



When Mining CSR gets involved in Megaprojects. The case of Water and Sanitation in Arequipa, Peru.

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This Opinion Piece engages with the notion of corporate social responsibility (CSR) as a core feature of emerging governance patterns in Peru. These recent reconfigurations are occurring in a context of rapid economic growth that has relied on mining as one of its main engines. The relationship between mining and society is complex in Peru, due to a long history of negative impacts that has consolidated a situation of generalized social unrest considered to be the main threat both to mining activities and the sustainability of the current economic growth model.

CSR takes various forms, from pure 'philanthropic' behaviour to more 'business case' orientations (aimed at enhancing profits). Although in theory CSR can be undertaken in any business sector, the mining sector appears as a 'natural' choice due to the high degree of negative externalities. As has occurred in other mining and oil export dependent countries, CSR in Peru has been explicitly included in a new natural resource policy agenda that aims to bring mining benefits closer to local governments and populations. This agenda has involved transferring regulatory powers from the state to private actors, with regard to taxation, for instance. Corporations can choose to provide public services in lieu of paying taxes. With regard to environmental protection too, mining corporations can carry out compensation policies and projects with no involvement of local governments. The implementation of this agenda has consolidated corporate self-regulation since the reform has no counterpart for empowering sub-national governments whose financial and managerial capacities remain heavily constrained.

To argue this case, we examine an example involving the Peruvian city of Arequipa that underscores the importance of CSR for conferring legitimacy to mining corporations. In 2004 the 'Sociedad Minera Cerro Verde' (SMCV) mining

corporation undertook an 800M USD expansion of its operations, which triggered local protests. The conflict intensified and social organizations demanded the company build water and wastewater treatment plants for resolving the water and sanitation crisis facing the city and its river. The agreement signed in May 2006 between organizations, SMCV and the government, stipulated that SMCV was to finance and develop the water treatment plant.

Since they were put in charge of financing and executing the studies for the wastewater treatment plant, the company decided to frame this new assignment in the context of CSR. Although technically a PPP, they took the lead in the process with no relative counterweight from local governments, social organizations or more authorized technical voices such as professional bodies. It empowered the mining company and its consultants as the single de facto knowledge holders, unfairly tipping the balance in their favour. In particular it allowed them to dismiss a previously approved project called 'Pampa la Estrella' dating from the late 1990s. Some of the reasons given for rejecting this project were that it was located too far away from the city, the technology chosen was becoming obsolete and the project formulation did not comply with the regulations of the National System of Public Investment. However, professional and technical bodies from Arequipa insisted that 'Pampa la Estrella' was the best alternative for the city. Their position was ignored.

In 2008 and 2009, consultancy firms hired by SMCV proposed new projects for treatment plants in locations close to the mining camp. These were rejected in a context of ongoing social conflicts bringing the process to a halt until 2011 when SMCV and regional government authorities announced that SMCV would entirely finance and develop a new project inside their own mining camp. This proposal

came precisely at the time when SMCV was finalizing plans for a 3.5B USD expansion that would triple their copper production and increase their demand for water to 1 m³ per second. The meaning was clear: approval for the expansion was a necessary precondition for building the new treatment plant.

We observe that SMCV's initiative is not a coincidence and that there is a connection between the two phases: whereas the mine's first expansion was the original cause of the conflict, the second expansion has been strategically managed to occur a time when the pollution of the river has reached a crisis point and the 'solution' of the problem is in the hands of SMCV due to a supposed incapacity of local authorities that have been ineffective so far. Since national regulations require public participation and approval of socio-environmental impact studies in order to authorize mining project expansions, it is essential for SMCV to have the local population on its side, and hence the announcement that it would comply to a long-standing demand constitutes a good strategy for generating social cohesion. Also, crucially, the construction of the treatment plant would guarantee SMCV's future water demand at a time when environment and water related issues are the first cause of social unrest in the country.

Considering the sensitive national scenario, the governance transformations occurring under the Peruvian development model permit and even encourage private

mining corporations to gain legitimacy by directly assuming public service provision roles in a 'voluntary' fashion, replacing local authorities. The current agenda relies on CSR since positive externalities such as employment or value chain formation are too small and do not tend to generate enough recognition in relation to the socio-environmental liabilities. Apart from low public expenditure levels, sub-national governments have very limited decision-making and regulatory capacities. For instance, mining concessions are granted by the national government with no consultation to sub-national spheres.

Moreover, the national government may have a political interest in maintaining managerial incapacity at the local level, in order to undermine political opposition from regional-based movements. It appears that both mining companies and the national government try to gain popular support from local government's failures, promoting the new natural resource policy agenda despite the power asymmetries it generates.

For social organizations in Arequipa, CSR is seen as an arm-twisting mechanism used by corporate power in its dealings with sub-national governments and populations. The combination of that agenda with rather unequal fiscal transfers to local governments has led the model to a sort of zero-sum game in which the local legitimization of corporate power is proportional to the decreasing recognition of local governments, intensifying the vicious cycle of social unrest.

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