA law was passed which incorporated the concepts of social and cultural impact.

The regulations concerning the linkage between mining activities and communities affected by them refers principally to taxes and land access. Mining and tax legislation establishes two types of tax: the mining license fee (Derecho de Vigencia) and the mining tax (Canon Minero).

The mining license fee is the amount that concessionaires have to pay to maintain the validity of their concessions. The

proceeds go into the Municipal Investment Fund the purpose of which is to guarantee that these resources are allotted to infrastructure works for the benefit of the communities, and not to ordinary administrative expenditure.

The greatest portion of mining company fiscal payments is the mining tax which constitutes 50% of the total of monies and taxes paid to the state. The government distributes it to the municipalities in which the mining activity takes place, giving priority to the poorest communities. The amount and the distribution of funds raised by the Mining Tax are causes of conflict between central government, local government and communities. Mining companies, in turn, criticize the use made of these funds by local governments.

Peruvian law also provides for certain tax benefits for companies which make investments in public works, housing or projects for social well being. However, regulations for the application of this law have deficiencies that inhibit its use, so companies resort to donations in order to fulfil their agreements with communities and so ensure support for the mining project.

Company policies and activities for community development

Mining companies face claims made by communities, NGOs and the state, but few of them acknowledge their socio-economic impacts and the need for compensation. However, several companies perform development works in communities that report negative impacts in order to prevent and/or mitigate these impacts, as well as to ensure social peace for their projects.

Mining company relations with communities, especially in rural areas, have been determined more by compensation and assistance criteria, than by a principle of sustainable development. The companies favour market relationships and apply them to the purchasing of land, acquisitions, compensation for damages, etc.

Mining company social actions are usually in the form of specific donations to mechanize community activities and therefore are not a product of medium or long-term community support policies.

The greater the scale of mining operations and the size of the companies, greater in number and size are their community development works. This is due to the fact that large-scale operations and large companies are under greater public scrutiny.

The companies coordinate their development activities with the public sector in order to avoid duplication, to save costs and to make use of the experience of state entities specialized in development programs.

Stakeholder perceptions

The perception of communities in areas of influence of mining operations is that mining activity affects their livelihoods by impacting on their economic activities and way of life. They attribute to mining activity the contamination of lands, waterways and air, with significant repercussions for agriculture and livestock productivity, which are their main means of subsistence.

They also consider that these operations, in promoting the immigration of people from outside the region, generate order and security problems.

Synergy for development

The co-participation of state and mining companies in social programs is frequent in Peru. In general companies contribute funds to the state in support of education, health-care, industry, agriculture, and fishing programs, among others. However, the Peruvian state has not proved to be a good partner, to some degree because of its limited presence in areas of mining activity and because of lack of coordination among different state departments in charge of the promotion of development in rural areas.

At the local level, companies discriminate between municipalities that are prepared to enter into dialogue and ones they consider to be aggressive. The degree of co-operation with communities is dependent on the policies, strategies and areas of action of the company, and on the entities involved in the relationship.

Local communities often are not prepared for interacting with a mining project. If community institutions are weak, it is easier for the companies to negotiate, but also the lack of an active partner makes it more difficult to undertake community development activities.

CASE 1:

SOUTHERN PERU

The Southern Peru Copper Corporation company has two active mines, Toquepala operating since 1960, and Cuajone operating since 1976, situated in the neighbouring departments of Tacna and Moquegua respectively. The operation includes the Ilo smelter and refinery, where the mineral is processed. In 1998, the company obtained authorisation from the state to develop the Torata-Cuajone project.

The Torata-Cuajone project consists of an enlargement of the mine and the diverting of the Torata River in order to use its bed for tailings disposal. The project began in 1999, after the approval of the Environmental Impact Assessment and it affects the communities of Torata and Moquegua.

In order to operate its metallurgic mining units, Southern Peru needs a minimum water volume of 2,360 litres per second. For that purpose it installed a system of water collection in lake Suches, located in Candarave district, Candarave province, Tacna department.

The Regional Government and the Regional Departments of Transport and Agriculture, based in Moquegua and with jurisdiction over the district of Torata, have signed agreements with Southern Peru and with the Irrigation District of Torata Council of Users for the implementation of several development programs.

Southern's operations have an impact on several communities in Moquegua and Tacna. These communities share with the company the use of the same water resources or are affected by the emissions and residues of the mines. Some benefit from the employment of locals as workers, company purchasing in the zone, and donations and community development programs implemented by the company.

The districts of Torata and Ilabaya have the lowest poverty rates, Candarave and Ite the highest, and El Algarrobal, Ilo and Moquegua are in an intermediate range. The communities of Moquegua have a poverty rate lower than the departmental and national ones. Among Tacna communities there are some with higher levels of poverty than the ones of Moquegua, Ite being the extreme case, virtually reaching the national level (42.3%).

Socio-environmental conflicts

When the Torata-Cuajone project became known, the Front for the Defense of the Interests of Torata was created, and a debate began about the project. The company obtained the approval of its EIA at the end of 1998, and proceeded to build the dam and the pipelines.

The company has control over the Torata River but does not administrate its water, because its sole objective is to divert the water in order to use the riverbed. Some local stakeholders continue to question the project, alleging that there are risks of river contamination with acid waters and that there is no guarantee of pollution control after mine closure. One of the greatest sources of conflict between Southern and the population of Moquegua has been the emission of sulphurous anhydride (SO₂) from the smelter located in Ilo, which is detrimental to agricultural activity. Southern was required by law to pay compensation to the affected farmers of the Ilo valley. At present, the company is investing in a Program of Environmental Management and Adaptation, in order to meet current required standards of the country. The obtaining of water for Southern's operations is another source of conflict. In the past, the company extracted water from wells in the Ilo valley but it faced strong resistance from local farmers. Pumping from the Cinto River affects the availability of the resource in the community of Carumbra, which tried to get the concession nullified.

Company social policy and programs

Traditionally the company's community development activities stem from a policy of assistance aimed at improving its image in the eyes of various stakeholders in its areas of impact and in the capital, Lima. However, in the history of relations between Southern Peru and the communities in the zone of operations, conflicts have been the result of environmental and

social impacts. For this reason, one of the explicit objectives of Southern Peru's Community Relations Dept. is to avoid any paralysis of mining activity that could be caused by a conflict with the communities in project impact areas.

At the end of the nineties the Community Relations Dept. was inaugurated to implement development projects with an approach of social responsibility centred on co-participation and sustainability criteria. However, the strategy of the projects does not explicitly address generated impact evaluation.

Southern Peru engages in two types of social action, donations and community development projects. Donations are granted to municipalities, churches, vulnerable communities and various social sectors of the region. The Public Relations Dept. gives priority to contributions for education and culture, support to the community (municipality and rural community infrastructure), the support of church projects, healthcare and the promotion of well being. In a significant number of cases the amount of the donation is decided directly by the president of the company.

Among projects already implemented are ones involving: water and drainage systems; plants for the storage, drying and trading of oregano; educational services; mechanical workshops; and infrastructure for irrigation and electricity systems. Studies have also been organised for the improvement of agricultural cultivation and camelid breeding.

The communities that participate in the company's development projects are those that experience socio-environmental impacts caused by present or previous Southern operations, and especially those with whom the company shares the use of water resources.

Southern also fosters local employment through the selection, training and temporary hiring of members of rural communities for unskilled and semiskilled jobs.

Other stakeholder perceptions

All interviewed members of the community regard as positive the participatory nature of Southern Peru's programs. Participants in the program of mechanized irrigation in Torata expressed satisfaction with what they had learned about appropriate water use. All of them stated that their neighbours had shown interest in participating in the project.

Local authorities, however, question the effectiveness of company programs as a contribution to local development and as a mechanism of compensation for, and mitigation of, social and environmental impacts attributed to the company. Common to all the authorities in Torata district is the request for the company to increase its total contribution to community development by returning it to the level of previous years. The authorities of El Algarrobal have a similar view, arising from the impact of refining operations on Ilo port and town. The argument is that there is a negative imbalance between environmental impacts and community development activities. However, it is acknowledged that if solutions to environmental pollution problems are found, it is possible to establish new relationships between company, community and state.

The Ite district local government had a favourable view of the programs promoted by the company in their zone, seeing them as strategically important for local development because they are based on the identification of needs diagnosed with the participation of the community. The follow up is also seen in a positive light; it goes beyond the duration of the project, involving the community relations dept. of the company and local stakeholders.

Officials of central and regional government had a positive evaluation of the company's co-participation approach. All the projects have been coordinated with the Ministries of Agriculture, Energy and Mines, and Education.

Synergy for development

Relationships between Southern Peru and the communities neighbouring its areas of operation have gone through significant periods of tension and conflict. In some communities conflict continues, although with less intensity as a consequence of environmental management measures and development activities implemented by the company.

Applying a method of self-evaluation, the community determines its most urgent needs and contributes with labour, but it does not participate in project studies. Southern, in turn, applies the Rapid Rural Evaluation method to produce its proposals based on the problems detected. These proposals serve as a useful element for negotiation when the time comes to discuss water or land use with the community. Most projects are in a phase of experimentation and a follow up is necessary to evaluate their results.

The company's attempt to coordinate with the state has made evident the weakness of the public sector for participation in this type of development activity.

CASE 2: MILPO MINING COMPANY

The Milpo Mining Company has been operating the El Porvenir mine for more than 50 years. It is located in the southern central range of the Andes in Peru, in the Department of Pasco which has the largest production of lead and zinc in the country. The second most important economic activity of the department is agriculture.

El Porvenir is classified as a medium size mining project and it extends into four municipal districts of Pasco: Yarusyacan, Yanacancha, Tíclacayán and Ninacaca. This operation has ISO 14001 certification and has an annual production of 150 million pounds of zinc, 46 million pounds of lead and 3 million ounces of silver. Milpo is the second largest producer of these minerals in the Department of Pasco.

Until some years ago for the most part Milpo's activities did not require skilled personnel, a fact which favoured local employment. Today technological modernization, subcontracting and conflict prevention have drastically changed its employment policy.

At the end of 2000, El Porvenir was employing 372 workers, 157 white-collar and 215 blue-collar, and through subcontractors provided employment for approximately 700 more. Milpo has abandoned the camp model and encourages its employees to live in Cerro de Pasco. The town's economic activity is augmented by the mine employees' consumption of goods and services.

The El Porvenir area of influence encompasses 13 rural communities and a livestock co-operative. The most populous and extended communities are those of Yarusyacan and Ninacaca. The rest comprise no more than 300 families, although the size of their smallholdings ranges from 32 to 8,360 hectares. The number of these communities' inhabitants who work in mining operations is not significant.

50% of the land parcels in Ninacaca, Yanacancha and Yarusyacan are municipal common lands. These communities suffer from poverty and a low educational level. A majority of the people have been educated only to primary level and no more than 8% have post secondary education.

Socio-environmental conflicts

In its area of operation the Milpo Company faces conflicts with 11 rural communities and one co-operative, most of them regarding the use of water sources or the diverting of waterways. Other causes of conflict are the mine's tailings and the title deeds of lands where the mine is located.

The deterioration of relations with the communities has affected the future prospects of El Porvenir. An alternative solution to water scarcity is the use of Lake Cochachuyco's water, but this has been rejected by the Ninacaca community due to lack of trust in the company.

Some members of the community demand compliance with the agreement subscribed to by Milpo at the beginning of its operations and with the subsequent commitment that it took on in 1998, which consists of the building of a school, a stadium, a market and a bridge, and also the maintenance of the canals and of the main road which connects the communities.²

Company social policy and programs

The main driver behind the redefinition of Milpo's social policy is the desire to ensure social peace and the need to improve relations with the communities of its area. Their deterioration inhibits the possibility of reaching agreements that are crucial for the future of mining operations and they negatively affect the company's public image.

Interaction between Milpo and local government agencies and communities is almost non-existent. Social programs are directed from their head office in Lima, which determines the needs to be dealt with without consulting the beneficiaries.

2. Chapter 4 of the electronic book "Mining Companies and Local Development", available on CD-Rom and on IIPM / IDRC web page www.iipm-mpri.org details the conflicts faced by Milpo with the rural communities in its area of influence.

Milpo's directors consider that in the past their activities generated a relationship in which the people of the communities became dependent on the company, so they now want to avoid direct contact with them. In consequence, the implementation of its social programs is entrusted to subcontracted NGOs and consultants.

Through agreements with NGOs the company has implemented development programs in the areas of environmental conservation and education, mother-child healthcare and family planning, the prevention of drug addiction and alcoholism, civic education for adolescents and young people, and farming development.

Milpo's principal way of providing compensation is by the supply of electricity to rural communities. It has also given support to small building works, such as sports fields, through the donation of materials.

Milpo does not have a policy of local purchasing of goods and services. Nor does it give priority to local employment except for one-off and sporadic hiring for minor and short-term activities.

Other stakeholder perceptions

The community view is that Milpo should focus its development efforts on reversing the negative environmental impacts and socio-economic effects of its operations, as well as on the resolution of present conflicts and the provision of appropriate compensation.

In the face of these demands, the current development activities performed by the company are seen as ineffective and not very important. In the eyes of the communities, a greater positive impact could be achieved through the employment of local workers and the purchasing of goods produced by the community.

The communities do not participate in the diagnosis, design and evaluation of Milpo's programs, only in their implementation.

Synergy for development

In the case of the El Porvenir operation, the divergent interests and the mistrust existent between the state, Milpo and rural and urban communities in its area of influence inhibit coordination and co-operation for common objectives.

CONCLUSIONS

Most mining companies relate with communities within the parameters of transaction and social assistance. Recently, some companies have begun to implement sustainable development programs with the participation of communities.

The activities of Milpo Company correspond to an assistance strategy, although they are being revised, and those of Southern Peru to a strategy of sustainable development.

From a perspective of sustainable development, the report extracts from the Peruvian context and from the case studies a series of recommendations for each interest group.



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“There is a direct relationship between the potential contribution of mining to local development processes, and the quality, capability and opportunity of public management, the environmental and social performance of mining companies and the exercise of informed public participation in decision-making processes regarding mining projects.”

Cristina Echavarría and
Patricia González, MPRI / IDRC

