

Mine the (Development) Gap? A Case Study

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Executive Summary

How can strategic partnerships shape the lives and economic opportunities of communities surrounding large-scale mining operations? The Inter-American Development Bank (IDB), Anglo American PLC, and TechnoServe have pioneered a pilot partnership to implement a regional development plan that leverages the resources and skills of each contributing partner. The project, *Beyond Extraction: Economic Opportunities in Communities Hosting Mining Operations*, develops a flexible multifaceted program based on three pillars – local procurement, workforce development, and local government capacity building. From this systemic approach, on-the-ground operations will be tailored to the needs of local municipalities surrounding select Anglo American mining operations in each participating country. Each initiative builds on nearly a decade of program conceptualization and implementation through a pre-existing partnership between Anglo American and TechnoServe, combining lessons learned and resources from four enterprise development programs that have been executed collaboratively since 2006. Overall this new strategic partnership serves to elevate and expand Anglo American’s core business practices with the goal of developing local mining communities in ways that ensure sustainability and productivity beyond the lifespan of their mining operations in the region.

In this case study we discuss the development of this strategic partnership as well as the challenges it has faced prior to its approval by the IDB in the summer of 2016. Within the context of global mining operations and the subnational regions in which it plans to operate, we analyze how the program goes beyond corporate social responsibility (CSR) as a public private partnership for development (PPPD). As the IDB develops an agenda for work within the extractives sector, this pilot builds on major corporate-bank partnerships surrounding large scale mining operations with a regional focus. The project serves as a precedent and key learning exercise from a multinational perspective for all partners involved as to the challenges and opportunities of strategic partnerships in the extractive sector.

I. Introduction

In September 2015 the TechnoServe country director for Brazil, David Williams, described the non-profit's experience working with mining communities in Latin America:

There is an intense level of interest from members of the local community in finding ways to get involved either as a supplier or through employment. But it quickly becomes clear that only a small number of businesses will be qualified, or have an opportunity, to become suppliers. Similarly, many locals will become disappointed and frustrated when they realize that the mine can only hire a relatively small number of locals – or that they simply don't have the skills needed to become an employee.¹

Williams went on to note that TechnoServe, in partnerships with corporations like Anglo American, focuses its efforts on “opening the eyes’ of the local business community to the indirect opportunities of local mining operations,” working to extend these new perspectives to both businesses and host communities.² Since 2006, the non-profit has partnered with Anglo American to implement multiple business capacity and local supply chain development programs in Brazil, Chile, Peru, Botswana, and South Africa. These programs, entitled *Emerge*, *Crescer*, *Avançar*, and *Tokafala* (along with other social investments on behalf of Anglo American) have reached over 60,000 small and medium enterprises, supporting 64,150 jobs between 2008 and 2015.³ However, mineral commodities have faced historically low prices since 2011 and tensions around mines have remained high.⁴ While these Socio-Economic Development programs have been successful in positively influencing the life of local community members, they remain limited in terms of their overall influence on local markets. As a result, the challenges of harnessing local economic benefits from extractive and non-extractive operations remain salient.

Recognizing these very problems, the Inter-American Development Bank (IDB) has developed programs to better harness the potential of the extractive sector in Latin America. In 2015 the Bank launched its first formalized Action Plan for interventions in the extractives industry while also, through the IDB's Multilateral Investment Fund (MIF),

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developing a parallel pilot: *Beyond Extraction: Economic Opportunities in Communities Hosting Mining Operations* (RG-M1300). As a small-scale pilot intervention, *Beyond Extraction* adopts a systems approach to many of the issues identified in the IDB's Action Plan, while implementing context-specific programming in communities surrounding Anglo American mining operations in Brazil (Minas-Rio), Chile (Los Bronces), and Peru (Quellaveco). Developed as a public-private partnership for development (PPPD), interventions build on best practices developed through TechnoServe and Anglo American's decade of teamwork in the region. They also integrate components of Anglo American's Socio-Economic Development Strategy, while capitalizing on the IDB's wealth of knowledge and expertise for scalable interventions.

Beyond Extraction in turn focuses on enterprise development and local capacity building in order to achieve sustainable development and economic opportunities for communities surrounding mining operations through "hands-on" learning. It also builds on insights from several rounds of ongoing multi-stakeholder dialogue held the various contributing partners, yielding a holistic strategy to overcome ongoing structural challenges in the region, and the sector. While ambitious in its scale and scope, the achievement of development impacts will be underpinned by efforts to ensure project sustainability, as well as a learning agenda from knowledge transfer and lessons learned from the intervention. As Williams noted, there are vast economic opportunities beyond direct employment by extractives operations. Making those potential market connections, particularly for indirect businesses surrounding mining operations, presents a remarkable opportunity for sustainable development in the region.

Understanding the Problem: The "Resource Curse"

While recognized as a key driver of GDP in Latin America and the Caribbean (LAC) in particular, mining is viewed as something that can provide more for local communities, yet consistently fails to deliver in an equitable and inclusive way.⁵ Countries dependent on resource extraction remain highly susceptible to commodity price shocks and currency overvaluation due to high foreign capital inflows, making other exports less

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competitive, also known as Dutch disease.⁶ The “resource curse” is offered to explain such economic instabilities, paired with higher dependence on foreign exchange reserves, an over-reliance on imports due to foreign investment, and often corruption.⁷ On top of these macroeconomic conditions, the labor lifecycle of mining operations poses great challenges for long-term employment.

Large scale mining operations initially generate significant short to medium-term labor opportunities for low-skilled workers during construction phases before transitioning to operations that require, at times, less than a quarter of the initial workforce (Figure 1). For example, when the Minas-Rio iron ore mine in Brazil shifted from construction to operation in 2014, they transitioned from 12,500 full time workers – following the employment of 20,000 during peak construction – to just 4000 in 2015.⁸ Additionally, an operational mine requires significantly fewer but more high skilled workers, something frequently unavailable in host communities due to few opportunities for advanced education and technical training.

Weak public governance often amplifies these development gaps found in many resource-rich economies, compounding poor institutional capacity, including: underdeveloped (or inconsistently applied) legal, social, and environmental regulatory frameworks; taxation and royalty mismanagement; as well as a lack of transparency by state officials, and/or corruption by business and political actors. Mistrust and power asymmetries between multinational corporations (MNCs) and underdeveloped rural communities can add additional pressure in an already tense and complex climate. The economic, employment, and governance challenges have led to widespread tension over unanticipated consequences and unrealized expectations in mining operations.

The Extractive Industry Transparency Initiative (EITI) compact was developed as a means to combat governance problems within the extractives industry on a global scale. However, political scientist David Collier has noted, initiatives such as the EITI, “created an ‘explosion of expectations’ from people who want more from their natural resources,” due to the exposure of corrupt accounting practices and irresponsible state bureaucracies.⁹ More generally, there has been increased conflict and tensions around extractive operations, especially since the early 2000s. The Observatory of Mineral

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Conflicts in Latin America (OCMAL) estimates that there have been 237 conflicts surrounding mining operations throughout LAC since 2007, 37 of which remain ongoing in Peru with another 36 in Chile, and 20 in Brazil.¹⁰ Such conflicts have become increasingly violent and aimed at halting operations leading to costly stoppages.¹¹ The development challenge is then for resource extraction to improve the macro-economic performance of host countries while simultaneously enhancing the well-being of host communities surrounding the mining operations in particular, in both the short and long term. Achieving this goal in turn requires achieving the expectations of host communities through the provision of opportunities not necessarily directly related to the mine, but instead through the fostering of parallel supply chains or through investment into unrelated though economically competitive industries and institutional capacity building initiatives. This is the goal of *Beyond Extraction*.

Partners

Anglo American PLC

Founded in 1917¹² by Ernest Oppenheimer, Anglo American is one of the five largest mining companies in the world with global earnings before tax (EBIT) amounting to US\$2.2 billion and overall group revenue including associates and joint ventures amounting to US\$23 billion in 2015.¹³ As one of the world's leading producers of platinum group metals, copper, and diamonds (through its subsidiary De Beers), Anglo American has mining operations, projects, and marketing activities across southern Africa, South America, Australia, North America, Asia, and Europe. It is most renowned for its diamond operations through subsidiary De Beers. In 2015 Anglo American employed 26,254 permanent employees and contractors across 12 operations within Brazil, Chile, Peru, and Colombia.¹⁴ At the heart of Anglo American's vision is a concrete Socio-Economic Development Strategy that it has implemented with TechnoServe in Latin America since 2013.¹⁵ In 2015 it spent US\$124.1 million on corporate social investments (*sic*), representing 6% of their operating budget.¹⁶ This project marks the corporation's first partnership with the IDB after signing a memorandum of understanding in early 2013, as well as the Bank's first formal

institutional partnership agreement with a leading mining corporation.

TechnoServe

“Technology in the service of mankind,” or TechnoServe for short, is a US-based 501(c)(3) non-profit organization founded in 1968 by American Ed Bullard.¹⁷ In 2014 the agency generated US\$61 million in financial benefits for beneficiaries through increased or paid wages to 1.6 million people working in agriculture and business operations in 29 countries.¹⁸ Its mandate is to “provide business solutions to poverty,” and its programs are tailored around capacity building for entrepreneurs and farmers, as well as developing market linkages and fostering a healthy business environment to promote competitiveness.¹⁹ TechnoServe has a long history of working with the IDB as an executing agency. It has also developed four capacity building programs with Anglo American since 2006 in Chile, Peru, and Brazil.

Inter-American Development Bank (IDB)

The IDB was founded in 1959 and is the leading source of financing for broad-based development projects in LAC.²⁰ The IDB has 48 member countries, 22 of which are non-borrowing members. While non-borrowing member countries have voting representation, borrowing member countries hold 50.02% of the voting power on the IDB board.²¹ The approved lending budget in 2015 was US\$11.3 billion.²² *Beyond Extraction* is co-financed by Anglo American and the IDB Multilateral Investment Fund (MIF). The MIF is the innovation lab for the Inter-American Development Bank Group. It conducts high-risk experiments to test new models for engaging and inspiring the private sector to solve economic development problems in Latin America and the Caribbean. The MIF addresses poverty and vulnerability by focusing on emerging businesses and smallholder farmers with the capacity to grow and create economic opportunities.²³ In 2008, the IDB formally recognized the strategic importance of partnership through the creation of the Office of Outreach and Partnership (ORP). The ORP aims to form strategic partnerships and alliances to leverage and mobilize knowledge and resources from external actors and identify “innovations that can turn

businesses into engines for development.”²⁴

Beneficiary Contexts: Country Descriptions

Mining has long been a central industry in LAC given the region’s wealth in natural resources. Countries have developed their resources at different rates, and to varying degrees, giving them different experiences with the sector. Additionally, each country is unique in its political, economic and social development, rendering different contexts in which extractives operate and distinct development challenges. Given this variation, *Beyond Extraction* develops a tailored approach for each host community in the application of its regional strategy.

Brazil

In 2013, Brazil’s total mineral production was estimated at US\$44 billion. That same year the industry employed 229,145 people – 0.6% of the total workforce – rendering extractives a key source of revenue, tax contributions and direct job opportunities for usually skilled labor.²⁵ One of Brazil’s greatest challenges in extractives remains the enforcement of updated regulation in the sector. The country developed its national mining code in 1967 (Decree-law (Act) No. 227), and has only revised it once in 1996. Attempts for further revision in 2013 were tabled. Under the Ministry of Mines and Energy (MME) the National Department of Mineral Production (DNPM) oversees industry regulation and inspections.²⁶ Regulatory issues and the increasingly remote nature of large-scale mining operations remain a huge challenge, highlighted by the Bento Rodrigues dam disaster at a Samarco operation in Minas Gerais on November 5th 2015.²⁷ It’s recognized that Brazil’s enforcement of regulatory measures had long been troubled, exemplified by the fact that the DPNM had just four inspectors for mining operations for the entire country, two of which were responsible for assessing the status of 663 tailings dams.²⁸ Additionally, developing infrastructure around rural mining operations has been a challenge as remote subnational government offices frequently lack capacity and necessary capital. In its most recent country strategy with the IDB, Brazil called for a focus on PPPDs, emphasizing the potential for extractive sectors to

partner with Government to jointly develop infrastructure projects.²⁹

Chile

In 2013, Chile's mining production was valued of US\$30.7 billion, employing 74,214 people.³⁰ Extractives play a central role in the country's economy (GDP US\$277.2 billion in 2013).³¹ Copper is Chile's most important resource, accounting for 72% of the workforce employed in extractives industries.³² The Ministry of Mining (MIM) is responsible for the mining sector and operates through three state-owned companies and four regulatory agencies.³³ Chile is one of the top-performing countries in the region in terms of economic growth, human development, and political stability. Despite these remarkable advances, Chileans have voiced concerns over the environmental impact of long established mining operations clustered around urban centers, like Santiago.³⁴ In the most recent country strategy with the IDB, Chile defined a clear agenda for work on the extractives sector, identifying "a more empowered citizenry concerned about environmental and social impacts" as something that required better coordination, particularly in the consistent application of regulations on the sector.³⁵ Coordinating interventions with the country's high level of economic development and environmental agenda remain crucial.

Peru

In 2013 mining exports accounted for 60% of the country's total export value, amounting to some US\$25 billion in national revenue while direct employment in the sector that same year was estimated to be 208,383 workers.³⁶ The Peruvian *canon minero* law mandates that 50% of the corporate tax paid by extractives industries must be transferred to the local jurisdiction where the mineral was extracted.³⁷ The Ministry of Energy and Mines (MeM) oversees and regulates the energy and mining sector, while the Mining and Metallurgical Geological Institute of the MeM has legal authority related to research and land management for the sector.³⁸ Peru has witnessed remarkable growth in the last decade and has reduced the poverty headcount from just below 50% in 2004 to 22.7% in 2014.³⁹ This growth is widely attributed to favourable commodity

markets and Peru's abundant endowment of copper, silver, gold, zinc, and natural gas. Peru rebounded after the financial downturn in 2008 but has since witnessed a continued decline, although relatively healthy compared to the other countries in the region, in annual growth rate from 8.5% in 2010 to 2.4% in 2014.⁴⁰ Peru is a member of the EITI, unlike Chile or Brazil. Despite remarkable growth and the development of strong government agencies in the sector, mining operations remain located in remote communities that often lack crucial services and infrastructure. Empowering and training local actors with transferrable skills, as well as developing the capacity for public service provision, remains a critical engagement for sustainable development interventions.

II. Developing Beyond Extraction

Origins and Case Selection

When *Beyond Extraction* was in the initial planning stage, IDB was preparing to draft an Action Plan for the extractives sector. On September 29th 2014 the Bank held the first of three workshops series with extractive industry stakeholders in an effort to understand stakeholder expectations for the IDB's potential role in the sector. The first meeting, held in Washington, DC at the IDB headquarters, included 16 representatives from leading extractive companies operating in LAC. The second was held on November 6th 2014 in Lima, Peru, bringing together 15 individuals representing 13 civil society organizations from three countries the region. The third and final session was held in Bogotá, Colombia between government representatives responsible for extractives portfolios in Chile, Colombia, Mexico, the Dominican Republic, and Suriname.⁴¹

All three stakeholder consultations emphasized a misalignment in expectations between mining operations, governments, and host communities. They claimed issues have been compounded by varied incentives held by corporate, non-profit, and political actors operating on conflicting time horizons (e.g. long term extractive operations running 50-100 years vs. short term political cycles every 2-4 years).⁴² In particular, corporate officials emphasized the need to align corporate profit motives, such as earnings and increased social licenses to operation,⁴³ with government priorities.⁴⁴ Civil society actors emphasized the need to redefine the concept of "public interest" along

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with recognizing the constantly changing roles of stakeholders (e.g. the evolving role of the state, evolving expectations from host country societies). They urged for actions mitigating long-lasting power asymmetries between states, corporations, and communities.⁴⁵ Lastly, government officials highlighted the need to be sensitive to sub-national capacities, as well as the need for knowledge transfer from states experienced with extractives to those with nascent industries, to share lessons learned.⁴⁶

Compiling these sentiments, the Bank drafted the Action Plan for the extractives sector in April 2015. It recognized the need for improved coordination, empowered decision-making, strengthened institutional capacity, and enhanced trust amongst stakeholders – particularly between governments, communities and MNCs. Most importantly the Bank recognized the varied experiences of countries and extractives, as well as their different levels of development, calling for “tailored interventions.”⁴⁷ The IDB signed a memorandum of understanding with Anglo American on January 23rd 2013, initiating the development of a pilot project complementary to the IDB’s comparative advantages and established expertise. The IDB signed a memorandum of understanding with Anglo American on January 23rd 2013, initiating the development of a pilot project complementary to the IDB’s comparative advantages and established expertise.

Project Description and Goals

Beyond Extraction is a 36-month, US\$5.8M multifaceted program based on three overarching pillars – enterprise and supplier development (local procurement), workforce development (targeted towards youth and women), and local capacity building in the public and private sectors (Figure 2).⁴⁸ Under the three pillar umbrella, the pilot consists of five project components with specific objectives, activities, and results for each.⁴⁹ The first component aims to strengthen public and private organizations through activities that increase economic productivity at the community level, such as creating linkages within local markets and providing training for business management. The second component aims to integrate women and youth into the local economy via capacity building, skillset development, and mentorship. A third component

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develops local suppliers for the local mining cluster through the implementation of entrepreneurship programs to foster the necessary skills to develop and grow local businesses. The fourth component develops business ventures and access to markets through the identification of competitive and job creating value chains, strengthening entrepreneurial and business competencies, developing the logistics for regional and national market access, while also supporting producer associations and networking. Lastly, the fifth component concerns knowledge management and dissemination through knowledge events and communication products.

The delivery is uniquely tailored to the economic and institutional needs of local municipalities surrounding three Anglo American mining operations and aligns with the needs identified by national governments in the IDB Country Strategies. In Peru, the pilot will focus on the first pillar by prioritizing local entrepreneurship development programs and offering supply chain integration opportunities for local businesses directly and indirectly affiliated with mining. In Chile, the program will focus on the second pillar, with skills development targeted for youth and women, working alongside the country's Labour Intermediation Offices (OMIL). In Brazil, interventions will focus on the third pillar, building up sustainable and independent public and private institutions to be resilient after mine closure.⁵⁰ The project will be directed by a regional executive committee composed of representatives from each strategic partner. The committee will oversee separate executive units organized by TechnoServe at the country level.

Each initiative builds on previous programs that Anglo American and TechnoServe have implemented in Brazil, Chile, and Peru. Specifically, the project combines lessons learned from *Emerge* (enterprise development, Peru and Chile), *Crescer* (Enterprise Development, Belo Horizonte, Brazil), *Avançar* (integrated enterprise development, local procurement and youth workforce development, Goiás, Brazil), and *Promova* (local procurement, Belo Horizonte). Overall this new partnership serves to elevate and expand Anglo American's core business practices and its Socio-Economic Development Strategy with the goal of developing local mining communities in ways that ensure sustainability and productivity beyond the lifespan of their mining operation. As the title implies, *Beyond Extraction* emphasizes the partnership's inherent

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goal of bringing sustainable and resilient economic growth to communities that have faced difficulty realizing the full benefits in their geographic area, including from mining operations.

The project targets multiple municipalities in three central Anglo American operations in the region: Minas-Rio in Brazil, Los Bronces in Chile, and Quellaveco in Peru (Figure 3).⁵¹ The operational site for Minas-Rio, an iron-ore mine, is located in a traditionally rural area connected to the port of Açú by a 529-kilometre slurry pipeline. Los Bronces, a copper mine, is located 65km from the Chilean capital of Santiago, rendering the local municipality far more developed and networked with an urban workforce and sophisticated supply chains, unlike the other mines targeted in the project. Lastly, Quellaveco, a prospective Peruvian copper mine, is in late stage project development in an extremely rural area in the south of the country, not far from the city of Moquegua though near other copper operations by the Southern Peru Copper Corporation. The preliminary project outline identifies 362 direct beneficiaries in Brazil, 1,300 in Chile, and 415 in Peru. Total indirect beneficiaries including employees and family members is 13,729 across all operations.⁵² With the project slated for approval in summer 2016, many details regarding the scope of the program, including community consultations and formal program components, have yet to be finalized.

III. Transforming the Business and Development Approach

Beyond Extraction uses a systems approach grounded in local contexts to address the challenges of underdevelopment surrounding Anglo American's mining operations in Brazil, Chile, and Peru. The systems approach is based on the principle that sectors and institutions are interconnected beyond their individual operations. Interventions in a mine's value chain can have an influence on the rest of the local economy. Harvesting this influence, rather than ignoring it, can lead to more equitable and widespread sustainable growth, preventing unintended negative consequences, such as increased inequality from favoring mining related enterprises only. The project's approach to workforce and enterprise development applies to economic sectors both directly and indirectly related to mining operations, moving beyond a siloed focus on mining alone.

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In developing *Beyond Extraction*, the partners conducted independent community diagnostics within potential beneficiaries. The diagnostic process allowed them to meet with local actors to develop a better understanding of what is needed and identify infant industries and economic opportunities that could be strengthened.

Innovative Approaches

In this project, Anglo American is piloting a global, coherent strategy for socio-economic development and engagement in developing countries. *Beyond Extraction* is innovative in its holistic, systems approach to address local economic development while capitalising on the synergies and coordination available between actors and distinct initiatives, rather than discrete interventions.⁵³ The programs reinforce each other while taking into consideration local institutions, market dynamics, and existing culture and behaviours. The project aims to generate regional knowledge and a set of best practices to advance development that can be shared and tailored to mining communities more broadly. Lastly, the project will strengthen local stakeholders through a “train-the-trainer” approach to ensure that capacity is sustained outside of the immediate operating space of the mine.⁵⁴ There is innovation in developing a project with the potential for replication and scale through broader partnerships with local actors and diverse stakeholders.

This partnership is necessary for the above innovations to realise their full potential. The program leverages the comparative advantages of IDB, Anglo American, and TechnoServe. The IDB is a trusted and neutral development institution in the region, renowned for bringing good ideas to scale and replicating success. The contractual agreement ensures long-term delivery and discipline, while also improving project design and implementation through the Bank’s due diligence safeguards and fiduciary standards. Anglo American is well poised to partner with the IDB given their commitment to sustainable socio-economic development via core business operations and their long-term perspective in the region. Through leveraging IDB-MIF resources dedicated to innovation, Anglo American and TechnoServe have the platform to bring previous innovations to the next level of scale and sophistication. Integral to the

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functioning of this partnership and achievement of development results, TechnoServe brings a long history of working successfully with both Anglo American and the IDB and contributes intimate regional knowledge and expertise in multi-stakeholder engagement.

The interventions in themselves are not, however, necessarily new or innovative but rather best practice. The Natural Resource Management Strategy of Global Affairs Canada and the Extractive Industry of the World Bank both recognize the same three pillars that facilitate the capture of gains from resource-led growth, namely government capacity, growing businesses, and enabling employment via skills and training.⁵⁵ Anglo American is building on its pre-existing programming in the region (*Emerge, Crescer, Avançar, and Promova*) that also employed the three pillar approach. There isn't a need to "reinvent the wheel" in order to be innovative, it's about "putting the wheels together" to support development and mining projects more effectively. Where this assemblage of recognised best practices stands out is through the coordinated systems approach to address the three-pillars in unison, while capitalising on the expertise and unique qualification of each strategic partner.

Beyond Corporate Social Responsibility (CSR)

CSR entails the actions taken by a firm in order to improve social welfare beyond core operations without the sole motive of profit maximization.⁵⁶ It is often a component of a company's public relations as opposed to a core component of their business operations, rendering activities an "add-on" to business practices, as opposed to a concrete component of day-to-day operations.⁵⁷ This PPPD goes beyond CSR in rearticulating *how* Anglo American conducts its business. *Beyond Extraction* signifies an integration of the development prerogative into the core business value. Doing their business better ensures the social license to operate – and is an essential part of the company's strategy – that will ultimately improve profits. This project would not be undertaken if the initiatives didn't make good business sense, and by involving the expertise of TechnoServe and the IDB, Anglo American has ensured a greater likelihood of realising the local economic development goals and long-term benefits.

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Beyond Extraction also demonstrates the company's broader dedication to community development projects that provide sustainable economic opportunities beyond the lifespan of their mining activities. In 2015, Anglo American announced the company would be undergoing significant restructuring in the face of historically low commodity prices and changing demands for minerals, downsizing from 135,000 employees worldwide to just 50,000.⁵⁸ Despite the announcement, the company remains committed to its Socio-Economic Development Strategy, and *Beyond Extraction*. Their dedication to such interventions underscores the company's value for sustainable development beyond traditional CSR activities. Incentivising and rewarding managers in extractive industries for social integration, as Keith Slack suggests, may be the key to solidifying commitments that go "beyond CSR" if prioritized in the same way as strong economic performance.⁵⁹ This would help preserve internal leadership and momentum for socio-economic programming throughout challenging economic times.

IV. Drivers of Sustainable Development

Multi-Stakeholder Dialogue

This project contains multiple stakeholders including youth, women, business owners, local municipalities, and local business organizations. In multi-stakeholder contexts it is important that all actors are aligned on their vision and that there is mutual trust and accountability. Independently, each stakeholder in the project has conducted their own series of multi-stakeholder dialogues according to their own needs. The IDB conducts exploratory and preparatory site visits in communities to assess and prepare potential projects. Separately, Anglo American and TechnoServe have engaged in their own dialogue and diagnostics of communities, adopting different approaches and focuses given their respective corporate and social interests. The multi-stakeholder dialogues conducted by each actor included different stakeholders and identified project considerations from distinct vantage points. By keeping communication lines open, each actor remains engaged while also building a critical level of trust between stakeholders.

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Within the extractives sector, multi-stakeholder dialogue remains a critical component of sustainable operations. Development programs can be built to enforce rules of engagement that foster development and trust across the participants, but they can also create mistrust if designed incorrectly. The EITI has illustrated some of the challenges in the context of Peru. They report that while 50% of extractive revenues are managed by local and regional authorities due to the *canon minero* law, management of these resources is “widely considered inefficient and prone to corruption.”⁶⁰ In June 2015 at the opening of the EITI LAC Conference, Peruvian Minister of Energy, Rosa Maria Ortiz, emphasised the critical need to translate extractive wealth to Peruvian citizens:

...time has been lost by the Government and companies in regaining trust with communities...EITI achievements put Peru in a position to make transparency a valuable practice at all levels of government ensuring adequate governance of the extractive wealth translates to tangible benefits to all citizens.⁶¹

While TechnoServe has experience in context-appropriate engagement, multi-stakeholder dialogue is a complicated process, especially in the context of mining. There are multiple interests involved in large-scale mining operations. There is often the notion of winners and losers associated with mines: large personal gains and macro-economic growth coexist with silenced voices and dispossessed livelihoods.

A good example of trust building is the dialogue table that was created in 2011 to support the Quellaveco project in Peru. In 2010, there were civil demonstrations against the perceived negative impacts of the mining sector social contribution to the region and particularly on water usage in an arid region.⁶² Due to such social unrest, the central government suspended the water license granted to Anglo American.⁶³ To resolve local concerns, Anglo American independently created a “Dialogue Table.” The result was 18 months of intense dialogue resulting in twenty-six commitments on social, environmental, and water aspects. In a sponsored content article in the Guardian, Hugh Elliot, former head of Government Relations at Anglo American, remarked:

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The dialogue was difficult at times. The loss of control it implied was uncomfortable, to say the least. Corporations generally prefer control. But the reality is that, in the networked world, power is increasingly fragmented and business success will depend on understanding and addressing all centres of power, formal and informal. The Quellaveco Dialogue Table built considerable trust between stakeholders and the results were broadly welcomed across political parties in Peru.⁶⁴

Elliot added that while support is by no means universal, local communities appreciate the transformational opportunities offered by this type of major investment. In this instance, meaningful local dialogue was critical for the mining operation to proceed and demonstrated a willingness to listen to local concerns.

Social Innovation

According to the Center for Social Innovation at Stanford University, social innovation is “a novel solution to a social problem that is more effective, efficient, sustainable, or just than current solutions.”⁶⁵ This project, yet to begin implementation, aims to do business in a more just and inclusive manner. The overarching challenge is whether these best intentions will materialise in the local social, cultural, environmental, and political context as well as the global economy. A challenge to social innovation is managing expectations and defining realistic outcomes, a problem highlighted at the outset of this case study. *Beyond Extraction* seeks to address the unrealised development gains associated with extractives, such as unequal employment opportunities, limited local procurement, and varied benefits of royalties from large scale commercial mining activities. The pilot combats these issues by developing a skilled workforce and strengthening local enterprises, as well as supporting better government management for public spending.

Of additional concern is the inclusion and development of local municipal governance structures in order to ensure resilient long term business opportunities in the targeted communities. With the development of institutional capacity as a central pillar in the program’s operations, it remains important to ensure that state structures are empowered and built up in a way that considers the challenges of short-term

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political and bureaucratic appointments.⁶⁶ Training provided to institutional offices in local communities will meet with the challenge that individuals employed by the public service may only work there for 1-4 years, resetting institutional capacity with every new political cycle. Interventions implemented by the IDB and Anglo American with TechnoServe, on the other hand, adopt a long-run perspective, focusing on sustainability and project resilience. In order to achieve long term benefits, the short term challenges must be addressed, as opposed to simply taking over and providing a proxy the role of the state. Arellano-Yanguas identified a broad tendency, in the case of Peru, to transfer state responsibilities to the mining companies in inadvertently. While private actors do not wish to proxy the role of the state, he observes that communities and the local government began to expect and demand interventions by the extractive industry to improve their welfare. He adds that mining companies can become both the focus of anger and the target of the communities' popular demands.⁶⁷ While *Beyond Extraction* targets business and entrepreneurship development, ensuring the long term provision of services such as networking fairs, and skills training at a local level, will remain crucial for the program's long term success. Such issues extend beyond this project, and remain a hurdle for any PPPD or sustainable development intervention. The goal will be to work *with* governments, not *for* them, something *Beyond Extraction* identifies as crucial through its focus on a "train-the-trainer" approach.

One final set of issues includes considerations for what might happen when a project is immensely successful. High quality social services can lead to in-migration as individuals seek opportunities not available in their own communities, potentially compromising service delivery in addition to other negative impacts associated with unplanned population growth. Poor service delivery can then erode trust in and lead to resentment of local governments. On the other hand, when programming is successful it can be an incentive for governments and local actors to stay involved, leading to greater cohesion and engagement. Central to avoiding these problems is a thorough understanding of community expectations for local governments, given consistently changing definitions of a state's responsibilities, as well as defined boundaries for a program's geographical scope in order to avoid the problem of mission creep.⁶⁸ If

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successful, the pilot has the potential to be scaled up to a national policy priority, but the initial program requires a well-defined scope in order to ascertain success. Selection processes for program participation are thus an important component of the pilot, something that will likely be well informed by Anglo American and TechnoServe's decade of previous interventions. In many ways, *Beyond Extraction* stands as a social innovation given its consideration of all of these various issues.

V. Development Impact

Ideally, this project will exemplify business done better by embedding a more systematic approach to development and community engagement; and at the same time exemplify development done better by leveraging the efficiencies, reduced transaction costs, and market knowledge inherent to the private sector. Yet, social unrest due to mining opposition is omnipresent in the LAC region. Sustainable development in the sector faces continued structural challenges, namely unequal gains for females and males, environmental degradation of water and agricultural resources, and perceived or real government corruption.⁶⁹ Another challenge is to build and maintain partnerships across extractive companies, government, and other development actors. The sense of competition pushes actors to act independently leading to duplication of costs, building dependency in community members and disempowerment of local authorities. In light of these tensions, we examine the key considerations for the project's development impact and potential challenges the sector at large continues to face.

Project Sustainability

Anglo American share prices are at record lows and the company has started a process of asset disposals. The underlying earnings before interest and tax dropped to US\$2.2 billion in 2015 from 4.9 billion in 2014.⁷⁰ While this project will benefit from the IDB to complete implementation, an important challenge is ensuring that development and social innovation remain prominent throughout the commodity boom and bust cycle. Anglo American currently plans to reduce its global workforce from 135,000 to 50,000, while also shifting its mineral portfolio from 45 assets to a core portfolio of 16.⁷¹

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Although, copper remains a core elements of Anglo American's strategy going forward, resources for socio-economic development programmes will have to be strongly supported by well-established strategies that clearly articulate how business and development value is delivered.

Cross-Cutting Development Issues

The IDB's institutional strategy 2016-2019 identifies three cross-cutting issues to use as a lens for sustainable and inclusive development, namely gender equality and diversity, climate change and environmental sustainability, and institutional capacity and the rule of law.⁷² *Beyond Extraction* project is a 36-month, US\$5.8M pilot with just over 2,000 direct beneficiaries focused primarily on economic development. As such, it cannot aim to address every development issue in the sector or it risks the consequences of mission creep. At the same time, this case doesn't work in isolation. It remains one partnership between Anglo American, TechnoServe, and the IDB, three actors that will continue to engage in sustainable development interventions in the region, and the sector, beyond this particular partnership.

Beyond Extraction aims to learn how to strengthen local institutions for better community engagement and transparency, which can translate directly to improvements in environmental management, for example, among other sectors. Similarly, IDB's environmental safeguards ensure integration of environmental considerations into all programming. While well beyond the scope of this pilot project, environmental sustainability is an integral consideration for the extractive sector, for both the social license to operate and ensuring sustainable development.

Notably, the pilot interventions in Chile target women and youth, a central component of the state's country strategy with the IDB. This component of *Beyond Extraction* seeks to do more than merely target female and young adults in beneficiary communities: it adopts a truly gendered focus to proposed interventions by tailoring programs to the specific needs of women and youth within the community as opposed to using gender as a basic metric. The program component focuses instead on strengthening business and social skills for both groups through integration with local

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job markets and the development of entrepreneurial skills, relying on lessons learned from previous MIF youth employment initiatives. Central to this component's success will be delivering on this gendered approach, ensuring that programs empower women and youth in communities surrounding mining operations. As mining has long been an industry with male workforce, programs will often be implemented in areas facing a significant gender and age imbalance than the average as well. By adopting a gendered focus, *Beyond Extraction* will generate essential knowledge regarding gender issues (of both men and women) in extractive industries, as well as powerful lessons learned for how best to overcome these traditional barriers to the participation of women and youth in the industry.

Knowledge Transfer

One of the most important development impacts proposed from this project will be the generation of evidence and mutual learning through the Bank's development effectiveness mandate and evaluation requirements. Data will be gathered on how communities can take advantage of the economic opportunities provided by large-scale mining investments, including what has worked and what has not. There are multiple ways of knowing and doing from multiple stakeholder perspectives that need to coalesce in order to reach an agreement. One consideration will be creating a platform that successfully brings together the expertise from Anglo American, TechnoServe, and the IDB-MIF. A second consideration is the importance of the final project evaluations and the disclosure – by all partners – of failures and lessons learned that the partnership will be comfortable sharing. There is much to be gained from learning from failures, particularly with the goal of scaling efforts from pilot projects into replicable public policy.

VI. Conclusion

Resource extraction is a pillar of the global economy and a driver of growth in Latin America. Alignment between development and business interests through innovative

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partnerships can help to overcome the challenges to transition the sector to an engine for sustainable and inclusive development. *Beyond Extraction* marks a departure from traditional CSR initiatives in extractives and adopts a systemic approach to remedy the problems that limit sustainable development from mining operations. The project also takes an innovative stance toward the three pillar model by tailoring interventions to the needs of local actors. Accomplishing this effectively requires ongoing multi-stakeholder dialogue in order to assess community needs and align expectations. This builds on previous Anglo American's interventions such as the "Dialogue Table" in Quellaveco, the IDB's extractives workshops, and TechnoServe's community level engagement in the region. It will be essential to recognize that hurdles will arise, and course corrections will be necessary. PPPDs present the opportunity for immense success. One can only imagine the potential for scalable public policy and sustainable development in a sector long plagued by the resource curse but with the potential to drive prosperity in Latin American and the Caribbean.

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VIII. Appendix

Figure 1: The Mine Life Cycle. Source: International Council of Mining and Minerals (ICMM). “The Role of Mining in National Economies, 2nd Edition” (October 2014) 7.

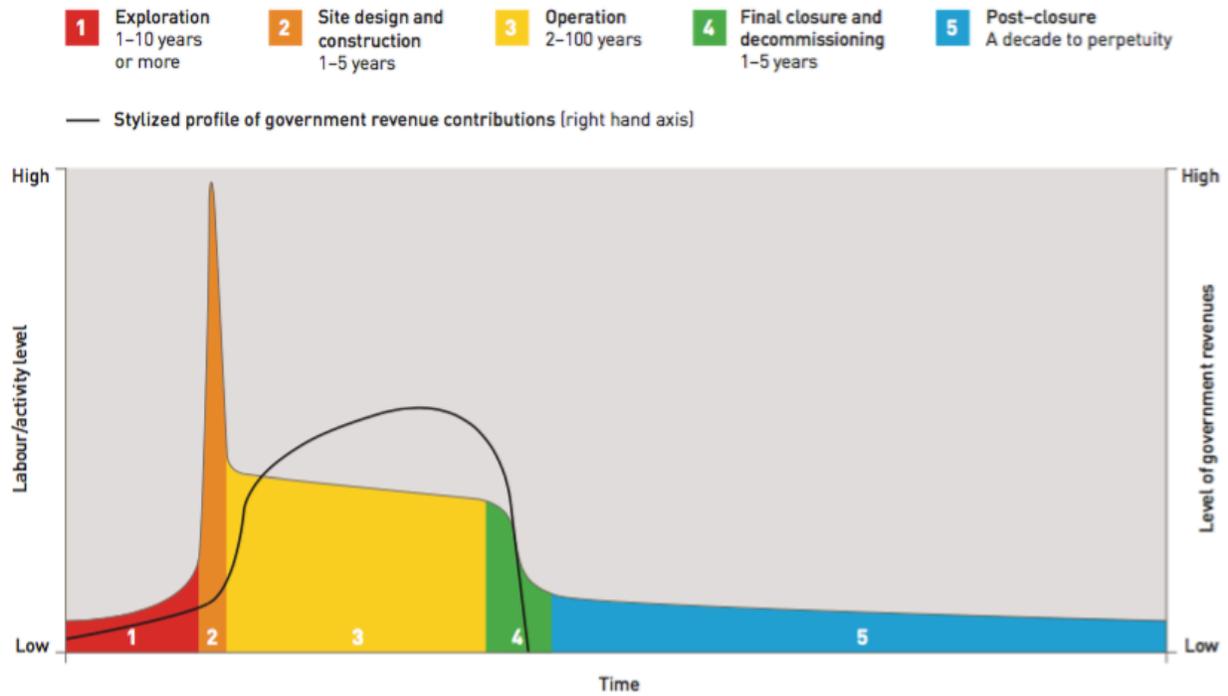


Figure 2: Three-Pillar Approach with Anticipated Program Elements. Compiled by authors from Inter-American Development Bank, “Project Eligibility Profile”.

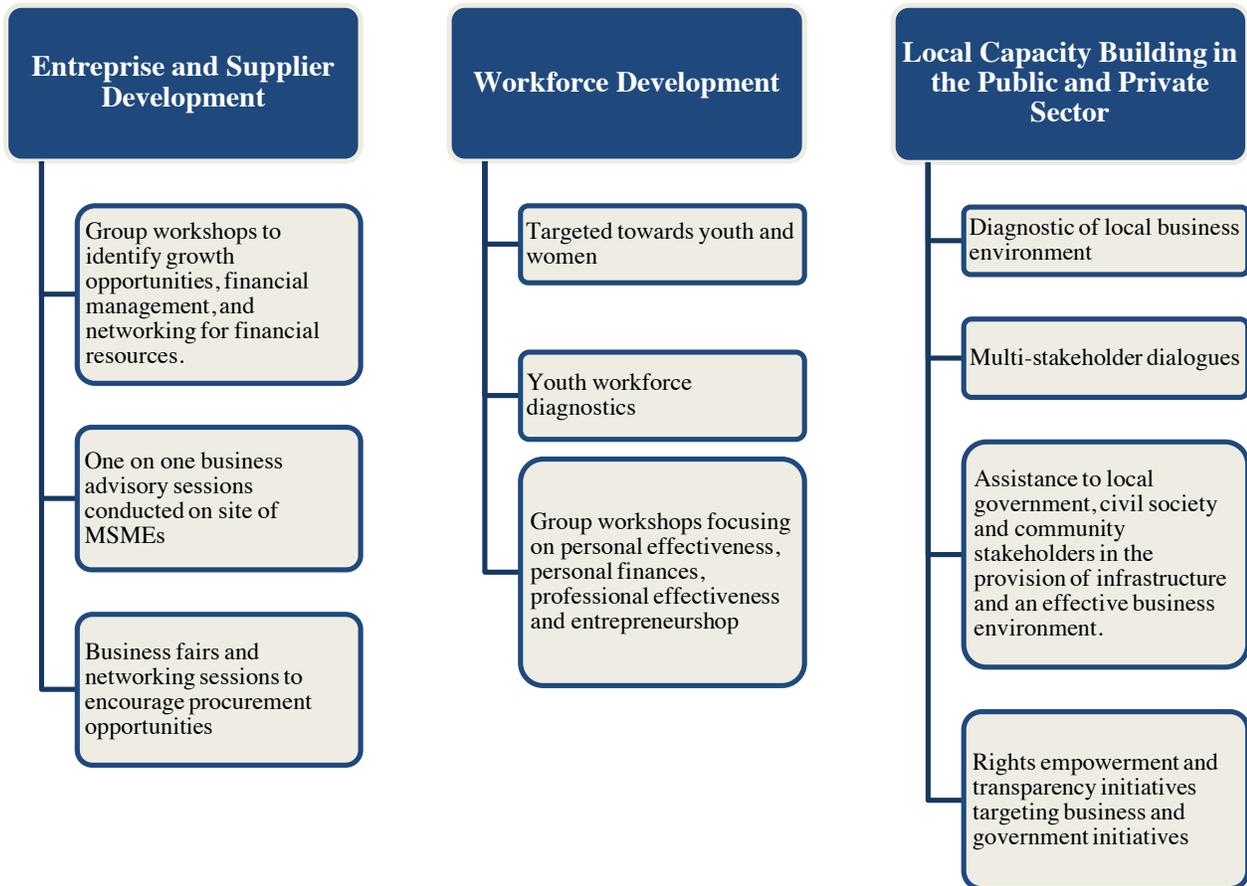


Figure 3. Location of *Beyond Extraction* implementation sites at Anglo American mining locations in Brazil, Chile, and Peru. Compiled by authors, Google Earth.



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have compared the status of Brazil's DPNM to the regulatory capacity of Canadian Province British Columbia, which employs eight engineers alone for just 68 tailings dams. See also: Dom Philips, "Brazil's Mining Tragedy: Was it a Preventable Disaster?" *The Guardian*, November 25th 2015, Accessed online May 20th 2016, <http://www.theguardian.com/sustainable-business/2015/nov/25/brazils-mining-tragedy-dam-preventable-disaster-samarco-vale-bhp-billiton>; Paul Kiernan, "Mining Dams Grow to Colossal Heights, and So Do the Risks," *The Wall Street Journal*, April 5, 2016, Accessed online May 20th 2016, <http://www.wsj.com/articles/brazils-samarco-disaster-mining-dams-grow-to-colossal-heights-and-so-do-the-risks-1459782411>; see also Stephen Eisenhammer and Anthony Boadle, "Brazil Dam Disaster Shows Flaws in Decrepit Mining Regulator," *Reuters*, November 27th 2015, Accessed online June 16th 2016, <http://www.reuters.com/article/us-brazil-damburst-regulator-idUSKBN0TG1LD20151127>

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- ³⁹ World Bank, "Peru," World Bank Development Indicators, accessed online June 16th 2016, <http://data.worldbank.org/indicator/SI.POV.NAHC/countries/PE?display=graph>
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⁴⁰ World Bank, “Peru”

⁴¹ IDB, *Extractives Sector Action Plan*, 3.

⁴² IDB, *Extractives Sector Action Plan*, 4, 11, 13.

⁴³ The social license to operate can be broadly defined as the mining company’s desire to ensure that the community accepts the presence of the company and mining operation. Keith Slack, “Mission impossible?: Adopting a CSR-based business model for extractive industries in developing countries,” *Resources Policy* 37 (2012): 181.

⁴⁴ Of note, corporate officials stated that key questions around which government goals needed to be aligned included, “which include questions such as, “when firms consider whether it is worth investing in infrastructure, they ask ‘will it make us money?’ and ‘will it increase our social license to operate?’” See also Inter-American Development Bank, “Extractive Workshop Summaries,” Circulated May 26th 2016, 13.

⁴⁵ IDB, *Extractive Workshop Summaries*, 4.

⁴⁶ IDB, *Extractive Workshop Summaries*, 11.

⁴⁷ IDB, *Extractives Sector Action Plan*, 5.

⁴⁸ Multilateral Investment Fund (MIF), “Project Eligibility Profile: RG-M1300, Beyond Extraction: Economic Opportunities in Communities Hosting Mining Operations,” *Inter-American Development Bank*, Circulated May 17th 2016, 6-7.

⁴⁹ Multilateral Investment Fund (MIF), “Más Allá de la Extracción,” 7-10.

⁵⁰ Multilateral Investment Fund (MIF), “Project Eligibility Profile: RG-M1300, Beyond Extraction: Economic Opportunities in Communities Hosting Mining Operations Donor Memo,” *Inter-American Development Bank*, Circulated July 9th 2016, 6.

⁵¹ The selection of beneficiary regions coincides with areas where Anglo American and TechnoServe have previously operated their pre-existing programs, while also including three of the company’s largest extractives operations in the region. In Brazil around Minas Rio, targeted municipalities include Conceição do Mato Dentro, Serro, Dom Joaquim, and Alvorada de Minas in the state of Minas Gerais. In Chile around Los Bronces targeted municipalities include Colina, Lo Barnechea, and Til Til in the metropolitan area surrounding Santiago, as well as the Los Andes, Calle Larga, San Esteban, and Rinconada municipalities in the Valparaíso region. Around Quellaveco the project will be targeted towards the Moquegua region near the proposed Quellaveco mine. See MIF, *Project Eligibility Profile*, 4.

⁵² Email correspondence, MIF-IDB, July 8 2016.

⁵³ MIF, *Project Eligibility Profile*, 7-8.

⁵⁴ MIF, *Project Eligibility Profile*, 8.

⁵⁵ “Canada’s Sustainable Economic Growth Strategy for International Development,” last modified November 17, 2015, <http://www.international.gc.ca/development-developpement/priorities->

- [priorites/nrgrn.aspx?lang=eng](#). See also, "World Bank Extractive Industries Strategy: Overview," last modified April 5, 2016, <http://www.worldbank.org/en/topic/extractiveindustries/overview#2>.
- ⁵⁶ Abigail McWilliams, "Corporate Social Responsibility," *Wiley Encyclopedia of Management* 12 (2015), 1.
- ⁵⁷ Slack, "Mission impossible," 179.
- ⁵⁸ Anglo American PLC, "Investor Day 2015: Driving Change, Defining Our Future," Presentation by Marc Cutifani, December 8th 2015. <http://www.angloamerican.com/investors/financial-results-centre/investorday2015>
- ⁵⁹ Slack, "Mission impossible," 182.
- ⁶⁰ "Extractive Industries Transparency Initiative Peru," https://beta.eiti.org/implementing_country/6.
- ⁶¹ "Peru: ten years of transparency in oil, gas and mining," last updated August 6, 2015, <https://eiti.org/news/peru-ten-years-transparency-oil-gas-and-mining>.
- ⁶² Anglo American PLC, *Sustainability Report 2012: Creating Value with the Future in Mind*, (Anglo American PLC: 2012), 17.
- ⁶³ Hugh Elliot, "Engaging with stakeholders to understand and resolve local concerns," *The Guardian*, accessed June 15, 2015, <http://www.theguardian.com/sustainable-business/engaging-stakeholders-resolve-local-concerns>.
- ⁶⁴ "Engaging with stakeholders to understand and resolve local concerns."
- ⁶⁵ "Defining Social Innovation," Stanford University, Accessed online June 15th 2016, <https://www.gsb.stanford.edu/faculty-research/centers-initiatives/csi/defining-social-innovation>.
- ⁶⁶ Sridharan, Eswaran. "Leadership Time Horizons in India: The Impact on Economic Restructuring." *Asian Survey* 31, no. 12 (1991): 1200-1213.
- ⁶⁷ Arellano-Yanguas, "Mining and conflict in Peru," 95.
- ⁶⁸ Mirafteb, Faranak. "Public-Private Partnerships The Trojan Horse of Neoliberal Development?." *Journal of Planning Education and Research* 24, no. 1 (2004): 93.
- ⁶⁹ United Nations Development Programme, "Strategy Note UNDP's Strategy for Supporting Sustainable and Equitable Management of the Extractive Sector for Human Development," (December 2012), 5.
- ⁷⁰ Anglo American, *Annual Report 2015*, 1.
- ⁷¹ Anglo American, *Annual Report 2015*, 2-6.
- ⁷² Inter-American Development Bank, *Summary: Update to the Institutional Strategy 2016-2019* (Washington: IDB, 2015), 9.