

Peru's Yanacocha Gold Mine: The IFC's Midas touch?

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Introduction

The Yanacocha mine in the Peruvian Andes is the largest and most profitable gold mine in Latin America. It was created with the support of the International Finance Corporation (IFC) in 1993. The IFC subsequently backed several expansions of the Yanacocha mine and owns 5% of the shares. Despite this involvement, the locally affected people assert that the mine has led to poverty, environmental degradation and eroded traditional cultures and values.

This case raises significant questions about the IFC as a development institution, the rationale for its involvement in certain projects and its capacity to ensure that the local people benefit from the projects it supports. To the extent that a development rationale exists for this project, it seems to be based on the assumption that investment will lead to growth which will then reduce poverty. As this case study demonstrates, such an assumption fails to examine the effects of IFC financing on the lives of the people directly impacted by its projects.

Project overview

Minera Yanacocha is a huge open pit gold mine spreading over a concession of about 25,000 hectares and approximately 47 kilometers¹ by road to the town of Cajamarca, about 850 kilometers from the capital, Lima. The rock containing the gold is loosened by daily dynamite blasts, and then piled up and sprayed with cyanide solution. The solution that runs off is then processed to remove the gold. The mine produced 1.66 million ounces of gold in 1999 at a cost of \$103 per ounce,² making it one of the largest and lowest-cost gold mines on the planet.

Minera Yanacocha, S.A. (MYSA) is a joint venture between US -based Newmont Mining Corporation with 51.35% of shares, Condesa, which is a subsidiary of the Peruvian company Minas Buenaventura with 43.65% of shares and the IFC, which holds 5% of shares.³

IFC Development Rationale

According to the IFC, it got involved in Yanacocha "to support a project promising to generate substantial revenue, employment and foreign currency flows".⁴ In an

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otherwise high-risk context, IFC believes that its participation facilitated access to long-term capital and mobilized funding from other lenders. The IFC says that its involvement was also to ensure high standards in environmental and social practices. It “sees its role and impact to be in facilitating, where necessary, relations between the company, local community and government on social and environmental issues”.⁵

Overview of Key Problems with the Project

According to the IFC, Yanacocha has led to significant reforms and privatization in the mining sector and become an example of private sector leadership for mining and other sectors in Peru.⁶ However, many local residents have asserted that the Yanacocha mine has caused so much environmental harm and social dislocation that they are now opposed to any further development of the mine, and many would like it to be shut down completely. Problems with the mine include water quality and quantity, circumstances surrounding land transfers, inadequate consultation, social dislocation, questions regarding indigenous peoples, and the adequacy of emergency response measures.

Water Quality and Quantity. Since the establishment of the mine in 1992, the local people have reported serious degradation and contamination of their water sources, affecting irrigation practices and their food supply. In recent interviews, the local people described the water flowing downhill from the mine as having a foul odor and taste, appearing yellow or brown, carrying surface contaminants such as trash or sewage, and causing sickness to both

animals and people. Mine waste flows directly into waterways that are the only source of water for several *campesino* communities.

An investigation into the water quality in the mine area’s rivers and streams found that the mine consistently breaches World Health Organization and Peruvian Ministry of Energy and Mines standards for a wide range of potential contaminants.⁷ Of major concern are fecal coliforms and copper present in, respectively, 160,000 times and 10 to 20 times higher levels as compared to WHO standards. The acidity of the water is also extremely high with a PH of 3.3 as compared to 6.5, which is the highest acidity considered drinkable.⁸ These pollutants have resulted in situations where villages have been without potable water for two months at a time. According to local communities, fish and frogs have disappeared from the river, both of which were previously a food supply for the rural communities.

It is not just the quality of water sources, but also the quantity that has adversely affected the communities around the mine. *Campesinos* living downstream from the mine assert that the quantity of water in the streams and canals that flow from the mine site has diminished. For many the result has been a reduced capacity to irrigate their crops and therefore a reduced agricultural yield. The plots of land possessed by many *campesino* families are already small and marginal, and any reduction in yield is likely to exacerbate poverty.

Land Transfer Issues and Inadequate Consultation. Social problems associated with the mine started with the process of land acquisition by MYSA. *Campesinos* have explained⁹ that the practice of selling land was almost unknown in their

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communities before the advent of the mine, although the practice of transferring land for land and negotiating for different uses of land was common. Many families said they had not fully understood that “selling” their land would prevent them from any further use.

Moreover, many local people believe they have been deceived by the promises that were given at the consultation about the benefits that would come to them from selling their land and from the mine itself.¹⁰ Company employees assured *campesinos* that they would be able to return to their lands in a few years time. There appears to be a widespread perception, not dispelled during consultations, that the mining would consist of a few holes in the ground, around which normal agricultural activities could continue.

Consideration and Protection of Indigenous Peoples. The IFC, like the rest of the World Bank Group, is subject to policies and procedures that are supposed “to ensure that the local indigenous people do not suffer adverse effects during the development process and that they receive culturally compatible social and economic benefits”.¹¹ To accomplish this goal, project plans must include an indigenous peoples development plan that, among other things, is designed to ensure the culturally appropriate and informed participation of affected groups, identify local preferences, incorporate indigenous knowledge into project approaches and to use experienced indigenous peoples specialists.

In the Yanacocha case, the local people were not recognized as indigenous peoples in the environmental impact study analysis¹² prepared by the MYSA for the IFC. Therefore, none of the measures required by

the IFC to protect indigenous peoples were applied in this case. Contrary to MYSA’s assessment, the rural communities of Cajamarca meet the definition of indigenous peoples under the IFC policy. They both self-identify as indigenous peoples and are recognized as such under the Constitution of Peru. They have a close attachment to ancestral territories and the mountains in particular, speak Quechua as a primary language, produce primarily for subsistence and have their own social and cultural institutions (land exchanges, *campesino* justice for example). The failure to define the rural communities as indigenous peoples and to apply the indigenous peoples policy may well have aggravated the adverse social and environmental impacts of the mine.

Increased poverty and social dislocation. The development of the Yanacocha mine has led to significant social dislocation in the area.¹³ Families displaced by the mine move into the city of Cajamarca where they have no way of making a living. The migration into the city is tearing the social fabric of the indigenous communities as men leave to find work, as traditional practices of the indigenous people of the area are being forgotten, and as families lose their community support structures. Many families, unable to support themselves, are left to depend on social services for food and shelter.¹⁴

The Federation of Rondas Campesinas Femeninas of Northern Peru (FEROCAFENOP) has documented a nearly 20% increase in family problems since the Yanacocha mine began operating, including non-recognition of children, abandonment of families, failure to pay child support and

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domestic abuse. Similarly, debt problems have skyrocketed.

The mercury spill and the adequacy of emergency response measures. In addition to the impact of the mine's normal operations, a recent mercury spill related to the mine raises questions about the adequacy of emergency response measures. On June 2, 2000, a truck carrying mercury from the mine to Lima spilled between 80 and 151 kg of its load while passing through the small town of Choropampa. It was reported that the driver of the truck did not inform local residents of the dangers the mercury posed, and continued on to Lima. People gathered up the mercury believing it to be a valuable metal, and many kept it in their homes. Symptoms of mercury poisoning emerged a few days later among approximately 50-70 local residents, including many children. Several of them were hospitalized.¹⁵

According to the IFC, Yanacocha and Newmont informed the IFC that the spill was promptly reported to the local community, regional and national mining and environmental authorities as well as officials in Choropampa and Cajamarca.¹⁶ According to FEROCAFENOP, people started exhibiting symptoms a few days after the spill, and initially doctors were unable to determine the cause of their illness. This would suggest that those affected had not been informed that they had been exposed to mercury or of the symptoms of mercury poisoning.

At the request of the MYSA shareholders, including the IFC, the Compliance Advisor/Ombudsman's office at the IFC established a commission to investigate the spill, establish the adequacy of the Emergency Response Plan, and make recommendations on immediate additional

actions to mitigate the effects of the spill and long term adjustments for emergency response planning. The results of that investigation and recommendations will not be made public until the company has had 10 days to look at the report to ensure that it is "factually correct". The local people, however, will not have the opportunity to verify the accuracy of the facts. To date, no process is planned to involve the people affected by the spill, despite the fact that it is their lives that are threatened. While the situation is now apparently stable and the affected people are out of the hospital, the regional hospital is refusing to attend to spill related problems saying that the company must authorize the medical treatments. The local people are concerned about attempts by the company to pressure residents to accept immediate compensation and renounce future claims or lose all their rights to compensation.

Local Resistance to the Project.

Last year the IFC approved a loan of approximately \$100 million for further expansion of the mine (the La Quinoa Pit), something the local indigenous communities are adamantly opposed to because of the problems associated with the existing mine operations. According to Segunda Castrejon, President of FEROCAFENOP, the mine has changed the lives of thousands of indigenous *campesinos*: "Before the mining company came, we lived a clean, healthy life. That's no longer true. Now all of our flora and fauna are gone. To us, our mountains are sacred. They brought us good luck. But now those mountains are gone because of Newmont."¹⁷

An assembly of FEROCAFENOP affiliates held in Cajamarca on September 20, 1999

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unanimously passed a motion opposing mine expansion, resolving to support upcoming demonstrations against the mine. At the same time, the Federation has organized a series of demonstrations and marches over the past year, which drew as many as 10,000 people.¹⁸ These have all been peaceful on the part of the *campesinos* and their supporters, but in January 2000, the police turned violent and beat and arrested protestors. Several leaders of the Federation were arrested and charged with terrorism as a result.

FEROCAFENOP, with the support of the 14,000 affiliated grassroots bases it represents, is also organizing capacity building workshops to inform the local communities about the reality of selling land to the mine and the impacts the mine is having on their environment. As the land is the self-identified indigenous *campesinos'* home, tie to their community and the only source of livelihood, they must understand the possible impacts of selling it before they do so. The Federation sees educating people as a way to prevent future problems – instead of protesting when the mine expands, they hope that people will understand the long term implications of selling their land to the mine and decide to avoid any further damage to their communities. The high level of poverty, however, makes the balancing of today's necessities with tomorrow's a difficult decision. The local people understand clearly, however, that such a project does not improve their lives or reduce their poverty.¹⁹

IFC's Response to External Criticisms and Demands.

In March of 2000, the IFC environmental specialist for this project recognized that the consultation process has been flawed and agreed that the process had to be much more inclusive of the affected communities in the future. However, since this communication little has happened to make the communities believe that the consultation process has improved.²⁰ The IFC supervision mission in May did meet with the affected communities for four hours, but they did not visit the problem areas, leading the communities to question whether the visit was simply perfunctory.²¹ The IFC mission had promised to answer a series of questions in writing, but, at the time of writing, the local groups have still not received any communication. In accordance to the IFC's disclosure policy, the mission's assessment report will not be released to the public, leaving the communities without any information.

In response to charges that the mine has adversely impacted water quality, the IFC asserts that the baseline data show that the rivers in the area had some pre-existing sediment loads, acidity, and presence of heavy metals. While the Environmental Impact Assessment identified impact on water quality and quantity as a potential problem,²² the subsequent investigations mentioned above show that this situation has been severely exacerbated since the advent of the mine. The fact that IFC was aware of the poor water quality brings into question why IFC would approve a loan that would exacerbate the water quality problem, which directly impacts the lives and livelihoods of local residents. As a development

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institution concerned about “improving people’s lives”, the IFC should have proposed adequate measures to safeguard and improve the water quality.

Regarding the indigenous peoples issue, this project illustrates the sponsoring company’s perverse incentive not to recognize local peoples as indigenous given the additional obligations and associated costs involved. It also brings into question whether the company should be responsible for this assessment especially in cases where identification may be difficult and whether the IFC has adequate safeguards in place to verify these critical issues in a sponsor’s environmental assessment.

The IFC’s response to the mercury spill is also disappointing. The IFC should be involving the locally affected communities on equal terms and not allowing the company to review the results of the fact-finding mission first. The reason to have an independent commission engage in fact finding is that the company and the local communities disagree over what the facts are. If they did not disagree, then such a commission would be unnecessary. To give one side preferential access to the report and greater say in what the facts are calls the independence of the commission and its report into question. In response to allegations that the company is pressuring residents into renouncing claims for adequate compensation, the IFC has, to date, refused to recognize the problem or intervene to prevent abuse.

Conclusion

The Yanacocha mine has been a disaster for the thousands of indigenous people who traditionally inhabited the land in the

vicinity of the mine. This case study demonstrates several important points about IFC lending. First, that the IFC’s assumption that economic growth equals poverty alleviation is fundamentally flawed. The Yanacocha mine has brought much environmental and social disruption for the local people, exacerbating poverty for many. Second, the IFC’s consultation procedures are severely deficient, and have led to people signing away their lands and livelihoods without understanding what they were doing. The *campesinos* were not given access to information about the Yanacocha mine, let alone information presented in a culturally appropriate way. Third, the IFC does not have adequate mechanisms in place to ensure compliance with the indigenous peoples policy. The local *campesinos* were not treated as indigenous peoples despite the fact that they fit the definition of the indigenous peoples policy. The IFC must address these issues if it truly wants to promote private sector investment that improves peoples’ lives.

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¹ IFC Summary Project Information, for Peru - Yanacocha III

² Newmont Mining Corporation Annual Report, 1999.

³ Case Study 1: Research Report about Mining, Environment and Communities in Cajamarca, by S. Panhuysen, August 1999.

⁴ IFC chart compiled by IFC personnel, IFC, June 21 2000.

⁵ IFC chart compiled by IFC personnel, IFC, June 21 2000.

⁶ IFC chart compiled by IFC personnel, IFC, June 21 2000.

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⁷ Audit and Inspection Report, Minera Yanacocha S.A., First Quarter 1999, file 1168938 MEM, Peruvian Ministry of Energy and Mines; Informe de Ensayo O/L ECO-900464, October 1999, SGS del Peru; Carachugo/Maqui Maqui Water Quality Data 1997 & 1st quarter 1998, file 1168938 MEM, Peruvian Ministry of Energy and Mines; MYSA Water Quality Data, file 1168938 MEM, Peruvian Ministry of Energy and Mines, 1998; Aprobacion del Estudio Complementario de Impacto Ambiental del Proyecto Carachugo Minera Yanacocha SA. Informe no. 222-94-EM-DGM/DPDM, file 1168938 MEM, Peruvian Ministry of Energy and Mines

⁸ For more details, see Newmont report, Project Underground, May 2000.

⁹ Interviews were conducted with 70 *campesinos* from the Cajamarca region by Alison Gibbins and Andrew Burke for Project Underground between September and December 1999.

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¹¹ Operational Directive 4.20 on Indigenous Peoples, para. 6. At the time of writing, the IFC had no specific policy on Indigenous Peoples or resettlement, two key elements protecting the local peoples. In the absence of its own, the IFC defers to the World Bank Policies, according to the IFC website, www.ifc.org/enviro/EnvSoc/Safeguard/Indigenous/indigenous.htm

¹² Minera Yanacocha, la Quinoa EIS addendum, March 1999, p.27.

¹³ 26 families according to the IFC, 2,500 people according to the Federation of Rondas Campesinas Femeninas of Northern Peru, FEROCAFENOP. FEROCAFENOP is a constitutionally recognized federation that represents the rural, indigenous population in the Andean region of Northern Peru. It represents 14,000 affiliated bases in the seven departments of Northern Peru

¹⁴ Pers. Comm. with representatives of FEROCAFENOP, November 1999.

¹⁵ “Vida de 30 Campesinos de Choropampa Corre Peligro por Derrame de Mercurio”, La República, June 14, 2000.

¹⁶ IFC statement on the mercury spill, June 22, 2000.

¹⁷ Quoted in “Newmont Mining Protested”, by Steve Raabe, The Denver Post, May 4, 2000.

¹⁸ Pers. Comm. with Julio Marín of FEROCAFENOP, February 2000.

¹⁹ Pers. Comm. with Julio Marín of FEROCAFENOP, November 1999.

²⁰ Pers. Communication with Mauricio Athie, March 29, 2000

²¹ Pers. Comm. with Julio Marín of FEROCAFENOP, May 2000.

²² Environmental Action Plan, La Quinoa Project, prepared by Minera Yanacocha for the IFC, March 1999.