PERU, THE POSTER CHILD
FOR THE WORLD BANK
IN LATIN AMERICA
Peru is the host the 2015 World Bank-International Monetary Fund (IMF) Annual Meetings, taking place in Latin America for the first time in over 40 years. The two Bretton Woods institutions, criticized for their record of lowering social and environmental conditions, seek to showcase Peru as a “success” of their neoliberal policies and reforms to the rest of the world.

In the 1990s, Peru embraced the Bank’s Structural Adjustment Program, with the aim to make the country more attractive to foreign businesses through a number of deregulation and privatization reforms, such as the lifting of restrictions on foreign land ownership. Between 1990 and 2015, the World Bank’s loans to Peru increased tremendously, channeling over $7 billion to the country during the period.

Peru has remained in the good grace of the World Bank. In 2015, it ranks 35th in the Bank’s Doing Business survey, with the second highest score in Latin America, indicating that the government has “created a regulatory environment conducive to business.” In 2008, Peru requested help from the Bank’s International Finance Corporation (IFC) advisory services for the design of a new reform agenda launched in 2009. As a result, the World Bank’s Doing Business survey recorded 15 pro-business policy reforms ratified between 2010 and 2013, including fast-track procedures at the land registry, cuts in workers’ social benefits, and tax reductions for private companies. Following the reforms, Foreign Direct Investment (FDI) doubled from $5.5 billion in 2007 to $10.2 billion in 2013.

However, improving Peru’s business climate to attract foreign investment has had a severe toll on people, workers, and the environment, resulting in rising social conflicts. Simultaneously, Peru’s export-oriented economy has experienced a significant slow-down over the past three years, notably due to China’s lower demand for oil and minerals. The drop in the economy’s growth rate from an average of 6.4 percent in the 2000s to only 2.4 percent in 2014 raises important questions about the high social and environmental costs associated with the country’s “development” path.

Social and Labor Standards Undermined by Three Decades of Neoliberal Reforms

Current President Ollanta Humala follows a long tradition
of neoliberal leaders implementing privatization and deregulation reforms with the objective of increasing private investment and corporate business in Peru. One major impact of these reforms has been to cut down workers’ rights and protections, which are viewed as obstacles to thriving businesses.

In 1990, Alberto Fujimori’s government implemented a train of reforms tied to the World Bank and IMF’s Structural Adjustment Programs. The reforms marked a major weakening of social and labor standards, notably limiting labor unions and workers’ rights and increasing precariousness of employment. Despite Fujimori’s 1992 authoritarian Auto-coup (Autogolpe), during which he dissolved the Congress and assumed full legislative and judiciary powers, the World Bank showed unfailing support, lending unprecedented amounts of money to support the reforms.

The administrations that followed Fujimori’s adopted, with little variations, the same neoliberal model and further eroded workers’ rights. The 2010 World Bank’s Doing Business report highlighted that Peru decreased workers’ mandatory benefits and commended the reduction of corporate tax. Reforms have led to a win-win for corporations operating in Peru by reducing spending on both workers and taxes.

In 2013, the Doing Business report commended Peru for facilitating construction permits “by eliminating requirement for several preconstruction approvals,” ignoring the resulting increased safety risks for workers. In July 2015, the government revised the law of safety and health at work (Ley de Seguridad y Salud en el Trabajo) in order to reduce the “over-costs” borne by businesses to protect the life and health of their employees. The law limits fines for health and safety violation in the workplace to one-third of the previous amount. It also diminishes penal sanctions for employers in cases of employee injury or death caused by the non-observance of safety norms, and lowers the requirements for medical checkups for staff.

The “Growth” Agenda: Environmental Conflict and Lack of Recognition of Indigenous Peoples’ Rights

Peru has a long history of seizure, exploitation, and destruction of indigenous communities’ territories that started with the Spanish colonization. Under the Fujimori government, the rights of indigenous peoples were further denied by laws that suppressed the indivisibility and inalienability of indigenous communal lands. Despite this, Fujimori’s indigenous development policy was praised by the World Bank for its “actions to improve the living conditions of the indigenous people.”

In 2014, there were 68 million hectares in Peru encompassing some 350,000 indigenous residents. These self-sufficient communities care for and rely on these lands for food, shelter, and medicine, but land grabbing and deforestation pose grave threats to their livelihoods and the regenerative health of the forests. The average rate of deforestation between 2001 and 2012 was 123,000 hectares per year. Since 2012, the rates have doubled to 250,000 hectares per year despite Peru’s pledge to reduce deforestation to zero by 2020. The main causes of deforestation include commercial agriculture, palm oil plantations, illegal gold mining, and illegal logging. 80 percent of the timber exported from Peru is illegally logged, and 97 percent of the gold produced in the Madre de Dios region is illegally mined.

Indigenous people have been defending their territories against illegal activities, but lack a supportive legal framework to do so. While approximately 15 million hectares are officially recognized as indigenous lands in the Peruvian Amazon, indigenous communities claim they have rights over at least 20 million additional hectares, which remain unrecognized. Indigenous people’s reports on illegal operations are ignored and their rights to self-determination and to defend their territory are often criminalized. Indigenous leaders are victims of intimidation, persecution, and assassinations. According to Global Witness, Peru is the fourth most dangerous nation for environmental and land activists with at least 57 people killed between 2002 and 2014, mostly due to land, mining or logging disputes. In most cases, murders are attributed to the police, military, or private security guards. The government appears to ignore the situation and has failed to take action to protect the rights and the lives of indigenous communities.

This bleak situation risks further deterioration with the 2014 economic stimulus package (Ley 30230), also known as “paquetazo ambiental” or “environmental package,” which aims to boost investments in Peru. The package was passed hastily in July 2014, despite strong opposition from civil society groups and the objection of the Minister of Environment as it directly weakens the authority of his office (Ministerio del Ambiente or MINAM). With this law, many of the functions formerly performed by the MINAM are now delegated to a council of 18 ministries. These functions include the determination of “Reserved Areas,”
the “Ecological Economic Zoning,” and the defining of “Environment Quality Standards.” The new law limits to only 45 days the delay for the administration to provide technical opinions on environmental impact assessments (EIA) conducted for activities in all sectors. Additionally, the Organization of Environmental Evaluation and Control, MINAM’s agency responsible for controlling private operators, now must prioritize preventive and corrective measures instead of directly fining companies who violate environmental law. If a company does not comply with the corrective measures, only then will a fine be applied. Furthermore, the new law reduced the amount of fines by 50 percent for the next three years.

José de Echave, a former Environment Minister, described the stimulus package as a serious “backward” step to preserving the environment. Ley 30320 has sparked much tension in Peru as many believe it incentivizes irresponsible environmental behavior. It is also predicted to intensify pressure on indigenous territories targeted for mining, hydrocarbon, or agribusiness: the package includes mechanisms to streamline property transfers for projects “of public and private investment for the national interest, national security and/or large-scale projects.”

Extractive Industries: Supported by the World Bank and Opposed by the People

While Peru pursued its growth agenda, the number of conflicts involving social or environmental issues more than tripled from 76 existing conflicts identified in late 2006 to 251 by mid-2011. In 2014, it was estimated that Peru still experienced 200 social conflicts on average every month, largely due to mining-related issues. Though mining does contribute significantly to the economy in the short-term, it also results in deforestation, water pollution, and the displacement of local communities. In 2013, the mining sector, deregulated and privatized during the Structural Adjustments period, received $5.4 billion of foreign direct investment and made up 55.2 percent of Peru’s exports. The World Bank plays a key role in supporting mining activities in Peru, especially through its private sector arms the IFC and the Multilateral Investment Guarantee Agency (MIGA).

From 1993 to 1999, the IFC provided loans totaling nearly $150 million to Minera Yanacocha S.R.L., which operates three open-pit mines. Yanacocha is the second biggest gold mine in the world and one of the IFC’s most profitable equity investments. Although the mine, located in the northern region of Cajamarca, is said to have created 2,300 jobs, it has also resulted in the displacement of indigenous communities and environmental degradation.

The Yanacocha Gold Mine

Minera Yanacocha S.R.L. is a joint venture of the US-based Newmont Mining Corporation (51.35 percent), the Peruvian Minas Buenaventura (43.65 percent), and the IFC (5 percent). Yanacocha has been operating for 23 years in the region of Cajamarca, in the northern highlands of Peru.

The Maqui Maqui pit, Cajamarca, 2005. © Carlos Olivares

In 1993, the IFC helped kick start the Yanacocha Mine with a $26 million loan in exchange for 5 percent equity stake in the mine. In 1994, the IFC financed the Maqui Maqui pit expansion with a $20 million loan and in 1999 $100 million were lent for the La Quinua pit expansion.
jobs, the local community barely benefits from Yanacocha's operation. To this day, Cajamarca remains one of the poorest regions of Peru. Thirty-nine formal complaints have been filed by local families, associations, farmers groups, and even a former Yanacocha employee against the IFC through the Compliance Advisor Ombudsman (CAO), an independent recourse mechanism of the World Bank. They denounce the lack of compensation for land, mercury spill from the mine, and degradation in water quality. A mercury spill that occurred 15 years ago made hundreds of people ill in the Yanacocha area. Since then, herders have deplored the disappearance of frogs and trout. Their livestock refuse to drink from the contaminated stream and the community members are extremely worried about their own health. Although all of the complaints to the CAO are now closed, grave unresolved problems still haunt the Yanacocha area.

Tensions between the local communities and Minera Yanacocha S.R.L. have heightened since 2010, when the company revealed plans to build the Conga Mine extension project in the districts of Sorochuco and Huasmín. The project’s proposed budget of $4.8 billion would constitute the largest investment in mining in the history of Peru. Local communities fiercely oppose the Conga Mine construction, which plans to dry out five mountain lakes: El Perol, Azul, Mala, Chica, and Empedrada. Of those, two (El Perol and Empedrada) would be emptied to extract gold, and three (Azul, Mala, and Chica) would be used as waste deposits. Opposition to the project has been met with lawsuits against individual members, threats, and beatings by the police and private security forces. Police forces used tear gases and opened fire upon a protest in 2012, killing five protesters.

Through its other private sector affiliate, the MIGA, the World Bank issued six guarantees totaling $107.5 million from 1999 to 2000 to support the Antamina mine project. MIGA’s support to the Compañía Minera Antamina also led to several complaints to the World Bank’s CAO. These complaints were related to land resettlement issues (in 2000), water contamination in the bay of Huarmey, where Antamina’s pipelines transport mine concentrates for shipping (2005), and ground water level changes due to the mine activity (2008). The conclusions of the 2000 complaint found that MIGA had not complied with the application of “policies relevant to indigenous people and resettlement, in addressing related social concerns, and the accessibility of the CAO to relevant MIGA document.”

However, Minera Antamina cancelled all guarantees with MIGA in 2007, avoiding further scrutiny from the CAO. In 2012, a pipeline from the Antamina mine broke, releasing a toxic cocktail of copper, zinc, sulfur, arsenic, lead, and other chemicals. At least 350 residents of the close-by locality of Cajacay, including 69 children, were sickened by the spill. Although the Minister of Environment called for a maximum fine of $13 million for Antamina after the incident, the company was only fined $77,000 in 2013.

IFC’s involvement in the Peruvian extractive industries is not limited to mining. IFC-supported Energy projects such as the liquefied natural gas pipeline or the Maple Energy group’s operation in the Peruvian Amazon have received much criticism for their devastating environmental and social impacts—which include oil spills, company abuse against workers and local communities, and threats to isolated indigenous territories and biodiversity.

For an institution mandated to fight poverty, the World Bank’s support to extractive industries triggers serious questions. The mining industry’s revenues have barely benefited the populations of the regions where mines have prospered. The district of San Marcos, where Antamina is located, is one of the richest in Peru with nearly $50 million in mining activity in 2013. Yet, it suffers from chronic political instability due to corruption scandals, lacks basic infrastructure and nearly one third of children under the age of five suffer from chronic malnutrition.

Other mineral-rich regions such as Cuzco or Puno, which received $212.5 million and $238.6 million respectively from mining taxes between 2006 and 2010, face similar poverty and food insecurity issues.
Promoting Agribusiness and Neglecting Farmers

Since the 1990s, Peru has taken a clear shift towards large-scale and export-oriented agriculture. In 2014, Peruvian exports from agriculture exceeded $5 billion. The most popular export crops include coffee, Hass avocados, asparagus, house grapes and palm oil. The growth of the agribusiness sector, however, has not brought the expected benefits to the rural and indigenous populations. Whereas the poverty rate in the capital Lima is relatively low (14.5 percent as of 2012), it is in stark contrast with the 53 percent rate found in rural areas—58.8 percent in the rural Sierras. Among the rural Andeans, 30 percent of all children under five are chronically malnourished.

In contrast with the 1970s agrarian reform, which redistributed millions of hectares to farmer cooperatives and put an end to the domination of large haciendas, Fujimori’s government returned to promoting large-scale land ownership in the 1990s. His reforms allowed indirect management, mortgage and sale of Peruvian lands, as well as corporations’ ownership of lands. Fujimori declared uncultivated lands to be the property of the state, which led to the appropriation of many farmers’ lands that lied fallow between periods of cultivation.

The new constitution, adopted in 1993, further liberalized land tenure and allowed extractive activities to take place on communal and agricultural lands. This shift was concomitant with investors’ renewed interest of in Peru’s subsoil resources and governmental incentives for investors practicing large-scale export-oriented agriculture. Land concentration increased, emphasized by farmers’ new legal authority to sell lands—which the 1979 constitution prohibited—and by the removal of state support to smallholder production.

Individual lands sales particularly increased on the Peruvian coast, well suited for export-oriented agriculture. Following the 1990s, 36,150 hectares were sold by small farmers in the Chira Valley, an important farming area of the Pacific coast. Of these, 13,500 hectares were acquired by just five companies. Many of the farmers who sold or rented their lands have become laborers for the larger companies. They earn low salaries and have not seen improvement in their livelihood. Large-scale land acquisitions also occurred through state auctioning of cultivable lands in exchange for investments in irrigation. This led to the selling of 20,085 hectares to “expand the agricultural frontier” in the Ica Valley between 1990 and 2006. Lands auctioned off by the state are unavailable to small farmers, who cannot provide the required investments in irrigation systems. In fact, farmers are greatly marginalized by the government’s pro-agro exports policies. Faced with the volatility of agricultural prices, high water costs, and indebtedness, they lack technical assistance, farmer credit systems and government help to access markets. In 2011, the president of the Ica regional government, Rómulo Triveño, justified this choice by the fact that “small farmers do not practice modern agriculture, they do not work their lands adequately. Rather, they are poor people with tenure over land they do not take advantage of for lack of knowledge and resources. Better that they rent or even sell it.”

The IFC played a significant role in boosting the Peruvian agribusiness sector with nine investments totaling $183 million between 2003 and 2009. Several of these loans were directed to companies with large operations in the Pacific coast (Drokasa, Sociedad Agrícola Virú etc.) Among them, the asparagus and grape producer Agrokasa operating in the Ica Valley received loans totaling $23 million. Several stakeholders filed complaints to the CAO against Agrokasa for its destructive drilling of the Ica region’s aquifer. With the increase of agricultural activities, the Pacific coast is encountering grave water issues. Excessive drilling carries risks such as leading to leaches of the Pacific’s saltwater into the aquifer and spoil of farmlands. In 2010, it was estimated that Ica’s six largest growers were using 78 percent of the

Harvesting potatoes in Manchaybamba, Andahuayla, Peru.
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region’s groundwater. As a result of fierce backlash from the rural communities, Agrokasa withdrew as an IFC client in 2009. Hence, although the case is closed, nothing has been done to alleviate the water shortage in the Ica valley.

Despite the water shortage on the Pacific coast, the Peruvian Private Investment Promotion Agency, ProInversión, keeps boasting the “excellent profitability per hectare in the Peruvian coast” and the competitive water prices “even in the new irrigation projects.” In May 2007 however, the Ministry of Agriculture resolved to stop granting water licenses in the Chira River Basin. This happened just after two large groups (the Maple Group and the Romero Group) obtained close to 15,000 hectares to plant water-intensive crops for ethanol production.

The Romero Group, as it happens, is also an IFC client. Between 1999 and 2005, the IFC provided two separate loans of $10 million to Ransa, a subsidiary of the Romero Group. The Romero Group has razed 7,000 hectares of Amazonian forests for palm oil plantations between 2005 and 2011 and is planning to clear 23,000 additional hectares of lands to expand his plantations.

Conclusion: The Broken Promises of the Peruvian Development Model

The choice of Lima for the Annual World Bank and IMF Meetings affirms the World Bank’s favorable attitude towards Peru. Unlike its neighbors, Bolivia or Ecuador, who have resisted the Bank’s push for reforms, Peru has fully embraced its neoliberal agenda. But while the World Bank tries to convince the world that Peru’s economic model has led to a miraculous growth and poverty reduction, the country faces tremendous social issues and inequality. Small farmers, who provide 60 percent of Peru’s basic food, have been negatively impacted by government policies that widely favor the development of a large-scale, export-oriented agriculture model, resulting in increased pressure on water sources and negatively impacting farmers’ livelihood and assets.
Many farmers have been forced to rent or sell their land, transitioning from a status of farm owner to farm worker, or migrating to urban areas. In the Andes and the Amazon, small farmers and indigenous communities are left with the toxic legacy and degradation of their lands by mining and oil companies. Despite their regions’ mineral wealth, many rural communities are victimized by extractive industries, remaining extremely poor and food insecure. Their lifestyle is highly threatened by national policies that have chosen to concentrate a tremendous amount of resources in the hands of few private corporations.

With the dire situation only growing worse, workers, rural communities, and indigenous people have expressed their anger and anxiety through protests. The World Bank’s projects and involvement with the private sector in the country have notably been associated with violent clashes with local communities. The number of social conflicts, already considerable, could rise even more with the slowdown of the Peruvian economic growth. To many, the Peruvian “miracle” promoted by the Bretton Woods institutions has a terrible bitter taste.

This brief was authored by Alice Martin-Prével and NaYeon Kim with support from Luis Manuel Claps of the Intercultural Communication Service SERVINDI, Peru.

Cover Photo: A husband and wife tend their sheep outside of the village of Acopia, Peru. © IFAD/David Alan Harvey

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Endnotes


16 Ibid.


23 Ibid.

24 Ibid.

25 Ibid.


31 Ibid.


42 Ibid.


47 The Compañía Minera Antamina is a Peruvian company operated as a joint venture by an international consortium of firms from Switzerland (Glencore-Xstrata), Australia (BHP Billiton), Canada (Teck Cominco), and Japan (Mitsubishi Corporation).


63 Ibid.

64 Ibid.

65 Ibid.

66 Ibid.


