

# Peru Journal - Part 1: Gold, Silver and Economic Growth

By Louise Lief | January 08, 2010 | IRP



Peru has 28 of the world's 32 types of climate. The Incan fortress of Machu Picchu is located in a subtropical cloud forest, between the Andes and the Amazon. photo: Ana Momo on Pexels

Dear Reader,

This blog (more of a journal, really) you are about to read is, I confess, written after the fact. As organizer of the Peru gatekeeper trip, it's only now that I have the time to write about some of the many issues we explored there during our November 8-20, 2009 trip there and to share some of our experiences with you.

For those of you who are not familiar with IRP gatekeeper trips for senior editors at US media organizations, they are a kind of immersion course on countries like Peru that are not often covered in the US media. We explore a wide variety of topics, though we tend to focus on health, development, the environment and agriculture, subjects that help us better understand the basic survival concerns that preoccupy most people in these places.

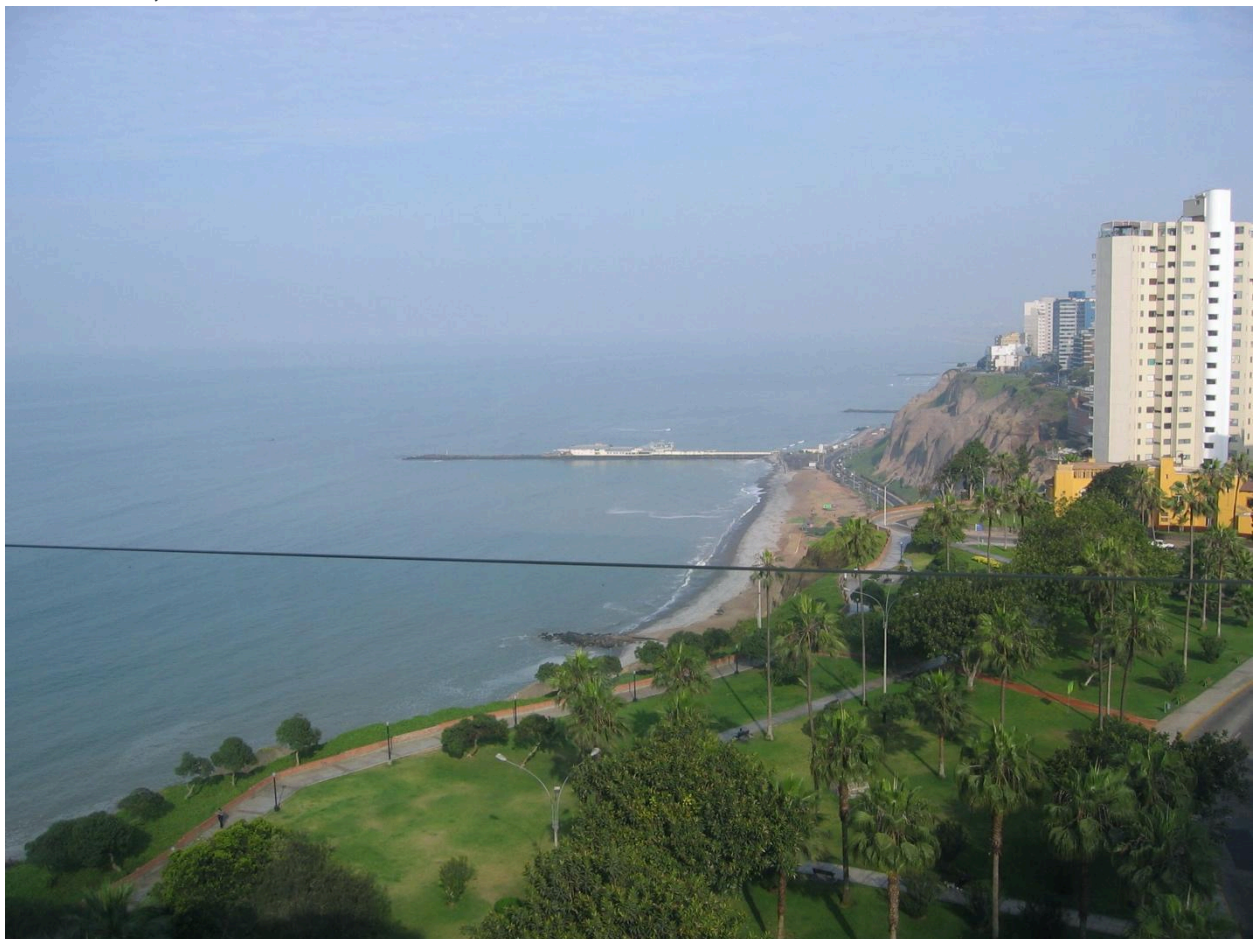
While our visit to Peru certainly taught us much about that country, the topics we explored go beyond one nation. Peru is one of the top eight countries in the world to be impacted by climate change. It is also one of the most biodiverse nations on the planet. It hosts 10 percent of the world's species, has 28 of the

planet's 32 types of climate and is home to the world's fourth largest tropical rainforest. In health, a Peruvian non-profit working with Harvard University has led the world in curing drug resistant varieties of tuberculosis, a disease that kills over 2 million people a year. Its successful model is being emulated around the world.

Peru emerged less than a decade ago from authoritarian rule and two decades of the bloodiest civil war in its history, and is finding its way as a young democracy. This resource rich country is the world's top producer of silver, fifth largest producer of gold, with copper, zinc, lead, tin and many other minerals in between, plus recently discovered oil and gas reserves.

Peru is trying to learn how to manage this sector, which has proven to be a double-edged sword for its fragile ecosystems. Hopefully this blog, while not comprehensive, will give you a taste of what we do on these trips. We encourage you to read, listen and watch the various offerings from the ten editors who accompanied us for a more complete picture of our trip and life in Peru.

### **Gold, Silver and Economic Growth November 9, 2009**



Lima's Pacific shoreline

photo: Louise Lief

It's our first day in Lima. From our hotel rooms in Miraflores we can see the Pacific ocean, the omnipresent fog, and paragliders riding the thermals off the seaside cliffs, spiraling down toward the ocean or drifting towards a skyscraper, lifting suddenly on air currents before what seems to be an inevitable crash.

This afternoon we have assembled an experts' panel to look at Peru's recent impressive economic growth and the extractive industries (mining, oil and gas) that account for much of it as well as the bulk of its foreign exchange earnings and tax revenues. Peru currently has the most successful economy in Latin America. This remarkable accomplishment is even more astonishing when one considers that it is occurring under the leadership of President Alan Garcia, whose disastrous first government from 1985-1990 was responsible for an inflation rate of 7,500 percent that brought the economy to the brink of collapse. During his first administration two rebel insurgencies spun out of control, killing almost 70,000 Peruvians before the government of Alberto Fujimori finally defeated them in the late 1990's. (For one of the best summaries of events during those years, see this 2003 report by Peru's Truth and Reconciliation Commission at <http://www.cverdad.org.pe/ingles/ifinal/conclusiones.php> .)

Since its return to democratic rule in 2000, Peru's economy has grown at a robust rate of 8 percent. Garcia returned to the presidency in 2006 determined to do whatever it took to continue the trend. Though Peru's economic growth rate sank in 2009, it was one of few countries anywhere in the midst of the global recession to register any economic growth at all. Over the last decade, it has cut its poverty rate from 54% to 35%. It is moving aggressively into agro-industry, and its mining, oil and gas sectors are growing.

But the extractive industries in Peru are a major source of a growing number of social and environmental conflicts throughout the country, and many local communities in the Andes and the Amazon feel they benefit little if at all from the country's riches. Improving environmental safeguards and revenue sharing on past, current and future extractive industries projects is a key grassroots and civil society demand.



Over a third of Peruvians still live in poverty. In 2008, 32 percent of Peruvians did not have enough to eat.  
photo: Toni Johnson

Our first speaker is Roque Benavides, CEO of Buenaventura Mining Company, Peru's largest publicly-traded precious metals company. It was the first Peruvian company to be listed on the New York stock exchange. Benavides' family has run gold, silver, and copper mines in Peru for over 50 years. There is even a street in downtown Lima named after them. He is considered by many to be one of the enlightened voices of the Peruvian mining sector. He says his institutional investors and Peruvian pension funds, which together hold 62% of the company's stock, want him and his employees to practice responsible environmental stewardship. "We want the market to like us. When we do the right thing, our market capital goes up, and our stock goes up."

He blames "informal" (Peru's euphemistic term for illegal) mining for the Peruvian mining industry's tarnished global image. (The illegal alluvial gold mining devastating Peru's Amazon basin is another subject altogether, but more on that later.)

Since 2000, when democratic life re-emerged after the authoritarian regime of Alberto Fujimori, Peru has developed strong transparency and freedom of information laws, and formulas for sharing mining, oil and gas revenues with the regions where these activities occur. Peru is also a candidate country (the only one in Latin America) to sign on to the [Extractive Industries Transparency Initiative](#), an international initiative involving at least 30 nations, major mining and energy companies and civil society groups. The EITI seeks to improve transparency, accountability and governance in countries rich in natural resources by tracking payments by companies to governments and monitoring how revenues from extractive industries are spent.

Having conducted many of our gatekeeper trips in Africa where transparency and accountability are still major problems (think Nigeria), I wonder what lessons Peru might be able to offer other resource rich countries on the road to development.

Next we hear from Epifanio Baca, a researcher leading the watchdog unit of a coalition of civil society groups called [Propuesta Ciudadana](#) (Citizen Proposal). Propuesta monitors how the government collects and distributes mining company royalties and follows other citizens' rights issues.

In many mining areas, says Baca, reiterating one of Benavides' points, the state simply isn't present. "The local people feel the state doesn't supervise the companies, and when a conflict occurs, they defend the companies and leave the people on their own. "

Mining generates few jobs. In theory local and regional governments where mining occurs get royalties from the operations, but because regional governments are weak and don't have the expertise to produce the planning documents Lima requires to release the funds, millions of dollars sit unspent in the Peruvian treasury. I suppose it's better than wasting the money or having funds disappear, but it is making the populace restive.

Not unreasonably, President Garcia believes the quickest way to lift Peruvians out of poverty is to exploit the country's abundant natural resources, particularly in the Amazon. Peru has often been called "a beggar sitting on a golden bench."

But how that is to be done and at what cost is a source of much debate and some rancor. In 2007 after taking office, Garcia wrote a seminal Op-Ed in the Lima newspaper El Comercio that outlined his philosophy of development for Peru. The article prompted much commentary and alarm in various quarters and was cited repeatedly in many of our meetings in Peru, particularly those that included indigenous Amazonian leaders. (See the Spanish version of Garcia's article here at [http://elcomercio.pe/edicionimpresa/html/2007-10-28/el\\_sindrome\\_del\\_perro\\_del\\_hort.html](http://elcomercio.pe/edicionimpresa/html/2007-10-28/el_sindrome_del_perro_del_hort.html))

It is entitled "The Dog in the Manger Syndrome," after the Aesop fable of a similar name. The dog will not allow the cattle in the barn to eat hay, denying to others something he cannot eat himself. In Garcia's article, the "dog" refers to poor peasants unable to cultivate their land efficiently, the Amazon's indigenous inhabitants and those, including environmentalists, who opposed the government's efforts to open up

undeveloped lands and fisheries to big investors. The onetime populist has turned capitalist with a vengeance.

Throughout Peru, he writes, “you find idle lands, because the owner does not have education or economic resources, so his ownership is just for show. This same land sold in large lots would bring technology of the type that would also benefit the villager, but the ideological spider’s web of the 19th century subsists as an impediment.”

Our last speaker is Francisco Sagasti, a former World Bank official, adviser to the Prime Minister’s office for science and technology, and a development consultant. He will speak on Peru’s overall prospects for economic growth. One of the country’s main challenges, he says, is how to move from an economy based on exporting raw materials to more diversified economic growth – in other words, to become like Australia or Canada. He ticks off a list of obstacles standing in the way: weaknesses in education, governance, corruption, and political leadership at all levels.

### **Defender of the People**

The following week, we speak with representatives of the National Ombudsman’s office, called the [Defensoría del Pueblo](#) (Defender of the People) on these same issues. Though it has existed in name since 1993, the Defensoría is one of the more remarkable institutions to develop in Peru since democracy returned in the year 2000.

Currently headed by Beatriz Merino, a Harvard law school graduate and former Prime Minister in 2003, its nearest equivalent in the United States is the US Government Accountability Office. The Peruvian version packs more punch, though. With 38 offices throughout the country, it monitors the performance of national, regional and local government, including the police and judiciary, issues reports on government accountability and compliance with Peru’s transparency and freedom of information laws, monitors social conflicts and human rights issues, and when asked, mediates conflicts.

Though most Latin American countries have national ombudsman’s offices (with the exception of Chile, Brazil and the Dominican Republic) few are as active or enjoy the national prestige and credibility the Defensoría enjoys in Peru.



Officials from the National Ombudsman's office, Eduardo Vega Luna and Vito Verna, say the Peruvian government must consult more with local communities before making decisions. photo: Louise Lief

We meet two Defensoría officials, Deputy Ombudsman Eduardo Vega Luna and Vito Verna of the Social Conflicts and Governability Office ( his phone rings throughout the meeting with calls from regional offices reporting on the latest incidents.)

This year the Defensoría reported at least 286 serious social conflicts in the country, almost half due to disputes in the oil and mining sectors. The number is increasing. The Peruvian state is still not accustomed to consulting local communities before proceeding to exploit natural resources, and has no formal procedures so that local people can stay informed and participate in the decision making.

The Defensoría officials also cited corruption, a weak police and judicial system and the lack of government services for the poor as problem areas. They attribute the difficulties to the growing pains of a young democracy whose institutions have been weakened by a long history of authoritarian rule.

Having heard the Defensoría's extensive "to-do" list for Peruvian society one of the editors exclaims, "That's a lot to take on. Can you do it?"

Vega Luna sighs. "That's the question we always ask ourselves. It's an ongoing problem for young democracies, but we think we are slowly growing up."

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