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Aggravating the Resource Curse: Decentralisation, Mining and Conflict in Peru

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ABSTRACT *In the early part of this decade, at the beginning of the recent international commodity price boom, Peru adopted major components of the new 'localist' policy paradigm for the management of natural resources. A large fraction of revenues were transferred to the subnational governments in the mining areas. Additionally, the government encouraged mining companies to assume a more active role locally. The results have been disappointing. Statistical and fieldwork evidence shows that these policies have exacerbated local political conflicts. The new 'localist' policy paradigm is unlikely to be effective when, as in contemporary Peru, national political institutions are not supportive.*

I. Introduction

The concept of a 'resource curse' continues to stimulate debate. There is, however, a firm consensus of academic opinion, backed by cross-national statistical analysis, that it exists. The exploitation of 'point' natural resources¹ with large rents associated is likely, on the basis of the experience of the last few decades, and especially in countries with previously fragile political institutions, to generate both unexpectedly low rates of economic growth and a series of adverse effects on governance, including authoritarianism, militarisation, regional secessionism, and socioeconomic inequality.² These outcomes are probable, not guaranteed. The causal mechanisms are complex and it is important that researchers continue to try to understand them better. However, policymakers have not waited for researchers to complete their job. They have come under increasing pressure to respond to the growing evidence that the large-scale extraction of point natural resources is likely to have adverse economic and political consequences. Much recent research and policy

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debate has focused on the national level, above all on ways of using better, and more transparently, the natural resource revenues that accrue to governments, often in gushing amounts. There has been relatively little recent research into the local impact of mines and oil wells, perhaps in part because there is an independently established literature on the topic.³

However, recently there has been a policy change, focused on the local level, which is sufficiently widespread and coherent that one can sensibly talk of a new 'localist' policy paradigm. This paradigm has three main components. The first, and most visible, is the more or less mandatory redistribution of natural resource revenues from central to subnational and local government, with preference for the localities where the mines and oil wells are located. Bolivia, the Democratic Republic of the Congo, Indonesia, Madagascar, Nigeria, Peru, the Philippines and South Africa are among the countries that in recent years have reallocated oil and mining revenues in this way. The second component is formal provision for local citizens to participate directly in decisions about how to spend these devolved revenues. The third is encouragement for a range of institutional actors, including mining and energy companies and civil society organisations, to be actively involved in these local level decisions.

This new policy paradigm seems to reflect the confluence of a number of political pressures, opportunities and ideas. Mining and energy companies, governments and international financial institutions have been under pressure to respond to the emergence globally of a new political ethos requiring greater local control over natural resources (Larson, 2004: 25–26; Ribot, 2004). Embracing elements of the new localist policy paradigm can be the easiest way for governments to demonstrate responsiveness. Moreover, partly under pressure from civil society activists in their home countries, mining and energy companies are increasingly concerned about the operational impact on people living in the extraction areas and the potential for backlash unless they can more convincingly demonstrate that those people also benefit (Ballard and Banks, 2003). They place increasing emphasis on what are generally termed 'corporate social responsibility' (CSR) activities. More broadly, the new localist policy paradigm reflects a set of political ideas, labelled 'radical polycentrism' by Houtzager (2003: 4–7), that were especially influential in much of the world from the early 1990s until recently: a deep suspicion of large scale, authoritative political institutions, especially the centralised state, leading to consistent attempts to disperse power toward subnational levels of government, citizens, and to NGOs of all kinds, whether commercial or non-profit. In most interpretations of the politics behind the resource curse, the core problem is that resource revenues empower the central state apparatus. It seems to follow that the combination of devolution of decisions over natural resource revenues to local governments and populations from which they originate, and the involvement of companies and civil society organisations in those decisions, should counter the adverse effects of the centralised appropriation of resource rents, including rent-taking at central level, lack of downward accountability, secrecy over the use of public finances, and the limited capability of the central bureaucratic apparatus to reach remote areas in developing countries (IIED, 2002).

Peru has long been a significant exporter of point natural resources: copper, tin, silver, gold, zinc and, more recently, natural gas. From the beginning of the current

decade, during the 2004–2009 commodity price boom, the Peruvian government enthusiastically embraced the new localism in natural resources management. Substantial revenues were delegated to subnational governments, with a strong preference for mining areas. Legislation mandated participatory consultations on the use of these revenues locally. And civil society organisations and mining companies were positively encouraged to help subnational governments to spend this money. The outcome, certainly throughout 2004–2008, has been perverse. The money has not been well spent. More strikingly, the incidence of ‘contentious politics’ – local political disturbances and conflict – has increased in proportion to the extent of devolution of natural resource revenues to subnational governments, which in turn, is directly correlated to mining company profits in the same region. This is true over both time and space. For the period 2004–2008 at least, there can be little doubt that the new localism in resource management caused increases in local political conflict. These local conflicts in turn triggered a broader wave of conflict throughout the country. However, we cannot automatically conclude that, because this led to conflict in Peru, it will inevitably do the same elsewhere. Context matters. I argue that three features of the political economy of contemporary Peru at least exacerbated the adverse effects of the new localist policies: (i) the institutional weakness of the Peruvian central state and the fact that it is to a large degree captured by private business, with little capacity to represent other interests; (ii) the weak participation of local political leaders in national politics, motivating them to pursue independent strategies and objectives, and to maximise resource transfers to their own localities; and (iii) the inability of the weak, ‘captured’ central state to regulate or alleviate local conflicts between mining interests, diverse local economic interests, and competing local social and political movements. At least in the form and haste in which it was implemented, the Peruvian experiment with the new localist policies was not well conceived.

There is however a twist to my tale. Some of the most enthusiastic and courageous supporters of local community rights in relation to mining companies have been the most active proponents of the devolution of natural resource revenues. The suggestion that this devolution is itself a cause of conflict has been met with considerable scepticism. To make my case convincingly, I need to distinguish carefully between the different types of mining-related social conflicts that my field research revealed. I identify two main types, each with sub-types. In Type 1 conflicts, local communities and mining companies are the main protagonists. The conflicts concern the actual or attempted appropriation by mining companies of local resources, especially land, water, and unpolluted local environments; and the attempts by local communities to resist or to gain compensation. The existing literature gives the impression that all local conflicts around mining in Peru are of Type 1. Type 2 conflicts pit local political actors and administrative jurisdictions against one another around issues of access to, and use of, the natural resource revenues transferred from central government. These conflicts do not occur in an historical vacuum, but against a background of regional and local cumulative grievances against centralised political and economic powers. Although in this paper I cannot deal with that historical context, I recognise that these grievances set the conditions for conflicts to arise.

I summarise the key features of the Peruvian context in Section II, and in Section III explain how, since 2002, natural resource revenues have been shared among

different government levels. In Section IV, I provide the statistical evidence that increases in mining rents and fiscal transfers to subnational governments cause more local conflict. In Sections V and VI, I use my field data to explain Type 1 and Type 2 conflicts respectively. Section VII concludes.

II. The Peruvian Context

Peru recently revived its long-established mining tradition and has become the world's biggest producer of silver; the second biggest producer of zinc and copper; the third of tin; the fourth of lead and molybdenum; and the fifth of gold (Ministerio de Energía y Minas – Perú, 2009). The 2004–2009 mineral price boom simultaneously generated extraordinary economic growth – soaring to 9.8 per cent in 2008 – and stimulated further mining investment. Between 2002 and 2007, the stock of foreign direct investment (FDI) in the mining sector increased by 65 per cent, in contrast with the 12 per cent overall increase in FDI. During the same period, the sector's contribution to internal tax revenue increased from 5 to 29 per cent, and its contribution to exports increased from 55 to 70 per cent (Ministerio de Economía y Finanzas – Perú, 2009). The two governments in power over this period pursued sound macroeconomic policies and, furthermore, poverty reduced significantly from 54 per cent of the population in 2002 to 36 per cent in 2008 (INEI, 2009).

Despite this, these governments have not been popular. Indeed, conflicts have multiplied, particularly in the mining regions, and represent a threat to national political stability. In the Fraser Institute's *Annual Survey of Mining Companies*, Peru has consistently ranked among the most attractive countries in terms of the economic potential of its mineral reserves, but very low in terms of political variables – security, political stability and conflicts over land and indigenous issues (Fraser Institute, 2009).⁴ Similarly, Peru's rankings in the World Governance Indicators have fallen in recent years (World Bank, 2009). We can better understand this connection between mining and conflict if we take into account two features of the Peruvian political system: (i) the high level of influence of business over the state; and (ii) ad hoc decentralisation policies.

The Influence of Business over the State

The implementation of radical economic liberalisation policies under Fujimori's rule changed power distribution in Peru. In particular, it reinforced the already large influence of the private sector over the state (Durand, 2005). The taxation and environmental regimes for mining exemplify this. The current tax regime for the mining sector was established in the early 1990s to attract foreign investment. New mining operations were exempt from royalty payments, and companies were not required to pay the standard 30 per cent profit tax until they had recovered their initial investments.⁵ Fujimori later signed a fiscal stability agreement with mining companies renouncing the right of the government to change the mining tax regime without the companies' consent. After Fujimori's fall from power in 2000, these arrangements were challenged on two grounds: (i) that Fujimori signed the fiscal stability agreement illegitimately; and (ii) that, once international mineral prices began to increase markedly, flat-rate profit taxes on mining gave the government an

inadequate share of the revenue. There were calls for the introduction of a windfall tax. During his successful 2006 presidential campaign, Alan Garcia promised a review of mining contracts. However, as soon as he took office he backed down and reached an agreement with the mining companies which excludes royalty payments and windfall taxes. Garcia published this agreement, which he labelled the 'mining programme of solidarity with the people', in December 2006.⁶ It involves voluntary contributions from mining companies, to be spent in mining territories, by private trusts linked to these companies, and governed very loosely. This agreement, that clearly signals the subordination of the government to mining interests, was popularly christened the 'mining alms agreement'. It has generated much criticism.

The power of the mining companies over the state is equally evident in the weakness of environmental regulation (World Bank, 2005). The Ministry of Energy and Mines is simultaneously responsible for: (i) promoting investment in new mining operations; (ii) granting mining concessions; and (iii) reviewing and approving the environmental impact assessments required for new exploration and extraction activities. These diverse responsibilities present conflicts of interest (Bebbington et al., 2007).

It is also worth noting the process through which companies acquire 'social licences' to open new mining operations. A social licence is the informed and prior consent of local people to mining activities within their territory. It is not a mandatory procedure. However, companies increasingly see a social licence as a necessity, and obtaining it largely a matter between them and the local population. The state plays a minimal role, often restricted to facilitation of public meetings.

Ad Hoc Policies of Decentralisation

After the fall of President Fujimori in 2000, decentralisation was widely understood to be a crucial part of the process of re-democratisation (UNDP, 2006: 85–94). In 2002, Alejandro Toledo's government revived political decentralisation by creating a new, third tier of elected government, the region. The new three-tier structure comprises: (i) the national level; (ii) 25 regional governments, coinciding geographically with long-established administrative units called departments; and (iii) local governments consisting of 195 provincial municipalities and 1832 district municipalities. The government also decentralised public expenditure responsibilities. Three features of the relations between national and subnational governments in Peru collectively are particularly important in shaping the local impacts of mining activities and of the substantial devolution of revenues to mining areas:

- (1) Regional politics are dominated by local leaders who have only weak connections to national political parties, and few reasons to support their policies. Local leaders tend rather to develop their own local political platforms and agendas in explicit opposition to national government. Opposition to mining activities can provide a very good basis around which to mobilise local popular support (Revesz and Diez, 2006). Equally, mining interests can relatively easily purchase local political support.
- (2) Although they sometimes enjoy generous revenues (see below), subnational governments otherwise have little authority, especially in relation to mining.

In the case of the mining and oil sectors, all significant policy resources and processes – the allocation of exploration and exploitation licences, registration of mining activities, databases on land resources, and authority over regulation and inspection – are entirely in the hands of central government. When citizens' discontent over potential adverse effects of mining activities arises, subnational governments have all the incentives to transfer the brunt of popular dissatisfaction to central government.

- (3) The generous transfer of financial resources to subnational governments intensifies competition in local and regional elections. Moreover, a 'first past the post' voting system tends to inflate the number of candidates and to fragment local politics. Local and regional governments often take office with the support of barely 20 to 25 per cent of the electorate. This lack of popular support explains the weakness of local governments, which rely on clientelism and on the creation of external enemies to maintain their authority (Grompone, 2005).

III. The Allocation of Natural Resource Revenues among the Levels of Government

In 1976, following the discovery of significant oil fields and pressure from regional political movements, the central government decided to give 10 per cent of the value of oil production to the producing region. This transfer was baptised as the '*canon petrolero*'. In Spanish, '*canon*' means a tax related to a specific activity. There is no adequate English translation. Further, in Peru '*canon*' has come to mean a rule for the devolution to subnational governments of revenues collected by central government. To minimise confusion, in this paper I use both the original word '*canon*' and the term '*canon minero*' as if they were English terms. In 1992, the government passed the *canon minero* law that allocated 20 per cent of the income tax paid by mining companies to the territory in which the profits were generated. In 2001, the legislature increased the proportion of revenue to be devolved from 20 to 50 per cent of the income tax paid by the companies. In 2004, the last amendment concentrated transfers further on the local jurisdictions from where the natural resources were extracted. Table 1 summarises these changes. They were promoted by members of the legislature representing the mining regions. Mining companies were

Table 1. Main changes in the rules for allocating *canon minero* revenues among subnational governments

June 2002		Since December 2004	
Beneficiary	%	Beneficiary	%
Regional government	20	Regional government plus 5 per cent for public universities of the region	25
Municipalities of the province where the resource is extracted	20	District municipality where the resource is extracted	10
Municipalities of the department where the resource is extracted	60	Municipalities of the province where the resource is extracted	25
		Municipalities of the department where the resource is extracted	40

happy to support changes that would generate additional public money to calm growing social unrest in mining areas.

When these new allocation rules were planned in 2004, transfers amounted to 308 million Peruvian *nuevos soles* (US\$90 million) at constant 1996 prices. The subsequent rise in world market mineral prices meant that transfers increased 13-fold over three years (Figure 1). It would be a challenge for any government to make good use of revenues that were mushrooming in this way.

In 2007, two-thirds of the total *canon* transfers, and 52 per cent of all fiscal transfers from the central government to subnational governments were concentrated in six out of Peru's 25 regions – Ancash, Tacna, Cusco, Cajamarca, Moquegua and Pasco – that account for just 16 per cent of the total population (Figure 2). These transfers amounted to an average of *nuevos soles* 426 (US\$142) per capita for the country as a whole, but close to nine times that level for the Moquegua and Tacna mining regions. Despite their apparent good fortune, most people in the mining regions seem discontented. They focus on two problems: an increase in conflict and inefficient public investment. Are these problems real? Is there any connection with the increase in mining rents and *canon minero* transfers?

To try to answer these questions, I analysed regional patterns in the incidence of social conflict between 2004 and 2008 and conducted field research between April and October 2008 in five mining regions: Ancash, Moquegua, Pasco, Cajamarca and Cusco, with a focus on the first three. The field research suggested that subnational governments that enjoy large financial transfers use them inefficiently. However, this paper focuses exclusively on conflict. I find that not only is conflict more common in mining localities, but that, over the period of the recent commodity boom, when *canon minero* transfers increased rapidly, conflict became increasingly concentrated in mining localities. Why?

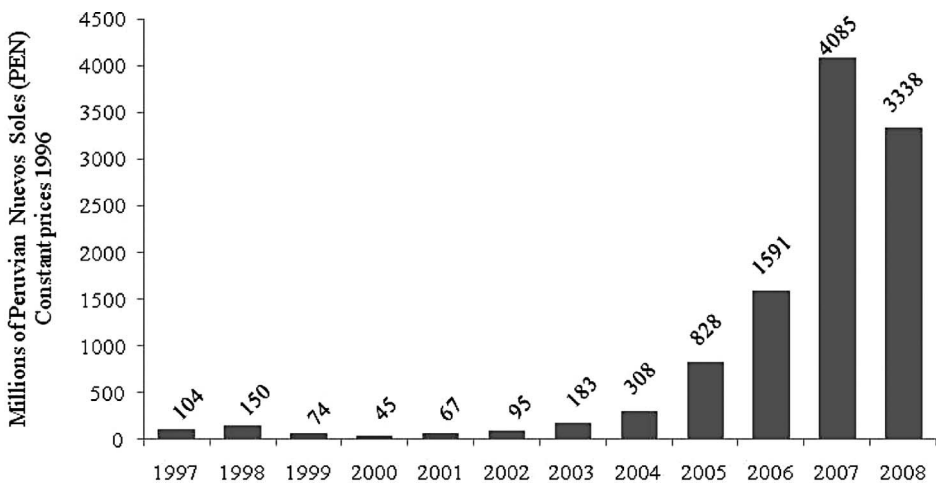


Figure 1. Evolution of *canon minero* and royalty* transfers to subnational governments.

Notes: *Reference about royalties in footnote no 6.

Source: Ministerio de Economía y Finanzas-Perú (2009).

Graphic representation: The author.

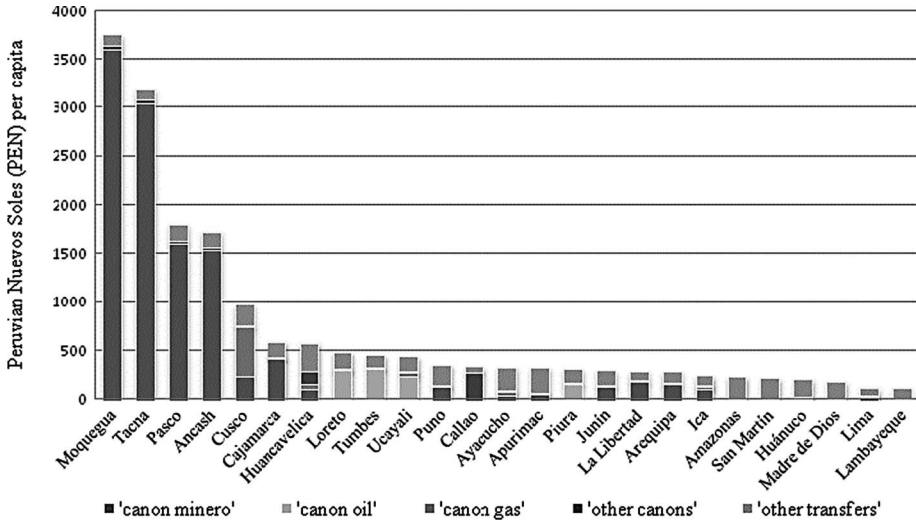


Figure 2. Per capita fiscal transfers to regional and local governments in Peruvian Nuevos Soles (2007).

Source: Ministerio de Economía y Finanzas-Perú (2009).

Graphic representation: The author.

IV. Mining Rents and Fiscal Transfers Fuel Conflicts

There is a considerable literature on conflicts between mining companies and local communities in Peru (Cooperación, 2006; Revesz and Diez, 2006; Echave de et al., 2009). However, most was written before the big increase in *canon minero* transfers that began in 2006. Why does this matter? Because the frequency of social conflicts in the country has increased considerably, from 47 conflicts in February 2004 to 197 in December 2008; and because these increases are heavily concentrated in the mining regions (Defensoría del Pueblo, 2009).

To understand the reasons fuelling these new conflicts I combined field research with the analysis of official reports on conflicts. Luckily for researchers, the Peruvian ombudsperson ('Defensoría del Pueblo') has since 2004 been publishing reports, widely believed to be reliable, on the incidence, by location, of what are termed 'social conflicts'. These are broadly the same as events that might otherwise be labelled cases of contentious politics. The ombudsperson defines a social conflict as an event with at least one of the following features: (i) threat to the integrity of people's life or health; (ii) damage to private or public property; (iii) obstruction to freedom of movement; (iv) impediment of the exercise of public authority; and (v) obstruction of public services delivery (Defensoría del Pueblo, 2009). Conflicts are classified as either active or dormant. Additionally, I personally conducted interviews with the main actors involved among the 52 social conflicts recorded by the ombudsperson's office for the three mining regions of Ancash, Moquegua and Pasco between February 2004 and September 2008. These three are important mining regions, but sufficiently varied in character to make them representative of mining in Peru.

I used the ombudsperson's reports in two different ways. First, I reconstructed the narratives of all the social conflicts reported by the ombudsperson monthly between 2004 and 2008, identifying where they occurred, when they started, how long they lasted, and their severity, according to an objective scale (Online Appendix I). The most important conclusions are that: (i) between 2005 and 2007, the number of new conflicts remained stable from year to year, but the stock of unresolved conflicts increased; (ii) in the same period, conflicts directly related to mining increased three-fold, constituting 56 per cent of all the new conflicts in 2007; (iii) there was an unusually large number of new conflicts in 2008, especially non-mining conflicts; and (iv) overall, there was no difference in the intensity of mining and non-mining conflicts, but mining conflicts tended to last significantly longer.

Second, I used multivariate regression to identify the correlates of variations over time and space in what I term the 'annual conflict incidence index' (ACII). ACII is a measure of the incidence of conflict per million people. It is based on the conflict data reported by the Defensoría del Pueblo, but modified by me to reflect incidence. Having consulted a number of people, I gave a weight of three points to each active conflict and one point to each dormant one. I have calculated this index monthly and aggregated it to an annual figure. I calculated the ACII for each region of Peru for the years 2005–2008.⁷ I then tested hypotheses about the factors that would be associated with differences among regions in conflict incidence. These differences were large. If we take the figures for 2005–2008 collectively, the average ACII for the whole country was 277, but this varied from zero in Tumbes to 1956 in Moquegua.

My statistical method was multivariate regression, with ACII as the dependent variable and the following as independent variables: (i) annual *canon minero* transfer per capita at current value, as a proxy for mining rents; (ii) percentage of the regional population under the poverty line; (iii) percentage of mining production in relation to total regional GDP at constant 1994 prices, as a proxy for the level of mining activity; and (iv) investment by mining companies in exploration, construction of new mines and expansion of existing operations, as the best available proxy for physical expansion of mining activities.⁸ To prevent extreme values driving the result, the $\log_{10}(x + 1)$ function was applied to annual transfers, mining GDP and the ACII variables.

To test evolution over time I used two different and complementary methods: (i) time dummies to detect significant variation to the model due to time-specific factors; and (ii) year-by-year OLS regressions to study the evolution of significant variables and coefficients over time.

Additionally, I used other variables to test alternative potentially influential factors specific to each region that did not change over time. These variables were clustered in four thematic groups: (i) type of region; (ii) specific features of the population; (iii) political variables; and (iv) other socioeconomic variables.

The figures in Table 2 summarise the results of the basic models. The first model shows that two variables – the incidence of poverty and the level of per capita *canon minero* transfer – jointly account for 35 per cent of the variance in the ACII. The regional level of investments by mining companies is also significant when tested independently (see model 1* in Table 2). However, the variable loses its explanatory power when jointly introduced into the model with the *canon minero* transfer variable; a high degree of collinearity among them is responsible for this effect.⁹

Table 2. Regression of *canon minero* transfers, poverty levels and mining-generated GDP on incidence of conflict by region (2005–2008)

Time frame	Panel data			Year by year			
	2005–2008	2005–2008	2005–2008	2005	2006	2007	2008
Dependent variable: Log of per capita annual conflict incidence index (ACII)							
Model specification	Model 1	Model 1*	Model 2	OLS (rse)	OLS (rse)	OLS (rse)	OLS (rse)
Constant	OLS (pcse)	OLS (pcse)	Pooled OLS (rse)	OLS (rse)	OLS (rse)	OLS (rse)	OLS (rse)
Log of <i>canon minero</i> per capita	.687 (.139)*** .278 (.071)***	.768 (.188)***	.329 (.212) .227 (.082)***	.241 (.404) -.153 (.122)	.353 (.329) .248 (.094)**	.517 (.331) .328 (.094)***	1.283 (.438)*** .236 (.101)**
Percentage of poverty	.016 (.003)***	.014 (.004)***	.018 (.003)***	.026 (.006)***	.018 (.004)***	.014 (.005)***	.010 (.006)*
Mining as percentage of GDP (constant prices)	-.009 (.006)	-.005 (.006)	-.006 (.006)				
Log of investment in mining activities		.234 (.074)***					
t ₂₀₀₆			.156 (.152)				
t ₂₀₀₇			.253 (.172)				
t ₂₀₀₈			.722 (.190)***				
R ²	.35	.26	.49	.57	.58	.56	.36
N	96	96	96	24	24	24	24

Notes: standard errors in parenthesis; *** significant at 1% level; ** significant at 5% level; * significant at 10% level. pcse = panel corrected standard errors, rse = robust standard errors.

The *canon minero* transfer was kept within the basic specification because overall, it explains a larger proportion of the variance than the alternative variable.

Although the two variables account for different processes, their correlation has a logical explanation. *Canon minero* transfers to local and regional governments are strictly commensurate with the mining companies' previous year's profits. Such profits tend to boost company investment at the mine site and adjacent locations in subsequent years.

In contrast, the level of mining activity captured by the variable 'mining as a percentage of total regional activity' at constant prices does not indicate statistical significance. This fact eliminates the mere increase in mining activity as a determinant in the multiplication of conflicts. This finding is consistent with more direct evidence: in mining regions such as Cajamarca, Tacna, Moquegua and Cusco where conflict has increased, the level of mining activity has not changed significantly in recent years.

To summarise, the first model reveals that in addition to the incidence of poverty, there are three other factors associated with the amount of mining rent, that can account for the variance in conflicts among regions: (i) the redistribution of rents at local level through *canon minero* transfers; (ii) company profits in the previous year; and (iii) the expansion of mining operations through investment of some of the profits.

The second model controls for temporal variation through the introduction of time dummies. This model increases the capacity to explain the variance in the ACII, the two previous variables remaining statistically significant. However, in the case of 2008 data, the time dummy itself is statistically significant. This implies that there are other factors associated with this year unincorporated into the model that are also important in explaining the variation in the ACII.

An analysis of the third model helps us to understand the underlying dynamics, in that it reveals the changing relative importance of the two main explanatory variables over time. The degree of statistical association between level of *canon minero* transfer and incidence of conflicts increased markedly between 2005 and 2007, with the level of poverty playing a steadily diminishing role. However, in 2008, as the second model reveals, there was an important shift. Although level of poverty and per capita *canon minero* transfers (that is, mining rents) remain statistically significant and explain a notable degree of variation in the ACII, the regression coefficients and the level of significance show that the two variables lose explanatory power in comparison to previous years. Similarly, the evolution of the intercept coefficients indicates a general rise in the incidence of conflict that is consistent with the previous descriptive statistical analysis (Online Appendix I).

The rest of the models (Online Appendix III) confirm the statistical significance of poverty and *canon minero* transfers. Meanwhile, other variables do not show a significant statistical association with the incidence of conflicts, with the exception of the area of the region.¹⁰

The characterisation of conflicts and the multivariate analyses provide a consistent interpretation of the growing incidence of conflicts, which are undermining the stability of Peruvian polity. Conflict was initially correlated with poverty. The mining boom and the associated dramatic increase in mining rents and *canon minero* transfers have tended to multiply the incidence of conflict in mining regions receiving

high amounts of transfers. Finally, in 2008 this civil unrest spread beyond the mining regions, triggering a wave of nationwide dissent.

At local level, wealth created by the mines ends up either in company hands or in local and regional government coffers. Interaction with the main actors in conflicts during my field research suggests that the ‘localist’ agenda has modified local level incentives, making both channels – the private appropriation of rents and the *canon minero* transfers – sources of contention. Based on this primary dichotomy, I propose a typology of conflicts that also take into account the main objectives of the claimants (Table 3). I use this typology to analyse the increase in conflicts in mining regions.

V. Type 1 Conflicts: Local Communities versus Mining Companies

Within Type 1 conflicts, I have identified two (archetypal) sub-types of conflicts (Table 3), which share tactics and triggering factors, but differ in intention. First, there are cases in which local populations resist the implementation of new mining operations or the expansion of operational mines. The stated objective is to prevent new or expanding mining operations. Second, local populations might use similar contentious tactics to negotiate with mining companies operating in their territory in order to obtain more from them. The recent boom in mining profits has increased the frequency of this second, more tactical sub-type: local populations sense that the time is right to try to extract a higher share of mining profits.

Opposition to New and Expanded Mining Operations

Attempts to stop new mining activities are the most emblematic and the most studied (Scurrah, 2008; Echave de et al., 2009). Two cases of successful local opposition to mining activities stand out: Tambogrande and Cajamarca. In Tambogrande, a district close to the city of Piura, the Canadian company Manhattan Minerals spent five years (1998–2003) and more than US\$60 million on a project to exploit a rich poly-metallic deposit through open cast mining. Local opposition eventually forced the company and the government to drop the plan (Paredes, 2008). In Cajamarca, the Yanacocha Company¹¹ operates the largest gold mine in Latin America.

Table 3. Typology of conflicts in Peruvian mining regions

Conflict Type	Subtype
Type 1 conflicts: between local communities and mining companies	i) Attempts to stop the construction of new mining operations, or the expansion of currently operating ones
	ii) Communal strategy for the preparation of a negotiation process with the company
Type 2 conflicts: among local populations and local governments over the use of fiscal transfers from central government	i) Between local population and local authorities
	ii) Between different levels of government
	iii) Over the control of territory
	iv) Labour conflict

Yanacocha began mining in 1993 and claims to be at the forefront of the 'new mining', characterised by environmental responsibility and a genuine concern for the local community. However, the enterprise has been plagued by recurrent conflicts, above all opposition to the exploitation of Quilish Hill. Local people claimed that the operation would threaten the Cajamarca water supply, the regional capital, and farming, the region's main economic activity. After five years of difficult negotiations, in November 2004 Yanacocha renounced its legal right to prospect Quilish Hill (Lingan, 2008). These two cases are 'all-or-nothing' type conflicts. Similar cases include Majaz, around the Rio Blanco project, (Bebbington et al., 2007), and, to a lesser extent, opposition to the Quellaveco project in Moquegua.¹²

These cases are important, but they do not encompass the majority of mining conflicts in Peru, and do not include conflicts fuelled by the recent mining boom and their associated rents. However, these emblematic conflicts have deeply affected the recent history of mining in Peru, providing tactical and strategic lessons for the groups challenging the mining companies:

- (1) An environmentalist discourse is likely to help legitimate challenges to mining companies. International institutions and international NGOs sympathetically support popular environmental struggles (Arellano-Yanguas, 2008). Moreover, various aspects of recent Peruvian political history made environmentalism an accepted framework within which to pose popular demands where other political expressions were repressed or delegitimised. Thus, social activists have portrayed the Tambogrande and Cajamarca conflicts almost entirely in environmental terms. However, as Bebbington et al. (2008b: 10) argue with regard to the Cajamarca case, 'The mobilisations brought together groups motivated by quite different concerns. These actors, while united by a general sense that Yanacocha has dispossessed them from something, differ in the specific nature of their concerns.'
- (2) Local opposition can succeed when coordinated with national and international actors (Bebbington et al., 2008b; Paredes, 2008). In both the Tambogrande and Cajamarca cases, local mobilisation attracted global attention, bringing an array of actors into the process. They reinforced local mobilisation capacity and generated external pressure on the companies and the national government. The companies had to demonstrate the positive potential of mining not only to the local population, but also to wider national and international audiences.
- (3) Organisation matters when dealing with powerful opponents. Flexible forms of organisation based on pre-existing structures, such as churches, *rondas campesinas* (peasant defence committees), NGOs, and other peasant organisations, proved their value as vehicles for mobilisation, individually or collectively (Lingan, 2008). However, they are not well-suited to coordinating public participation in long-term constructive negotiations (Revesz and Diez, 2006).
- (4) The Tambogrande and Cajamarca conflicts have been the testing ground for a range of contentious tactics. Protest marches, general strikes and roadblocks are the challengers' most common instruments. As the conflict unfolds, violent confrontation with the police, destruction of company assets and detention of the company's antagonists are not unusual and denote the peak of the conflict.

My field research revealed that these emblematic cases of determined local resistance to mining operations – ‘all-or-nothing’ conflicts – occur only when local people perceive that they do not need mining: that they have alternative, adequate livelihoods; and especially if mining is likely to conflict directly with these alternatives. This was the case with the threat to the export-oriented agriculture in Tambogrande, or the issue of water scarcity in Cajamarca. These conditions are especially unlikely to be found above about 3500 metres in the Andean highlands, because non-mining livelihood opportunities are meagre. In recent years, the frequency of ‘all-or-nothing’ conflicts has increased less than the rise in mining activities. This is because large *canon minero* transfers change popular expectations about potential livelihoods. Public sector employment supported by *canon minero* transfers can leave people better off – provided only that mineral prices remain high – even if mining expansion damages agriculture and other pre-existing livelihood sources.

Contesting the Distribution of Benefits

The conflicts discussed above typically result from some initiative of mining companies to commence or expand operations. Community participants attempt to prevent mining expansion. In contrast, conflicts of the second sub-type, which I found to account for the great majority of Type 1 conflicts, are more likely to be community-initiated, in response to increases in market prices for mining products. In these cases, the employment of contentious politics is widely understood to be a prelude to direct bargaining with companies around compensation of some kind. The more successful local political actors are in making these conflicts appear similar to the first sub-type, the higher the reputational costs to the companies and the stronger the bargaining position of the local communities. My fieldwork showed how local political actors have creatively applied lessons from the ‘all-or-nothing’ cases to other, more routine local negotiations. I identified four different triggers for these more routine conflicts:

- (1) High company profits incentivise local people to claim the fulfilment of previous promises and agreements that have not been honoured. This was the case in peasant communities around Pierina (Ancash) regarding the implementation of social projects and salary levels for community members working for subsidiary companies. Similar demands are behind conflicts in Ayash and Carhuayoc (Antamina-Ancash) and Ilo (Southern-Moquegua).
- (2) People’s sense of grievance regarding previous land transfer agreements also activates conflicts. Although the price was freely agreed 10 or 15 years ago, the population see the companies’ current astonishing profit levels as a sign that the deals were unfair. People displaced by the Antamina mine now living in the communities of Carhuayoc and Huaripampa (Ancash) take this view.
- (3) Various communities demand their share of these unprecedented company profits on the basis that they have never benefited from wealth that they think is theirs. Activists in Yarusyakan, Ticlacayan, Huayllay (all in Pasco) make claims of this type.
- (4) In the context of a commodity price boom, companies use profits to expand their operations. Thus, they need to negotiate with local communities to obtain

additional land and water supplies. Local communities in turn see the process as an opportunity to move from being subordinate to becoming empowered actors. They do not radically oppose mining activities; however, they want fair compensation for loss of assets and assurance of future livelihoods. Conflicts in Rancas, Cerro de Pasco and Huayllay (all three in Pasco), and Juprog (Ancash) conform to this pattern.

These four triggers of conflict intermingle with other longstanding grievances. The sharp contrast between the severe poverty endemic in remote areas and the wealth that companies' personnel display in interactions with the community plays a role.

The connections between real causes, the expression of local demands, and the actual outcomes of negotiation are complex and ambiguous. Local populations frame their claims variously, employing in particular discourses around ecology, ethnicity and social justice. As Macintyre and Foale (2002) observed in similar situations in Papua New Guinea, local people find ecological discourses especially effective in legitimating compensation claims. This does not mean that claims about adverse environmental impacts of mining are false, or that local people do not genuinely value the local ecology. Rather, they find that it makes sense to align themselves with the global tendency to make the environment an increasingly inclusive concept, which incorporates considerations of ethnic justice and the obligation to redistribute mining surpluses locally (Banks, 2002).

The National Confederation of Communities Affected by Mining (CONACAMI) has in recent years made considerable use of ethnic discourse (Palacín, 2008). However, people directly affected by mining can simultaneously react to events in ways that are deeply rooted in local culture and detached from standardised, externally prefabricated 'indigenous' identities, including CONACAMI's. Local community representatives play their cards wisely when they use ethnicity tactically to back their claims: 'We are descendants of the Incas, we have always been here, this is our home and the company came to dispossess us of our resources.'¹³

Although concepts of environment, ethnicity and social justice shape local demands, actual negotiations usually focus on employment opportunities, economic compensation, small local business promotion, and social project implementation. How do local actors make the adjustment from far-reaching historical and symbolic claims and discourse to pragmatic negotiation? The following factors seem relevant: (i) people have both types of objective in mind, but in some localities daily survival is paramount; (ii) the logic of the negotiation requires them to put forward clear and achievable demands; and (iii) the temporary renunciation of broader objectives presents opportunities for further claims.

Why do communities choose contentious politics as a strategy? The short answer is that they perceive this as the only way to promote negotiation on an equal footing. Three factors nourish this perception: (i) the asymmetry of power between the actors; (ii) the widespread public suspicion of collusion between the Peruvian government and the mining companies that disqualifies the state from being the arbitrator; and (iii) the lack of incentives otherwise for mining companies to engage in lengthy, troublesome negotiations, except when they need access to more land or water. Although the involvement of CONACAMI and other national and international NGOs in these disputes would strengthen the community position, local people

frequently prefer to negotiate directly with the companies without any third-party participation. They seek flexibility and fear dependence on other actors, who are perceived to have their own agendas.

Recent increases in mining company profits have stimulated more conflicts of this sub-type, through the mechanisms listed above. This is why, as explained in Section IV, conflicts became more concentrated in the mining areas between 2005 and 2008. The other set of reasons work through increased *canon minero* transfers to subnational governments.

VI. Type 2 Conflicts: Revenue Abundance

I undertook my fieldwork during 2008, at a time when regional and local governments had been receiving abundant *canon minero* transfers for the past three years, and incidents of local contentious politics had multiplied in mining regions. I identified four subtypes of conflicts around access to, or use of, these financial transfers:

- (1) Conflicts between the local population and local authorities regarding the inability of the latter to use *canon minero* transfers efficiently. Lack of administrative capacity in local and regional governments drives these conflicts, which are common in Ancash and Pasco. People complain about both the lack of implementation of initiatives and the quality of projects. However, in some places, such as the Conchucos Valley (Ancash) and the province of Mariscal Nieto (Moquegua), the sheer size of the transfers has recently allowed municipal authorities to temporarily diminish these pressures, by expanding their payrolls: quiescence is exchanged for well-paid jobs in public works.
- (2) Conflicts arise between different levels of government over *canon minero* and similar fiscal transfers. In Ancash, Moquegua and Pasco, municipalities challenge regional governments over the criteria they use to allocate money among municipalities. Those same regional governments defy attempts by the national government to modify the rules for the distribution of *canon minero* and related schemes, such as the *Fondoempleo*,¹⁴ which benefit mining regions directly. Local politicians have two incentives for initiating and leading these conflicts. First, because the Peruvian political system is so fragmented (Section II), this helps them to build a local support base at little political cost. Second, it is a pre-emptive move against the pressure of citizens (on municipal mayors) or of mayors (on regional presidents). Local populations tend to support confrontation with higher level governments to help extract the fiscal transfers that generate local public sector jobs.
- (3) Subnational governments at the same hierarchical levels fight over their territorial boundaries because the high level of *canon minero* transfers now make very valuable formal jurisdiction over territories with mining potential or water resources. Boundary variations of a few hundred metres can make a huge difference in terms of transfer amount. The control of water resources might provide extra leverage in future negotiations with mining companies. The regional government of Moquegua reported 23 territorial conflicts affecting its jurisdiction, most of them relating to mining issues. Moquegua has quarrels

with the neighbouring regions of Puno, Arequipa and Tacna and, within Moquegua region, different municipalities fight amongst themselves (Gobierno Regional de Moquegua, 2008).

- (4) Finally, there are new labour conflicts. Because of the size of *canon minero* transfers, subnational governments can employ large numbers of unskilled labourers – often with little or no work actually involved. In the Conchucos Valley (Ancash) and in the province of Mariscal Nieto (Moquegua) the majority of the workforce is employed doing unskilled labour for municipal governments. Further, these labourers may be paid higher salaries than the locally-based teachers, health workers, police officers and other public servants in the direct employment of the central government. This generates discontent and political mobilisation.

In these cases, the repertoire of political tactics employed is frequently similar to those used in direct conflicts between communities and mining companies. One difference is that the mining companies sometimes retreat from the political spotlight as local people focus on a more directly accessible objective: a share of the abundant rents now being channelled to subnational governments. Mining companies are glad that, for once, they are not the main targets of local political conflict. However, any long-term fall in mineral prices and thus in *canon minero* transfers will be likely to bring them back into the line of fire.

VII. Conclusions

Mining generates local conflict in Peru through two different mechanisms. The first is familiar from the wider literature: there are rents attached to mining activities that will naturally tend to generate conflict, notably between companies and the local population of the areas where they operate. This is especially likely in polities, like those of Peru, in which central political authority is poorly integrated with local political authority, and perceived to be captive to mining interests. The national government is unable to play a very effective role in resolving ‘normal’ political conflicts over mining rents. As commodity prices, mining profits and rents increased in recent years, these kinds of conflicts escalated. The second type of conflict reflects causal processes not anticipated before I began field research, and much less widely appreciated. Large fiscal transfers to subnational governments in the mining regions themselves cause or exacerbate conflicts, through several mechanisms explained previously.

It is not clear how far these two different types of conflict tend to reinforce or substitute for one other. I found some evidence of substitution processes. In some localities in 2007 and 2008, when very high commodity prices and *canon minero* transfers were causing disputes among local populations and local government jurisdictions around public spending issues, the mining companies seemed temporarily removed from conflict (Section VI). Conversely, my statistical results imply that the two kinds of conflicts generally either coexist or reinforce one another. It is clear that the attempt to implement the new localist natural resource paradigm is itself a source of heightened conflict. It is also clear that the Peruvian government, the social movements around mining, and international donors operating in Peru are

unaware of the diversity of these conflicts. The Peruvian government tends to see only conspiracy: anyone promoting or supporting a conflict in a mining area is perceived as an anti-establishment activist, an enemy of development, or even a supporter of terrorism.¹⁵ This authoritarian attitude leaves problems unresolved and exacerbates conflict. Social movements have a propensity to think of mining conflicts simply as coherent popular resistance to exploitative capitalist forces and to environmental destruction. Both interpretations are misleading. How might the situation be improved? My research does not lead directly to an answer, but does help us better understand the dynamics of current conflicts. In particular:

- (1) The focus on the more emblematic ‘all-or-nothing’ conflicts between local communities and mining companies is misplaced. There are other significant causes of conflict around mining.
- (2) The recent commodity boom has fuelled conflicts through two different but highly correlated mechanisms: the temptations for contentious political demands provided by high company profits; and large, sudden *canon minero* transfers to under-prepared regional and local governments.
- (3) The frequency of local conflicts in large part reflects the structure of national politics, notably incentives for local politicians to pursue purely locally-focused strategies and the inability of the national government to establish sufficient autonomy from mining capital that it can act as a genuine arbiter of the national interest.
- (4) The adoption by mining companies of policies of local CSR cannot eliminate local political conflict around mining. During a commodity boom, many conflicts arise because of the mere existence of the mining operation, independently of company behaviour towards the local population. The size of the operation and the rent that it generates matter at least as much as companies’ practices.

Finally, I suggest three broad policy conclusions. First, in order to mitigate and deal better with the more tactical conflicts between companies and local communities – those that are essentially a prelude to negotiation around material issues – the companies and the government should look for more stable, long-term ways of interacting and negotiating with local communities. Relations with local communities are largely determined before mining operations actually start, in early engagements. Excessive local expectations and companies’ lack of genuine interest in local issues, beyond getting the social licence to operate as soon as possible, prepare the ground for future clashes. Experience shows that the rush to begin activities generates problematic practices: promises that are impossible to fulfil, cooption of social leaders, and the takeover of civil society organisations by companies. The result is distrust and fragmentation of the social fabric, which are highly detrimental in the long run. Thus, before the onset of large mining operations, the companies and the state should put in place institutionalised mechanisms to guarantee the participation of the local population in the assessment of the operations’ environmental and social impacts (IFC, 2007).

Second, although CSR practices have important limitations, the generation of local business, the formation of human capital and the strengthening of local

institutions appear the most successful strategies to foster local development and to reduce conflicts in the long term. However, there are four caveats to this strategy: (i) it does not always work in the short term; (ii) it cannot be done by companies alone but with the active involvement of the state; (iii) CSR should not replace the payment of taxes because it automatically makes the companies a substitute for the state; and (iv) companies should resist the temptation of a clientelistic use of these programmes.

Finally, the Peruvian government should revise its criteria for redistributing natural resource revenues to subnational governments. The current design of the *canon minero* scheme generates inequality among regions, inefficiency and conflicts, and has failed to provide sustainable welfare for local populations.

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Notes

1. 'Point' natural resources are those which are spatially highly concentrated at the point of extraction: oil and gas wells, deep shaft minerals and diamonds.
2. Auty (1993), and Sachs and Warner (1997) pioneered the resource curse hypothesis, showing that resource abundance hampered economic growth. Their findings opened the debate on the causal mechanism accounting for this economic paradox. The detrimental effect of natural resource rent on the quality of institutions (Karl, 1997; Sala-i-Martin and Subramanian, 2003) and the generation of 'rentier' states lacking the incentive to respond to their citizens (Auty and Gelb, 2001; Ross, 2001), are predominant among the proposed explanations. Over the last decade, research has broadened. Beyond the economic effects, the resource curse theory now includes the negative impact on different governance domains: diminished democracy and the reinforcement of authoritarian modes of rule (Ross, 2001), increase in poverty and inequality (Ross, 2004b, 2007), and the outbreak of conflict and civil war (Collier and Hoeffler, 2004, 2005; Ross, 2004a). Although the debate about the resource curse continues, there is general consensus on the challenges that natural resource wealth poses to good governance. Even one of the most insightful critics of the recent literature on the political consequences of natural resource wealth, Thad Dunning (2008), does not claim that the conventional arguments are wrong. He simply seeks to augment them with the qualification that, under certain political conditions, the existence of natural resource rent could support democratisation.
3. The literature on the local impact of extractive industries has largely focused on the thorny issue of the interaction of 'local communities' directly affected by the extractive activities of two powerful actors: mining and oil companies, and the state. Five topics have dominated the analysis of these relations: (i) environmental and socioeconomic effects (McMahon and Remy, 2001; Banks, 2002); (ii) the resistance of communities to capitalist forces (Evans et al., 2002); (iii) the transformation of livelihoods and societal relations (Ballard and Banks, 2003; Bebbington et al., 2008b); (iv) the impact of corporate social responsibility (CSR) initiatives (Frynas, 2005; Cheshire, 2009); and (v) the prospects of extractive industries fostering development (IIED, 2002; Bebbington et al., 2008a).

4. The Fraser Institute sent a questionnaire to approximately 3000 exploration, development, and mining consultation companies worldwide. Its *Annual Survey of Mining Companies* represents responses from 658 of these companies.
5. Royalties are usage-based payments that compensate the country for the depletion of its mineral asset.
6. The SNMPE (National Society of Mining, Oil and Energy) played a crucial role in the negotiation of the programme.
7. I have not used 2004 data because I detect some inconsistencies in the methodology of the initial reports. I have also excluded Callao region from my analysis, as it is actually part of the Lima metropolis, and lacks separate data on the incidence of poverty. My ACH scores make sense only in the context of comparisons over space and time within Peru.
8. See Online Appendix II for a complete description of variables.
9. Pearson correlation coefficients for the two variables = .83.
10. The actual meaning of this association is not clear. The difficulty faced by public institutions in reaching the population and its subsequent perception of alienation from institutional dynamics could be a tentative hypothesis.
11. Yanacocha is a joint venture between Newmont (USA), which holds 51.35 per cent ownership interest, Buenaventura (Peru) owning 43.6 per cent and the International Finance Corporation (IFC), an arm of the World Bank, which holds the remaining 5 per cent.
12. Anglo American bought the rights to exploit the copper deposit of Quellaveco (Moquegua) from the Peruvian government in 1992. In 2000, the population denied a social licence to operate, to Anglo American on the basis of a deficient water management plan. Recently, the company has presented its new proposal to the local population.
13. President of Tlacayan (Pasco) in a public negotiation with the Atacocha Company in May 2008.
14. Every year the companies have to share 8 per cent of their net profit with their employees, with an upper limit of 150 per cent of normal annual salary. If there is a surplus, it constitutes the *Fondoempleo* fund, part of which has to be invested in employment promotion in the geographical area in which the profit was made. The rest of the fund is transferred to the regional government to be invested in improvement of local road infrastructure.
15. This is the recurrent government message in the media. It was confirmed in an interview with a representative of the Prime Minister's Office in April 2008.

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