

## CORPORATE SOCIAL RESPONSIBILITY IN THE MINING SECTOR IN PERÚ



Social Capital Group

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## Presentation

Peru has become one of the countries of destination for the world's mining investment. The high international prices of metals and the generation of profits for the country are leading the economy to turn around this kind of activities promoted by the extractive industries. Nevertheless, in later years a series of conflicts between the local population and the extractive industries have become more visible, several confrontations have taken place, confrontations that do not benefit either party and much less the local communities.

The increasing mining investments in Peru have a very important potential for the country and properly managed concessions would be great opportunities to promote sustainable development among the poorest local communities. In order for this to be achieved, it is required to have a State that is present, with clear redistribution policies that benefit all the population and that rules the extractive activities, as well as an organized and responsible civil society.

Nowadays there are several issues pending for debate, especially those related to the improvement of territorial public policies, citizenship participation and consultations, the independent environmental authority, the development of links between the mining sector and the local and regional economies, corporate social responsibility, among others.

With this paper about Corporate Social Responsibility (CSR), prepared by Social Capital Group on behalf of Oxfam America, we would like to contribute in a discussion that leads to possible ways of action and learning that each actor may assume after reading this working document as a starting point, allowing them to reach consensus about their working proposals.

Oxfam America is part of Oxfam International, a confederation of 13 organizations working together with more than 3000 local organizations in more than 100 countries to find lasting solutions to poverty, suffering and injustice.

Given that many of the causes of poverty are of global character, the members of Oxfam International trust that they can cause a bigger impact through their collective efforts. Oxfam International seeks to improve the public understanding and recognition that social and economic justice is crucial to build sustainable development. We work to be a global campaign force that promotes the values of a global citizenship, at the same time that we seek to mobilize public opinion to make persons equality have the same priority than the nations' economic growth. We also help people affected by humanitarian disasters, with preventive measures and emergency help plans.

In Oxfam we are in favor of a socially responsible investment that gives broad benefits and that especially respects the rights of peoples affected by the extractive industries. Oxfam is not against extractive industries in general but considers that

this activity should be developed respecting internationally recognized human rights. States should play a fundamental role to ensure institutional rules to help this come true. Civil societies play a fundamental vigilance role. Nevertheless, some corporations in their efforts to maximize their profits wish to bypass that need damaging those who do not have economic power or access to the media to make their voices heard. Before that our position is that we require a State capable of guaranteeing citizens' rights establishing clear rules and sanctions for those firms and citizens that break them.

Oxfam affirms that the institutionalization of the dialogue is fundamental if not enough while there are not clear regulations and a State capable of enforcing them with citizens and corporations. That is why Oxfam will continue promoting dialogue about the most sensitive issues related to the extractive industries activities with all actors and taking into account all points of view, with the purpose of contributing to the formulation of better public policies, the adoption of social responsibility corporate practices and the citizens' responsible and peaceful exercise of their rights.

At Oxfam we will feel satisfied if this book promotes the public debate and generation of joint proposals in any measure, especially those related to the Corporate Social Responsibility and the role every actor may assume.

Finally, we would like to acknowledge the team of Social Capital Group for preparing this paper and the actors of the civil society and corporations that contributed to enrich this working document we present with their comments and suggestions.

Francesco Boeren  
Oxfam International in Peru

# 1 Introduction

This document has been prepared by Social Capital Group on behalf of Oxfam América. In it we discuss the Social Corporate Responsibility (SCR from now on) of mining companies that are now operating in Peru. Our approach is essentially practical, based in the analysis of the social behavior of these corporations in their relation with their context. For its preparation, we have recurred to secondary information sources and our working experience with the mining sector.

During recent years, the mining activity has been driven by the high International rates becoming one of the fastest growing sectors in Peru. That is why today we find mining operations in twenty one of the twenty six Peruvian regions. This growth of the mining industry in our country takes place in a dynamic social context and not exempt of difficulties.

In this situation there are several scenarios that represent a challenge for the different actors involved. We find firms with a limited understanding of the social reality of the area where they operate, or communities that have little or no knowledge of the processes that are implied in the mining activity. When a mining company arrives somewhere, it is often seen as a strange presence and a potential source for negative impacts and conflicts. It is usual that this response is conditioned by the previous experiences of the inhabitants with other mining companies that operated without any consideration of environmental or social issues.

Other frequent scenario is where the communities perceive companies as the solution for their development needs. This excess of expectations generates pressure on the company that may affect an adequate social management. The State on its side does not get involved enough or is totally absent. The possibilities of conflict are incremented by a State not acting as a regulator, fiscal controller and mediator. The mining projects can then become 'battlefields' for the different groups

of interest, some of them with legitimate claims and some others with their own agendas.

In this changing and complex context, the companies' performance is under constant scrutiny. There is much interest about how they act, how they should act and what can be done to accomplish a better social performance.

This document is an initial approach to this subject with the purpose of promoting debate and reflection about CSR among the actors involved: mainly the civil society, the State and the mining companies.

As part of the process of producing this paper, several workshops were organized to discuss the preliminary report and collect opinions and suggestions of the above-mentioned actors, which have enriched the final paper.

Our analysis will help define the general introductory working context about CSR in the mining sector: main issues, tendencies and challenges in social management. This study provides a general vision of CSR including basic concepts and a presentation of the key social issues that the mining sector faces in Peru. It also includes a summary of the main national and international regulations, standards and guidelines that help the sector to implement specific CSR aspects. The document describes the different kind of mining companies operating in the country to facilitate the understanding of the factors that influence their social response. Finally, some conclusions are made and recommendations are proposed.

Even though CSR is one of several subjects whose debate is still pending in the national political agenda<sup>1</sup>, this document seeks to take a first step to generate spaces of dialogue about CSR among the different actors involved and thus join efforts towards a common goal: that civil society obtains the highest benefits from the CSR policies and actions implemented by the corporations.

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<sup>1</sup> Other issues pending for the debate include: territory regulations, citizens' participation, social and environmental Management, the independent environmental authority, decentralization and development, among others.

## **2 Corporate Social Responsibility**

### **2.1 General Aspects**

Corporations, in the traditional sense, are organizations created with the primary objective of producing profits or benefits from the commercialization of a certain product or service. When reflecting about them it is not possible to obviate the enormous power they have acquired in less than two centuries of existence. But at the same time that their power has augmented their responsibilities have increased too. It is remarkable how in the last decades the demand levels towards the firm have increased modifying its original notion.

The so-called Corporate Social Responsibility –CSR- is not a new concept. Its beginnings go back to the first years of the XX Century and its modern study had Economist Howard R. Bowen as its pioneer who, in 1953, proposed that all corporations should take into account the social consequences of their decisions. CSR when incorporated to management goes along with new socio-economic models which demand companies to have broader objectives than the exclusive maximization of economic benefits.

The concept about what is and what corporate responsibility implies has evolved in the last 50 years, but its principal foundation is in the idea of the company as an organization that observes ethical behavior criteria.

CSR has become more important in Peru since the decade of the 90s as a result of the globalization process and principally due to the political and economic changes which allowed a bigger development of private entrepreneurship. The role of globalization in the evolution of CSR is fundamental: the liberalization of commerce and the information revolution that allows its practically unlimited flux make the corporations' behavior in developing countries could be known anywhere in the world. As a consequence of these changes, the public conscience about social, environmental and economic problems that incorrect corporate policies may cause was improved as well as the pressure of shareholders and consumers over the

companies' headquarters to improve their performance. Intangible assets such as a corporation's brand, image and reputation acquired a new dimension.

The new attitude of the public translated into bigger demands for the corporations to operate according to codes and standards of responsible performance. Reality shows that, besides the products and services quality standards, nowadays it always demanded to have a responsible management about the environment, society and other groups of interest. Well known cases of corporations that have suffered consumers' boycotts illustrate what was explained above: big corporations may not exhibit an inadequate corporate performance without affecting the success of their business.

As a consequence corporations took conscience that adopting corporate social responsibility policies constitutes a source of benefits for their reputation and corporate image; which in turn reduces the risks of public opposition to their operations, helps maintain their clients and financial entities and it is a requirement for international competitive, facilitating their entrance in new markets with bigger demands. All in all, it generates value for the company.



## 2.2 Concept and Definitions

Before developing the content of CSR it is important to remember concepts like Sustainable Development and Social Responsibility.

Sustainable Development was defined by the Brundtland<sup>2</sup> Report as “the development that satisfies present needs without putting in peril the capacity of future generations to satisfy their own needs”.

It must be taken into account that the concept of sustainable development is not restricted to economic growth only but it involves environmental, economic and social vectors. It is a process of progressive improvement in the quality of life of the human beings placing it as the center and principal subject of development.

Social Responsibility, which includes CSR, is understood as the obligation all citizens including institutions –public and private- and the civil society organizations have to contribute for the improvement of the local and global society well-being.

CSR refers to this social responsibility but specifically included in the corporations' performance<sup>3</sup> and it is the channel to express this sector's commitment with sustainable development.

Initially, the concept of CSR principally referred to charity actions but nowadays it includes a broader notion linked to a Business approach that considers the social, environmental and economic impacts of the corporate performance and that incorporates ethical principles, health and occupational security, good labor practices, the respect for the persons' Rights as well as environmental care.

A corporation enters a society not only as an active economic subject but also as a social agent and it is through CSR that entrepreneurs may commit to actively

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<sup>2</sup> UN, 1987

<sup>3</sup> On occasions the concept is broadened to incorporate government agencies and other organizations.

participate in sustainable development. This change of status of the Corporation in modern society is fundamental to CSR.

For the ISO (International Organization for Standardization), CSR consists in a “balanced integration of the social, economic and environmental issues with the goal of benefitting persons, communities and the society in general”<sup>4</sup>.

On the other hand, the Green Paper from the European Commission defines CSR as the “voluntary integration of social and environmental concerns in commercial operations and the relationships with their interlocutors. In a broad definition it is a concept by which corporations voluntarily decide to contribute to accomplish a cleaner society and environment”. Further on in the Green Paper, the fundamental areas of CSR are classified in those related to the internal dimension and those related to the external dimension. The first one includes the management of human resources, health and security in the working place, adaptation to change and management of environmental impact and of natural resources. The external dimension reaches to local communities, commercial partners, suppliers and consumers, human rights and world environmental problems.

For the Inter-American Center for Knowledge Development in Vocational Training, an organism supported by the International Labour Organization -ILO-, the definition of CSR has several meanings, but all of them coincide in stating this is an approach based in an integral set of policies, practices and programs centered in the respect for ethics, persons, communities and the environment. CSR is used to describe a wide variety of economic, social and environmental corporate initiatives which are not necessarily founded in legal requirements and that voluntary in its majority.

The World Bank defines CSR as “the corporations’ commitment to negotiate ethically and contribute to sustainable economic development working with all relevant stakeholders to improve their lives in ways that are good for the corporation, the sustainable development agenda and society in general”. For the

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<sup>4</sup> Abreu, J. L. y M. Badii, Analysis of the concept of corporate social responsibility in Daena: International Journal of Good Conscience, Volume 2. Number 1. October 2006 - March 2007

Inter-American Development Bank (IADB), CSR “is a business vision that conceives respect for ethical values, persons, communities and the environment as an integral strategy that gives added value and as a consequence improves the competitive situation of the corporation”.<sup>5</sup>

For the Peruvian mining corporate sector, CSR is an “entrepreneurial philosophy, adopted by the corporation’s high direction to act benefitting their own employees, their families and the social contest in the company’s influence zone. In other words, it is not limit to satisfying the consumer, but it also requires assuming responsibilities for the development of the community where it operates”.

Economist Baltazar Caravedo, expert in social corporate responsibility, says that this is one of the most effective forms of strategic management of a corporation. The author also states that it is an integral organizational management plan, insisting that it is not enough to develop sporadic or philanthropic actions but it has more precise objectives because it is articulated with the corporation’s internal dynamics. CSR seeks to strengthen the employees’ identification with the firm but it also seeks to establish links and actions that demonstrate its commitment with the community, an interest in it.

The “Pyramid of Corporate Social Responsibility”<sup>6</sup>, allows analyzing the corporations’ CSR behavior. Originally created by Dr. Archie Carroll, a researcher in business ethics, it establishes the existence of different levels of corporate responsibilities:

- Economic responsibilities of the organizations as the fundamental base of its permanence in time. Producing and generating services constitutes the essence of their existence.

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<sup>5</sup> Abreu, J. L. y M. Badii, Analysis of the concept of corporate social responsibility in Daena: International Journal of Good Conscience, Volume 2. Number 1. October 2006 - March 2007

<sup>6</sup> Hernández Rene, Alamo Gilma, Cobis Joel, Silvestre Karin. Management Development Research Group. Universidad del Zulia, Venezuela, 2005. Corporate Social Responsibility of the university in management education. Available in (in Spanish) : <http://www.redeconomia.org.ve/docs/projects/RESPONSABILIDAD%20SOCIAL2005411164PONSABILIDAD%20SOCIAL.doc>

- Legal responsibilities that refer to the obedience of effective laws.
- Ethical responsibilities, that involve the fulfillment of other social expectations not included in the law.
- Voluntary responsibilities that include additional behaviors and activities, and that are part of the organization's values.

According to the theory of the pyramid, CSR implies the simultaneous fulfillment of the economic, legal, ethical and voluntary responsibilities. In other words, CSR must take the company to make profits, obey the law, be ethical and behave like a good corporative citizen.

As we can observe, it does not exist one definition for CSR nor a single criterion when it comes to determining what corporate responsibility comprises. CSR is a broad concept besides being complex and its content will vary according to each specific circumstance.

It is worth mentioning that there is an open debate about the necessity to regulate CSR. For some sectors, especially NGOs and certain governments, it is necessary to adopt regulatory frameworks about socially responsible practices of the companies, which would add a certain obligatory nature to CSR. Other sectors, like the entrepreneurial one, claim that CSR should be the fruit of the exclusive implementation of voluntary measures. This debate became more relevant during the Johannesburg summit<sup>7</sup>, where positions in favor of dictating norms confronted those who consider that CSR is essentially voluntary, as well as those who distrust on the companies' ethical performance debated versus the entrepreneurial sector who do not trust public intervention.

In Peru CSR has primarily voluntary character and even if it is an important tool for the accomplishment of sustainable development, it is not the only way and does not substitute the role of the Government, but complements it.

CSR must include a commitment of participation in sustainable development promoting management's good practices, internal and external and involving a set

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<sup>7</sup> The World Summit for Sustainable Development, Johannesburg, South Africa, 2002.

of policies, practices and programs that are included in all operations and processes of corporate decision making.

### 2.3 Other concepts related to CSR

With the gradual evolution of the CSR concept, other notions related have been appearing. For the purpose of this analysis, we consider useful mentioning the following:

**Philanthropy** is characterized for being a free action, it does not represent any interest for the person or corporation who does it and it usually involves donations of money or things to those who need them. It can have an ample range of forms among which assistance and charity are the most popular. It does not require the implementation of any kind of medium or long term policy, nor of an internal management system of in the company, which makes it different of the concept of CSR. Corporate philanthropy depends on the ethical commitment of the directors of the company and it does not affect the enterprise, except when a percentage of the profits is destined to benefic purposes.

**Social investment** is defined as a canalization of resources that will benefit the entrepreneur as well as the community. Through social investment a company destines resources to avoid environmental deterioration, to install educative and health services, or to endorse the community initiatives; thus avoiding a loss of reputation, image and confidence among the members of the community. The underlying logic is that if the community perceives that the company gives it certain benefits, it may become an ally to face critical or risk situations.<sup>8</sup> Although a usual form to compensate negative impacts is through development programs, these shall not be considered as social investment. Social investment is more complex than philanthropy as it demands an articulation of the corporation's performance with the development of the community, but it is more restricted than CSR. The latter includes the former and comprehends a permanent commitment with social change and sustainable development.

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<sup>8</sup> Caravedo B. Social Responsibility of a Company: An axis to change the country

**Social Policy of a corporation** is defined as the programming of actions and goals that tend to help accomplish their social responsibility objectives.<sup>9</sup> In order for a corporation to establish a social policy it is required that it has assumed CSR as a corporate philosophy. It is through social policy that the company plans how it will materialize CSR.

**Corporate citizenship** is a term that refers to the ethic and philosophic corporate commitment to develop a business in socially responsible manner. Companies as members of a community must behave as “good corporate citizens”, acting according to ethics and respect for persons and the environment. It is not an activity added to the company’s management but is an integrated part of its management philosophy, based in its socially responsible business performance. The differences between the concepts of CSR and corporate citizenship (CC) are not very important. Both notions state that corporations should take into account not only the economic and financial consequences of their activities but also the social, environmental, development aspects as well as those related to the respect for Human Rights.

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<sup>9</sup> Solórzano E. y Pérez Senac, R. Superior Public Relations. A new pedagogy.

## **3 Legal Context**

### **3.1 International Legal Context**

There is wide diversity of international instruments and management tools related to CSR that help publicize good environmental and social practices, to measure social performance and adequately manage different related aspects. Among the most relevant we can refer to the following<sup>10</sup>:

#### **Voluntary Principles on Security and Human Rights**

The Voluntary Principles on Security and Human Rights appeared from the dialogue between governments, companies and NGOs. They are promoted by the governments of the United States, the United Kingdom, Norway and the Netherlands, as well as companies from the extractives and energy sectors and some non-governmental organizations like Oxfam. The Voluntary Principles comprise security and human rights issues and establish concrete lines of action to systematically evaluate and manage the risks and impacts of the corporate activity in these fields. At the same time they offer guides for the relationship of corporations with State security organisms and private security companies, under a working framework that guarantees respect for Human Rights and the fundamental liberties.

#### **Global Compact**

This initiative of the United Nations has the corporations' subscription of ten sustainable development principles as its objective. The guide is presented as a proposal to improve corporate policies in four fields: Human Rights, labor, the environment and eradication of corruption. United Nations also gives recommendations to companies in how to comply with the most renowned international instruments that regulate these issues, for instance:

- In Human Rights, the Universal Declaration of Human Rights (1948).

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<sup>10</sup> Texts of some of these regulations can be found in Annex 1.

- About freedom of association and the right to collective negotiations, the Freedom of Association and Protection of the Right to Organize Convention, (1948), Right to Organize and Collective Bargaining Convention (1949), etc.
- About forced labor, the enforcement of the Forced Labor Convention (1930), Abolition of Forced Labor Convention (1957), etc
- About the environment, the enforcement of the Agenda 21, Rio Declaration on Environment and Development.

### **Global Reporting Initiative- GRI**

This is a multi-stakeholder initiative founded in 1999 by the United Nations Environment Program (UNEP) and the Coalition of Environmentally Responsible Economies (CERES). GRI is an instrument to develop and publicize global applicable guidelines for Sustainability Reports. These are voluntary use guidelines to help publicize the impact of activities, products and services. GRI seeks to improve the quality of sustainability reports. GRI guidelines comprise 54 central indicators and are organized in environmental, financial and social aspects.

Companies must report on all the central indicators or explain why it does not. Indicators are broad and cover aspects like economic impact, the use of natural resources, the impact on biodiversity and agricultural lands, as well as the training, education and children's labor. The GRI has sector supplements, among them one for the sustainability reports of mining activities.

### **ICMM Principles for Sustainable Development**

In May 2003, the International Council for Minerals and Metals -ICMM's- an organization that reunites the main mining companies in the world, approved ten principles to promote sustainable development and committed its corporate members to measure their performance against these principles. The principles were extracted from the "Breaking New Ground" report from the Mining, Minerals and Sustainable Development Project -MMSD-. They also include a commitment



for public information, independently verified reporting and orientation about good management practices.

The ICMM principles refer to corporate governance issues: corporate decision making, human rights, risk management strategies, health and security, environment, biodiversity, integrated material management, community development and independent verification.

### **Performance Policy and Standards on Social and Environmental Sustainability from the International Financial Corporation**

The Performance Standards of the International Financial Corporation - IFC- from April 2006 are an exhaustive set of rules of social and environmental performance, seeking that private sector projects financed by the IFC promote sustainability in these fields.

The new IFC norms are among the stricter social and environmental regulations in the world. Compared to previous IFC Safeguard Policies, these have added new requirements on integrated social and environmental evaluations, basic labor norms, greenhouse effect gas emissions and community health and security regulations. The Performance Policies and Standards establish the role of the IFC and those of their clients in the private sector more clearly. Also, they demand a greater degree of transparency and are adjusted to a new approach that emphasizes the need to establish effective management systems as part of the basic companies' operations in order to ensure that the IFC requirements are fulfilled and obtain concrete results.

The Performance Standards make reference to the following issues: management system and social and environmental evaluation; labor and working conditions, pollution prevention and diminution, community health and security, land acquisition and involuntary resettlement, conservation of biodiversity and sustainable management of natural resources, indigenous peoples and cultural patrimony.

## **Environmental, Health and Security Guides from the International Financial Corporation**

The Environmental, Health and Security Guides published in April 2007 are technical references with examples from the industry activities. The IFC uses these guides as a source of technical information during project assessment processes. The guides contain performance and measurement levels normally acceptable for the IFC, considered as possible to implement in new projects at a reasonable cost and making use of available technology. These guides are applied along with regulations specific for each sector and according to what the Performance Standards establish (Performance Norm No. 3 Pollution Prevention and Diminution) as we have mentioned previously.

## **Handbook of Good Practices in Community Relations from the International Financial Corporation**

Published in May of the 2007 this document is the result of IFC experiences with its private sector clients in developing economies. It includes practical examples and issues such as: stakeholder identification, information publicizing, risk management, conflict resolution, community development, monitor and evaluation, among others.

## **The Equator Principles**

The Equator Principles are regulations voluntarily prepared and assumed by the banks for the management of social and environmental issues related to the financing of development projects. These principles are based on the Environmental and Social Standards used by the International Financial Corporation - IFC- and are used in loans granted for projects with a capital cost equal or superior to US\$ 50 million, in all the industrial sectors including mining.

According to these principles, financing is only granted to projects which demonstrate that they will be managed with social and environmental responsibility. The grantee must demonstrate the bank that the project fulfills the laws of the host country and the directives of the World Bank and the IFC for the pertinent industrial sector. For projects in developing economies, the grantee must also demonstrate

that the environmental evaluation has considered the Performance Policies and Standards on Social and Environmental Sustainability of the IFC.

### **Ethos Indicators**

The Ethos Indicators of Corporate Social Responsibility were developed in 2005 by the Ethos Institute - Business and Social Responsibility, a nongovernmental organization created with the mission of mobilizing, sensitizing and helping companies to manage their business in a socially responsible form. The Indicators are an instrument that offers assistance to companies in the process of deepening their commitment to social responsibility and sustainable development. They are structured as a questionnaire with subjects relevant for a management that contribute to social environmental development.

### **E 3**

The Environmental Excellence in Exploration (E3) project is an electronic manual of good practices for exploration activities. It has been built based on grassroots information proved by experts in the industry and seeks to aid environmental management during the phase of exploration, promoting the implementation of rational practices of environmental management.

The E3 project was conceived by a consortium of mining companies with the support of the Association of Mining Explorers and Promoters of Canada. Nowadays E3 has more than 1500 registered users in the world, including the mining sector, communities, governments, consultants, universities and NGOs among others.

### **EITI**

The Extractive Industries Transparency Initiative (EITI) is an alliance between governments, companies, civil society groups, investors and international organizations. The initiative promotes transparency and improvement in the governability indexes in countries rich in natural resources by means of the publication and verification of the payments made by companies and the fiscal

income from oil, gas and minerals. It is demonstrated that low levels of governability in countries that have plenty of natural resources can cause poverty, corruption and conflicts. The EITI aims to eliminate these negative impacts through transparency and accountability.

Peru has joined this initiative through the ratification of its principles by the government, the civil society and the companies. In December 2006 a working commission in charge of executing the action plan for the implementation of the EITI was installed. Its first task will be to produce a report that shows the payments that industries of the extractive sector make to all government instances and the destination of these resources at regional level.

### **AA1000**

Standard AA (AccountAbility) 1000, developed by the Institute of Social and Ethical Accountability - ISEA- is the first global standard that has the function of measuring and publicizing the ethical behavior of the organizations. It contains principles, processes and practical guides for the development of corporate reports of social and environmental sustainability, that provide the interested parties with the security on the exactitude and trustworthiness of the information contained in the above-mentioned reports. It is not a certifiable norm; AA 1000 establishes a series of quality principles and a set of basic norms to help organizations in the definition of their objectives and aims, in the evaluation of the progress towards their objectives and in the results audit and communication.

### **SA8000**

SA8000 is a voluntary certification with detailed norms about labor issues. It was created by Social Accountability International - SAI, in order to promote better labor conditions. SA 8000 is not an integral norm of CSR; it is centered exclusively in the labor aspects and provides the requirements and the methodology to evaluate the conditions in the working place. Its content is based on the conventions of the International Labor Organization (ILO) and other human rights conventions.

Its verification system is based on the quality certification system of ISO 9000 and can be certified by the main certifying companies of ISO systems. The norm includes nine points of forced fulfillment: prohibition of infantile labor, prohibition of forced labor, health and security in the working place, freedom of association and right to collective negotiations, prohibition of discrimination, prohibition of abusive disciplinary measures, prohibition of abusive working schedule and fair salaries.

### **ISO 26000 – (regulation in project)**

The International Standardization Organization, ISO, decided to develop an international regulation that provides a guide for Social Responsibility. It will be published in early 2009, under the denomination of ISO 26000 and its use will be voluntary, it will not include requirements, and therefore, it will not be a certifiable norm. It is being developed simultaneously in all ISO member countries; the representative in Peru is the Mirror Committee of the National Institute for the Defense of Competition and Protection of Intellectual Property (INDECOPI by its acronym in Spanish).

The norm will be based on an integral set of policies, practices and programs centered in the respect for ethics, workers, the community and the environment, among other issues.

### **APELL**

Awareness and Preparedness for Emergencies at Local Level (APELL) is a program designed to improve accident prevention and promote or increase awareness on the existing risks within a community. Its main objective is to protect the community against human and material losses, as well as to avoid damages to the environment.

APELL is an initiative of the Technology, Industry and Economy Program of the United Nations Environment Program (UNEP) in cooperation with chemical industry associations. The APELL Process follows 10 steps for the development of an emergency plan that involves the private sector, local communities, the government and civil society institutions. This process creates awareness of the dangers to

which communities close to industrial facilities are exposed, promotes the reduction and mitigation of risks and an adequate response in case of emergency.

In 2001 UNEP published APELL FOR MINING with the support of the International Council on Mining and Metals (ICMM). APELL offers a framework to help companies to elaborate answer plans in case of important accidents, in coordination with the community. The generation of public awareness and the will of the mining industry to make commitments with the local communities are an essential part of this process. The companies must communicate their approach and make sure that the communities and the individuals in charge of emergency responses can carry out the roles assigned in the plans, when it is necessary.

### **3.2 National Regulation Framework**

Social actions in Peru are ruled by the voluntary commitments assumed by the companies. Nevertheless, certain regulation on the CSR for the mining sector exists, and although is not profuse in relation to international normative advances, it constitutes an initial step in the effort to promote good social practices. The stakeholders agree in indicating that it is necessary to improve certain mechanisms, like for example the citizen participation in the environmental studies and the processes of control in general.

Here we include a review of the pertinent norms of the Energy and Mining sector:

#### **Decreto Supremo N° 042-2003-EM – IT establishes previous commitment**

It is the only national regulation that specifically alludes to CSR; it recognizes the necessity to responsibly manage social impact for the common welfare of communities in the influence area of mining activities, companies and the State. It proposes the requirement of a previous commitment made in a Sworn Declaration with the companies' compromise to:

- To perform their productive activities within the framework of a policy that looks for the environmental excellence.

- To act with respect for the local institutions, authorities, culture and customs, maintaining a good relationship with the population of the area of influence of the mining operation.
- To maintain a continuous and opportune dialogue with the regional and local authorities, the population of the area of influence of the mining operation and its representative organisms, giving them information about its mining activities.
- To obtain an institutionalism for the local development with the communities of the area in case the operation begins, elaborating studies and collaborating in the creation of opportunities of development beyond the life of the mining activity.
- To promote local employment, offering the required opportunities of qualification and training.
- To prefer and acquire the local goods and services for the development of the mining activities and the personnel catering, within reasonable conditions of quality, opportunity and price, creating appropriate mechanisms of agreement.

The companies also are forced by this norm to produce an annual report specifying the sustainable development actions, as made to follow this regulation.

### **Community Relations Guide**

The Community Relations Guide prepared by the Peruvian Ministry of Energy and Mining offers suggestions for the elaboration of Social Impact Studies as part of the Environmental Impact Study, plans for community relations, codes of conduct, issues related to the consultation of the population and social responsibility policies. The guide is a technical document of voluntary use.

## **Resolución Ministerial N° 596-2002-EM/DM- Rules for Citizen Participation and Consultation in the approval procedure of the environmental studies in the Energy and Mining sector**

The above mentioned norm regulates aspects of the previous consultation and the citizen participation in the previous environmental evaluations.

The consultation includes previous workshops called by the Ministry itself in the area where the mining project is planned to be developed; it also includes the publication of information and the advances of the Environmental Impact Study by the project proposers during its elaboration, gathering the citizenship's contributions and questions.

In the same way it establishes that for the presentation of Environmental Impact Studies to the citizenship one or more public hearings should take place in the locality nearest to the project and in other localities if necessary.

The citizens' participation intends to anticipate the reactions, behaviors and questions of the population to consider them in the design of the project as well as in the social policies, which in turn intends to consolidate its social viability.

Nevertheless, in the practice we notice that this rule has serious deficiencies and it does not fulfill its objective exactly. It becomes urgent to find joint proposals that help to improve it and its applying, to prevent conflict situations like those generated close to some mining projects in the Peru.

In that sense, the Ministry of Energy and Mining has presented in its Webpage<sup>11</sup> (and it is in process of consultation with different actors and institutions) a new project of the Rules for Citizen Participation and Consultation in the mining sub-sector that modifies and extends the regulations now in effect, including dispositions for the citizens' participation after the mining concession has been granted and during the stages of exploration, approval of the EIS, operation and closure.

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<sup>11</sup> Check [http://www.minem.gob.pe/common/publicaciones/data/reglamento\\_parti\\_minero.pdf](http://www.minem.gob.pe/common/publicaciones/data/reglamento_parti_minero.pdf)



### **3.3 Corporate Protocols**

The self-regulation voluntary initiatives of the companies are receiving greater use in recent years. Thanks to these initiatives the companies elaborate and apply private codes of conduct that they commit to respect and that constitute clear behavior guides. The codes of conduct reflect the commitment that an organization has made to certain values considered important by the company and the society as a whole. Its aim is to complement the norms, policies and laws applicable to each activity, without substituting them.

Codes of conduct typically establish guidelines on issues including child labor, forced labor, salaries, benefits, working hours, freedom of association, up to health and security including environmental practices and community investments.

An important aspect to consider is the monitoring and verification of the implementation of the codes of conduct, as well as the procedures that involve corrective measures when a breach occurs. Monitoring and external verification help companies in demonstrating that its commitment with corporate responsibility is real.

## **4 Mining companies and their social response**

### **4.1 Mining companies in Peru**

In the nineties, mining activities started a recovery stage at world-wide level registering an increase in investments. Latin America is one of the regions where this growth has been more evident due to its geologic resources and the conditions that the governments grant to investors.

Mining investment in Peru follows the dynamics of the international prices similarly to the world-wide tendency, this makes mining one of the most active productive sectors and that in recent years has registered the most important amounts of private investment. During 2006 the executed investments in the mining sector taking into account national and foreign capitals increased around 27%, that is some U.S. \$ 1.384 million<sup>12</sup>.

Peru is among the four main world-wide producers of copper, lead, zinc and tin and is the first producer of silver and fifth in gold.

It is important to consider that when speaking about mining sector in Peru we are referring to a very heterogeneous group of companies. The reality of mining companies operating in Peru is diverse, the main types of companies that we found in Peru are:

- Small mining companies
- Medium-sized mining companies
- Large mining companies
- Junior companies (its majority working in exploration)

Large mining companies are those whose daily production is over 5,000 METRIC TONS. They generally operate their deposits with the open pit modality and obtain minerals such as copper, zinc, gold. These companies produce concentrated and refined metals. In its majority these are foreign property companies or mixed capitals consortiums.

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<sup>12</sup> Source: National Society of Mining, Oil and Energy

Medium sized companies are those whose production is greater to 350 METRIC TONS and their daily production is less than 5,000 METRIC TONS. They exploit copper, gold and multi-metals among others and, like small sized companies, they usually operate with underground methods and produce concentrated. A greater percentage of national capitals is concentrated in this mining segment.

Small mining gathers those companies whose daily production is less than 350 METRIC TONS and usually operate gold deposits, silver and multi-metals. This category, as well as in the medium mining sector, concentrates a greater percentage of national capitals.

Regarding production on the one hand we find medium and small companies usually controlled by national capital that specialize in precious metals like gold and silver, as well as in multi-metal deposits, and whose dynamism is related to the international mineral prices and, on the other hand, the foreign investor who develops great deposits of high quality.

The boom of the mining exploration in the Peru, increased during 2005 and 2006, has determined a greater presence of the so-called "junior companies". These are companies that operate projects in their phase of exploration, or operations with an estimated production life of three years. Companies in this segment have continuous necessity of funds to pursue their exploration activities and are usually formed by foreign capitals.

This heterogeneity in the interior of the mining sector conditions the social responsibility practices and the way in which the CSR commitments are assumed, which are very diverse; that is why mining companies in Peru interact with the groups of interest and institutions in different ways.

## **4.2 Mining companies and CSR**

As we explained in Chapter 2 in this report, the effects of globalization and the increasingly competitive markets have produced changes in the companies'

behavior. When socio-environmental standards globalized not only the quality of products improved, but also the quality of its productive processes and that of the relationship with its surroundings and this is because investors began applying better corporative practices and higher standards. On the other hand; NGOs adopted a more active role seeking that companies assume policies consistent with the promotion of sustainable development and the protection of rights.

This tendency, that demands a more dynamic and responsible behavior with respect to the sustainable development from companies, intensifies in relation to the mining sector. The arrival of the mining activity to a remote location generates expectations in the population that possibly sees the company as the main agent that will solve the problems of employment, education and health. In many opportunities the community expects the company to replace the absent State as the supplier of public services and of social and productive infrastructure. These local expectations and demands create for the companies socioeconomic challenges that are not simple to face.

But what is the position of mining companies operating in Peru about CSR?

The consulting firm Follow Up, Analysis and Evaluation for the Development - SASE for its acronym in Spanish-, a firm specialized in socioeconomic development and corporate social responsibility issues, made a research in 2000 that included 153 companies. Top executives of these companies were interviewed in depth with a questionnaire that described three different issues: systematization of social responsibility strategies and policies, actions in the internal surroundings and actions in the external surroundings. The final evaluation took into account the sum of the points obtained in each one from these three areas. In the results of the study it was found that nine mining companies were among the 30 first positions of the ranking.

Later in 2001, researchers Guida de Gastelumendi and Marcela Benavides carried out a study on CSR where they went beyond the results of the SASE research and many mining companies of the mining sector obtained a positive qualification.

The question is; these results show that the mining sector in its totality applies the principles of CSR? Not necessarily, although it is true that there is a sector of mining companies that practice the CSR philosophy, the reality shows that there are others that still have a long way to go in this field.

The Gastelumendi and Benavides research concludes that there is a positive tendency of concrete advances in different aspects of CSR, that in terms of the concept it is observed that an increasing number of companies that understand that CSR is part of the company's management practice and that the policies about internal and external surroundings must be articulated. Although these results refer to several productive sectors, mining companies are an important part of the sample. Nevertheless the authors insist that the survey was applied to the largest companies with foreign capitals and that is why they have bigger budgets and more access to information on corporate practices and customs in the globalized world.

On this point and as an illustration it is possible to mention that companies like Newmont, Antamina Mining Company and Barrick Misquichilca have decided to adhere to the Voluntary Principles in Security and Human Rights - explained in Chapter 2- which are taken as the basis for the development of their corporate policies and regulations. Other companies like Yanacocha have committed to act according to the principles of the Global Compact, and in its page Web the Peruvian National Council of Environment – CONAM by its acronym in Spanish- registers ten mining operations<sup>13</sup> that have been certified with the ISO14001, a management system oriented to the improvement of the environmental performance through the prevention, reduction or elimination of environmental impacts.

In Peru mining contributions to sustainable development depend on the companies' goodwill and not on the law. Nevertheless it is worth noting that during 2006, as a result of negotiations between the government and the mining sector, it was agreed that mining companies would make an extraordinary contribution of 2.500 million

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<sup>13</sup> Milpo Mining Company; Sipan Mining Company; BHP Billiton Tintaya; Buenaventura Mining Company. - UP Orcopampa and UP Uchuchacua; Cerro Verde Mining Society; El Brocal Mining Society; Horizonte Mining Consortium; MINSUR – Smelter Facilities; Barrick Misquichilca Mining.

Peruvian Nuevos Soles during the 2006-2010 period through the creation of development funds, provided that the actual prices conjuncture continues. This contribution will be done without prejudice of the CSR actions that individual corporations individually make; that according to numbers disclosed by the National Society of Mining Petroleum and Energy, in the last 5 years amounts to 600 million Peruvian Nuevos Soles.

About the thematic area of the development programs that are implemented as part of CSR actions, an important study on community development and mining companies activities in Latin America<sup>14</sup> show that the productive capacities promotion programs and farming and commercial management are the most popular, in almost all cases they look to raise the level of income of benefitted families and they appear as complement to the local hiring of manual labor. In addition to these productive projects health programs, improvement of local infrastructure and formal education are also prioritized.

About the internal area of the companies responsible for executing CSR actions, corporations generally have a "Communitarian Relations" area. Terms such as social responsibility, community relations, sustainable development, community development, social investment, social development and social support are used indifferently to name the actions in this field.

### **4.3 Factors that condition the companies' social response**

The companies' CSR materializes through their social responsibility policies and plans. These policies and plans are defined by diverse factors that delimit their reach and condition the company's social response.

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<sup>14</sup> International Development Research Center /Initiative on Investigation on Mining Policies -IDRC/IIPM and Ford Foundation, "Community development activities by mining and other natural resources companies in Latin America and the Caribbean", 2003.

The main conditions that influence in the concept and development of the CSR in the mining sector are:

### **Financing**

The increasing need for financing is perhaps one of the main causes for the change in the mining sector about CSR. The main reason comes from the International Financial Corporation - IFC- and the Equator Principles. These affect small companies looking for financing as much as large transnational companies committed to comply with the standards established by financial organisms. As a result of these standards in constant evolution, many companies are forced to know more about CSR and to make sure that their operations are managed accordingly. The changes operated in this field have also hit the Peruvian legislation, the local and international expectations and the unions planning.

### **International Expectations**

Internationally there are clear expectations about the social performance of large mining transnational companies. An important percentage of their shares is tied to its name and reputation. As a result many companies are extremely sensitive to the international public opinion about their activities and operations.

These expectations have evolved in the last decade and most of the large companies are conscious of what is expected of their performance in Peru or other countries. Although the international expectations have evolved to a certain extent, the bigger pressure comes from the capacity of immediate reaction of the international public opinion to what is perceived as an inadequate performance in CSR.

### **National Legislation**

The norms that regulate the mining activities' performance have increased significantly since the decade of the nineties. Although there is a tendency towards improving the government's capacity to enforce these laws, there is still a long way

to walk. The norms are enforced easily in new projects, whereas projects already in the works take more time to implement them. Although the national legislation can be late with respect to the norms established by the international financial institutions, the binding nature of these norms increases the understanding of CSR in the sector in its entirety.

### **Local License**

This factor affects all mining projects and is among the ones who have bigger influence in the social response of the companies in this sector. The local expectations are probably the main motor of change in Peru. Local populations do not only demand a good handling of the environmental impacts, but local groups of interest hope to receive significant benefits from the project, direct or indirect. Nevertheless, counting with a local license does not always imply that a company has a good level of social responsibility. In many cases, the local license is the result of a complex mixture between the company's responses to demands that cannot be considered like sustainable (for example, construction of a bullring) or favoring a community over its neighbor because the former has greater power. The issues associated with local licenses elevate the level of conflict and sensitivity between all the groups of interest and the persistence of a company to operate without this license can cause the community's blockage of the project as a consequence.

### **Unions**

The companies, their unions and the initiatives in which they are involved are generally a source of learning about CSR for the sector.

In particular groups like the International Association for Impact Evaluation, the Principles of the ICMM for Sustainable Development, the E3 and the Voluntary Principles are all examples of initiatives with a significant participation of the corporate sector. These changes in the unions generally influence in the large transnational companies that participate more actively in these initiatives first.

In conclusion, each company, according to its characteristics, will be more or less sensitive to these factors. Thus for example, if a company does not have a name in



the corporate world or it finances itself, issues like as the international expectations or financing can be have little or null interest for them.

The Peruvian legal regulations do not grant the population the "right to veto", it is the State that making use of its sovereign right grants individuals the possibility of operating the mineral resources through a concessions system. But although the population is not legally authorized to be against a mining operation, the reality indicates us that, for the companies, to operate in hostile conditions can become very expensive, difficult and even nonviable, we have already seen cases in which the population has exerted a 'de facto' right to veto.

That is why the local license becomes a key factor for the companies to conduct CSR actions, looking for the necessary social conditions to operate. The legitimacy or social license is a previous requirement for a suitable social management, without this it is very difficult and sometimes impossible to implement.

## **5 Key Social Issues Related to the Mining Sector and CSR in Peru**

As we previously mentioned, the promotion of CSR depends on the specific circumstances of each project. That is why each project must include and manage the diverse social issues related to its activities to be able to be socially responsible.

The following list presents the main social aspects related to the mining sector in Peru, the problems that these subjects present and suggestions on how they would have to be approached.

### **Use of Land**

Mining operations require the use of superficial lands, limiting the traditional use that local communities give to these lands, usually subsistence farming activities. In order to avoid potential negative impacts, it is necessary to evaluate the future productive viability of the portion of land that is left available for each affected family or community. In case that it is not possible to give a productive use to these remaining lands, participative processes of resettlement should be put implemented. These processes must guarantee not only the restitution of the income sources but also offer opportunities of improvement for the original living conditions.

### **Employment**

The employment issue is as much a potential source of benefits as of negative impacts. From the perspective of the local communities, employment is almost always perceived as the greater immediate benefit than a project can bring to the zone.

The opportunity is in maximizing the increase in family incomes that would generate mining employment, in a balanced and inclusive way that considers vulnerable groups like women and illiterate persons. At the same time, the risk of abandonment of traditional activities and excessive immigration to the area of the project by unreal expectations of direct employment in the mine should be managed accordingly.

## **Workers Behavior**

The interaction of foreign personnel with the local population can be a source of conflict, create changes in the customs and generate social problems. That is why it is necessary to implement strict codes of conduct for the workers in a project, taking into account these social risks.

## **Accommodation for the labor force**

There are different options to accommodate the labor force of a mining project such as: closed camp, open camp, pension in local facilities, and rental of houses in close towns, among others.

The option chosen for each project must consider the particularities of the social context and the potential impacts that this decision can generate, for example, if there are big cities close, it can be decided to use hotels or houses, but if the mine is surrounded by isolated and traditional communities the most recommendable is a closed camp to avoid impacts in the local customs and dynamics.

## **Environmental Impacts**

Mining activity has the potential of generating negative environmental impacts, especially in the amount and quality of the water and in soils, if it is not made in a suitable way. In fact, a great amount of liabilities that have been inventoried to date were caused by mining activities developed without the correct care of the environment or when these issues were not regulated like they are in the present time. These impacts can and must be avoided by means of a suitable environmental management. An important aspect to consider is the elaboration of environmental handling plans in a participative form as well as promoting joint monitorings to avoid the generation of negative perceptions in the local groups of interest.

## **Local Acquisitions**

The acquisition of goods and services required for a mining project can generate benefits to the local economy, but at the same time, without a suitable planning, it can cause inflation in the local markets affecting the spending power of the families who do not benefit directly from the mining activities. It is important also to plan acquisitions trying to avoid that local businesses and companies depend exclusively on the mine.

## **Social Investment**

In Peru, local populations expect a significant social investment from mining companies. Although this investment can mean development opportunities that normally would not be within reach of these communities without external support, it is necessary to assure that the investment creates collective and sustainable benefits and that it is managed with the participation of the different actors, so that it avoids generating dependency towards the mining activity.

## **Transport**

The construction of communication routes by a mining project can help to communicate isolated localities, nevertheless the use of these routes for the project activities can simultaneously generate negative impacts such as traffic congestion, contamination by dust and noise, and increase the risk of accidents. Another potential negative impact is the restriction of the use of roads and local trails for the population.

The opportunity is in articulating the planning of the mining transport with the regional and national plans of road development.

## **Use of taxes, royalties and canon**

The economic resources generated by a mining project constitute an opportunity for the national development, especially for the productive regions through the transferences of funds from the mining canon.

The challenge for the mining companies is in helping to generate multi-sector capacities and local processes to manage these funds for local, regional and national development in an articulated and sustainable form. This way the social tension as well the expectations towards the role of the mining companies as generators of local development would be reduced.

## **Involvement of local groups and participation**

Open communications, the consultation and participation and involvement of the groups of interest must be cross-sectional processes to all activities of a mining project. The free flow of information about the mine's development activities and the related impacts can help maximize benefits and reduce negative impacts.

A mining project may often catalyze and activate conflicts within its area of influence, to prevent this impact it is fundamental for a company to identify which are the groups of interest and to understand the relation dynamics between them.

As we see in the practice, CSR requires an integral approach of many relevant social variables and not an isolated management of certain aspects of a project. As an example we can say that it is not enough for a company to increase its social investment if at the same time it fails in the management of the land acquisition process or in the involvement of the groups of interest for the understanding of problems and identification of solutions.

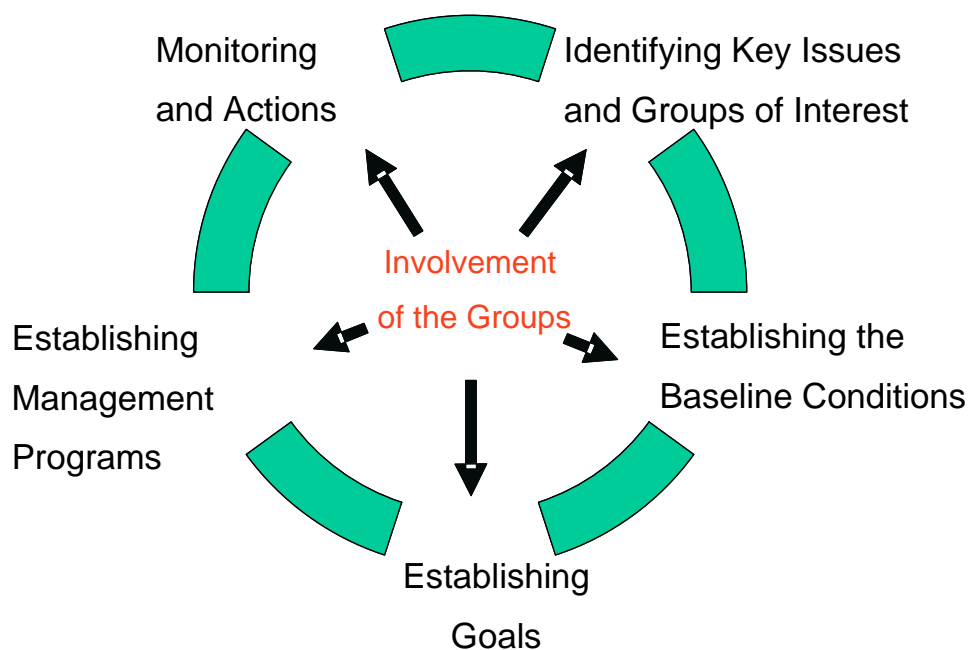
## 6 Social Management System

As it has been mentioned previously, companies are motivated to practice CSR by different factors.

Some companies may opt to improve their performance only in the most critical or sensible issues. Others can undertake a general change including all their areas of performance. In any case, the only way to assure that structural changes are obtained is to incorporate the handling of key social subjects within a social management system.

A system of social management is similar to any other management system, with the particularity that the involvement of the groups of interest becomes a key and cross-sectional process to all the activities.

**Diagram of a Social Management System**



Next we will review the main necessary steps to design and implement a social management system:

### **Identifying key issues**

This is the first step of a social management system. The project must identify the concerns of the groups of interest and the key social issues related to their activities. The mining company must understand the general impact that its presence could have on these subjects. For instance:

- What is the potential impact of the project in the water? What is the regional context on water use?
- What are the opportunities for local employment? What is the potential supply of employment and what are the expectations in relation to the employment opportunities? Negative impacts could be generated in the local context by the arrival of a project's labor force or by the migration in search of employment?
- What are the expectations and the local knowledge about the project? Which could be the level of complexity of a consultation process to inform the groups of interest and listen to their concerns and worries?

The need to identify key issues for a new project is clear, nevertheless, it is also necessary to make this identification of subjects for the projects already in development. The main difference for developing projects is that they are already generating impacts and have established interaction dynamics that could be difficult to modify, that is why it becomes necessary to evaluate the change potentials.

The identification of key issues must not block from considering all the perceptions from the groups of interest. For example, if there is a possibility that the project will produce uranium or that it will affect water users from distant valleys not related to the river basin, it is still necessary to identify these perceptions, even if they are inexact, to be able to give them a suitable answer.

The identification of key issues requires the active involvement of the groups of interest and a commitment for transparency. As it occurs with any component of a management system, a formal and written procedure must exist for the identification of key issues, even if the methodology is quite simple.

### **Establishing the Baseline conditions**

As soon as the social issues have been identified; the project must establish which the baseline conditions are. Following with the raised examples lines above:

- About water, a project must identify the present situation about the amount and quality of the water, potential sources, number of users, technology and efficiency in the use of water, tendencies in the demand, season conditions for the water availability, potential for its use improvement or availability, local perceptions in relation to the issue and the project's potential impact. All this information will be used as the raw material to plan how to manage all issues related to water adequately.
- In relation to employment, the project must identify the economic activities of the local population, as well as their abilities and interest to be included in the labor force of the project. This will also help to adequately identify the changes that the employment generated by the project could cause in the local economy, so that the area of influence of the project can be suitably defined and assure that extra employment in certain areas does not generate negative impacts such as the abandonment of traditional activities, immigration of employment seekers and an overload of the local social infrastructure.
- About the consultation process, the baseline must identify all the local organizations that should be involved, as well as their suggestions about the planning and development of meetings and consultation workshops and about the issues they are interested in approaching. Also it would have to be defined what information level is necessary to meet the local interests and which would be the more adequate media to do it (radio, face to face communication in the market days, leaflets, etc.).

The implementation of a baseline requires the involvement of the local population through surveys, interviews or workshops. Although it is important to recur to



secondary information sources such as the Peruvian National Institute of Statistics (INEI for its acronym in Spanish) additionally, the primary information must never be left aside.

Projects already under development must also establish baselines as a part of their management system, even if they had not made it at the time of starting their activities.

### **Establishing Goals and Management Programs**

Taking as a base the preliminary description of the project and the understanding of the base conditions, the project must finish elaborating its design and its management programs. Among these the program of environmental management and the social management program, denominated Community Relations Program (CRP) should also be included.

The CRP must be a document that details the solutions to problems identified during the evaluation of the social impact, nevertheless it is not a definitive document that will remain unalterable during all the working life of a mine, the CRP must be dynamic and be put under scheduled revisions because the social reality that surrounds a company is also changing.

The CRP must contain the actions or programs that to be effective should be elaborated in a participative way. The company, working jointly with the population and the different groups of interest, are the ones in charge of providing content for these plans. This participative elaboration will give better guarantees that the development actions undertaken by the company will not be perceived as imposed "from the outside" but that they respond to the community priorities. Participative planning also allows balancing the excessive expectations that the community could have with respect to the social role of the company. When the actions to undertake are detailed, the people in charge and the terms in which they will have to be fulfilled, it will be clearer when too much is expected from some of the involved actors or in unrealistic terms.

The basic contents of a CRP are:

1. Vision
2. Objective
3. Area of Influence
4. Groups of Interest
5. Key issues and risks
6. Organizational structure
7. Policies and Programs
  - Policy of local employment (code of conduct)
  - Policy of purchase of local goods and services
  - Policy of land acquisition
  - Policy of management of complaints
  - Consultation Plan and Policy
  - Community Development Programs
  - Participative Monitoring Program
8. Follow up and report chronogram

Each CRP program must include procedures, document requirements and performance indicators. A CRP must be part of an environmental and social impact study; nevertheless, mining operations under development usually establish new CRP when implementing social management systems.

A basic indicator of the quality of the social management system of a company is to verify if the PRC includes all the key social issues related to the project and that it is not exclusively focused in consultation and social investment aspects.

Once again, it is necessary to document all the goals and management programs. It is fundamental not only for a possible measurement of results, but to assure that there is and internal alignment about the company's general approach and vision. One of the main limitations for mining projects is not always the absence of a social strategy, but the lack of the company's inner alignment, that can generate that their different areas implement different strategies and in opposite occasions. This

absence of alignment can be perceived by the groups of interest as a lack of transparency or consistency from the company, affecting the consolidation of a relation of mutual trust.

### **Measuring performance and adjusting the management**

The social management system of a project must evaluate its social performance, so that the necessary adjustments can be made to improve the effectiveness of the programs in general.

It is important to notice that the performance indicators must be analyzed and evaluated in the context of each particular project, and that they are directly related to the amount of social investment.

Here it is interesting to notice that a marginal project in financial terms has a much smaller ability to manage the social and environmental issues and concerns related to its activities. As a consequence, some small projects can be socially nonviable because they lack the necessary resources for a suitable social or environmental management, or to fulfill the requirements of their groups of interest.

Many companies publish some kind of Social Balance related to their performance. This is a corporative report that is made public and that includes economic as well as social and environmental sustainability aspects. The Social Balances seek to guarantee the transparency of the companies' actions since they include information such as the amount and destiny of donations and social investments; policies about the preservation of the environment and environmental management; policies, results and social projections in social matters and Human rights as well as the solutions that the companies themselves contribute to the negative effects of their activities. The publication of Social Balances is not yet a generalized practice in our country and its use is usually restricted to the large mining companies of foreign capitals that follow their headquarters' policies.

In conclusion, the most important indicator of a good social management is the existence of a social management system that gathers the vision of the project and assures that the key issues are adequately identified, evaluated, managed and measured, and that there is a continuous improvement of their procedures and programs.

The implementation of a social management system presents diverse challenges; one of the main ones is to obtain the alignment of all the company areas with about the social vision and the management programs' objectives and procedures. The role and the functions of the area in charge of the social handling within the company, and the channels of internal coordination must also be clearly defined.

Although a tendency to change may be noticed, most of the mining operations in Peru have not implemented an integral social management system yet.

An even smaller number of operations can demonstrate the fulfillment of what is considered like good international practices, through advances towards the implementation of the standards and regulations previously mentioned, such as the Performance Policy and Standards on Social and Environmental Sustainability of the IFC /The Equator Principles, the ICMM Principles for Sustainable Development, the APELL Program, the Principles in Security and Human Rights, or the Initiative for Global Report (IGR), to mention most important.

## 7 CSR and other actors

### The State

The positions on the role that the State must exercise about CSR are diverse, as we have mentioned before there is a debate about whether it is its duty to implement a stronger regulation on the aspects related to CSR. For some actors the State would have to promote CSR through tax incentives and regulations, whereas for others CSR is absolutely voluntary and the State must not interfere in this field. We consider that an intermediate position is the most adequate.

Being that the fulfillment of environmental and social regulations is the base of the CSR pyramid, it is important that the State exercises its supervising role, guaranteeing an adequate performance of the mining companies in these aspects.

In developing economies like Peru the State does not adequately fulfill its obligations to satisfy the social welfare needs due to a lack of resources among other reasons. Nevertheless we think that it must have a more active role in this field being an example of Social Responsibility and practicing it in aspects like the transparency of its performance and the respect of the rights of the workers.

It is also its responsibility to lead dialogues between different actors for the construction of agreements and to guarantee the commitments assumed by the companies and the community.

Although the Peruvian State has still a long way to go on its social mission, it can and must identify and implement mechanisms for the promotion of CSR and promote the initiatives of other sectors that contribute to the improvement of the social condition of the population.

The State must be an agent that leads and articulates the initiatives oriented to CSR, generating focal points within the public administration to undertake coordinated development actions among its different instances (central government,

regional and local governments), the private companies and the population in general.

### **The Civil Society**

By civil society we refer to the group of institutions that includes voluntary organizations and non-profit of many types - NGO-, philanthropic, cultural institutions, unions and base organizations, among others.

These organizations have an important role to play in the CSR field. They must communicate and sensitize the society (communities, companies and State included) on the importance of the subject.

In the same way that the State, they must promote the dialogue between the different involved actors. NGOs can play the role of facilitators in these dialogues with multiple actors as well as in the participative planning of the development actions developed by the companies, helping the population so that their wishes and necessities are properly recognized.

The civil society organizations, when it corresponds, can collaborate with the companies in the implementation of their CSR activities and commitments, in other cases they must promote monitoring initiatives about the correct execution of these activities and commitments. A proactive role of the organized citizenship is essential especially for the monitoring of social responsibility indicators, whether they are compulsory or voluntary, and for measuring the company's performance.

The civil society organizations must also play a role denouncing the violations of the vulnerable groups and workers' rights, and in the defense of their rights. Also, they can identify and contribute solutions to the problems related to sustainable development through strategies and citizen initiatives inspired by values like transparency, plurality and sustainability.

### **Other organizations**

Other actors such as unions or diplomatic representations also have a role in CSR.

The National Society of Mining Petroleum and Energy (SNMPE for its acronym in Spanish) in addition to having adopted a Code of Conduct, has been promoting a prize for Sustainable Development for several years now. Its purpose is recognizing and promoting the efforts of the mining companies in this field. These actions of promotion of good corporate practices among their associates could consolidate in more effective mechanisms of monitoring and sanction, which in turn would contribute to improve the perception of the sector in the public opinion. In this sense, SNMPE recently applied its Code of Conduct separating Casapalca Mining Company of their association for not complying with this Code's dispositions, setting a positive precedent on the role that union and corporate organizations must fulfill to guarantee that their associate follows the norms and that they are following ethical behaviors.

On the other hand, diplomatic representations such as the Canadian Embassy promotes dialogues between the different actors involved in the areas where mining activities take place seeking to promote sustainable development in these zones.

These organizations should also promote CSR initiatives and articulate CSR initiatives and actions among its members or partner institutions.

## 8 Conclusions and recommendations

1. CSR is a tendency and an increasing subject of discussion in Peru. In general terms the scene is positive since we found several mining companies that are developing CSR policies. Nevertheless, there is still a lack of deepening in a more articulated management of all the aspects that involve CSR practices.

2. Mining companies practice CSR in different degrees. Generally, companies with foreign or mixed capitals are the ones that use a significant percentage of their budget for social management. Many of them adhere to international declarations of principles and choose to obtain environmental certifications, as well as by making social reports. CSR promoted by corporations from their headquarters thus becomes an important element to consider. It is important to mention that a growing number of medium and small sized mining companies are adopting and implementing high political and social standards; often these companies are those which undertake the most innovating and successful CSR initiatives.

3. Mining companies still include welfare projects in their social intervention, and react under the pressure of different groups of interest with the purpose of maintaining harmony and counting with the consent of the population to be able to operate. The local population and authorities often demand this type of contributions from the companies.

4. Some local groups see the arrival of mining companies as the solution for their more urgent development problems before an absent State, and have very high expectations about the benefits that the mining activity can generate in their region. On the other hand companies tend to perceive that these demands are excessive and are forced by the circumstances to exercise a role that belongs to the State.

5. Several endogenous and exogenous factors influence the mining companies' social answer. There is not a CSR formula that applies to all the companies, it is not either possible to define in a general form the percentage or adequate amount of



social investment. CSR actions respond to the internal reality of each company as well as to their operations' surroundings. The interaction of these factors will condition its social answers.

6. Mining companies must continue deepening their CSR actions, internally as well as externally, integrating in their management mechanisms CSR not like something accessory but as a cross-sectional philosophy for all of their performance.

7. Companies must improve their internal alignment and give more publicity to the CSR actions, policies and strategies they are already developing. It is also their role to improve their mechanisms of transparency, dialogue and consults with the populations in their area.

8. The State must assume an active role giving an example of internal social responsibility, guaranteeing a climate of peace and stability, strictly enforcing labor and environmental laws, the respect for the rights of the population and promoting CSR from different fronts being those by consensus or by legislation. It must promote strategic alliances between the involved parts and guaranteeing the fulfillment of the agreements between companies and communities. The State must also perfect the mechanisms of information, participation and consultation of the population and play a bigger leadership role in this field.

9. NGOs must deepen their knowledge and analysis of the conceptual frame and the reaches of CSR to be able to undertake more effective initiatives of informing the society about the importance of the matter and especially to undertake or reinforce monitoring actions, denounces and defense of rights. They can in addition exert a promotional roll in the dialogues between the companies and the communities and can also be strategic partners of the companies in the implementation of programs of communitarian development. NGOs can also become models of social responsibility as well, when assuming self regulation and transparency policies

10. It is necessary to generate a fluid and constructive dialogue on CSR between the different actors involved, with the objective of constructing clear bases on key aspects. A general consensus is required on what are considered good social practices with relation to the mining sector. The lack of a common reference frame is one of the main reasons for distrust and conflicts at local level, limiting the possibilities of implementing effective monitoring processes

11. This common conceptual frame will have to consider the differences between already existing projects that have modified the social reality in their areas, and potential projects which still they have the opportunity to implement a new approach from the beginning, taking into account the local reality. Key issues related to the different stages of development of a project (exploration, construction, operation and close) must also be considered.

12. In this sense we recommend a joint work of the industry, the civil society and the government for the consensual elaboration of reference guides for:

- Employment Policies/local hiring
- Local acquisitions
- Land acquisitions and voluntary resettlement
- Participative Monitoring/Vigilance
- Social Investment
- Public Consultation and Citizenship Participation

In general these guides would review potential opportunities and impacts associated to each subject. They would analyze aspects such as the different social contexts in Peru and how these influence in the impacts, opportunities and management of the projects. Some points proposed to be considered in the guides are:

- Introduction
- General vision of key issues, impacts and potential management measures, according to each phase of the project.
- Area of Influence
- Social Management
  - Potential Management practices in different contexts
  - Consultation

- Documentation
- Indicators
- Monitoring

13. We consider it is worth elaborating a baseline of the present situation about CSR in the mining sector in Peru. This baseline would help monitoring the advances of the sector in this field, with the participation of the key actors.

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<http://www.s-c-g.net/>

## **THE UN GLOBAL COMPACT**

### **The Ten Principles**

The Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

The Universal Declaration of Human Rights  
The International Labour Organization's Declaration on Fundamental Principles and Rights at Work  
The Rio Declaration on Environment and Development  
The United Nations Convention Against Corruption

The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption:

#### Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and  
Principle 2: make sure that they are not complicit in human rights abuses.

#### Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;  
Principle 4: the elimination of all forms of forced and compulsory labour;  
Principle 5: the effective abolition of child labour; and  
Principle 6: the elimination of discrimination in respect of employment and occupation.

#### Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;  
Principle 8: undertake initiatives to promote greater environmental responsibility; and  
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

#### Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

**<http://www.unglobalcompact.org/index.html>**



## **The Voluntary Principles on Security and Human Rights**

### INTRODUCTION

Governments of the United States and the United Kingdom, companies in the extractive and energy sectors ("Companies"), and non-governmental organizations, all with an interest in human rights and corporate social responsibility, have engaged in a dialogue on security and human rights.

The participants recognize the importance of the promotion and protection of human rights throughout the world and the constructive role business and civil society – including non-governmental organizations, labor/trade unions, and local communities – can play in advancing these goals. Through this dialogue, the participants have developed the following set of voluntary principles to guide Companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms. Mindful of these goals, the participants agree to the importance of continuing this dialogue and keeping under review these principles to ensure their continuing relevance and efficacy.

*Acknowledging* that security is a fundamental need, shared by individuals, communities, businesses, and governments alike, and acknowledging the difficult security issues faced by Companies operating globally, we recognize that security and respect for human rights can and should be consistent;

*Understanding* that governments have the primary responsibility to promote and protect human rights and that all parties to a conflict are obliged to observe applicable international humanitarian law, we recognize that we share the common goal of promoting respect for human rights, particularly those set forth in the Universal Declaration of Human Rights, and international humanitarian law;

*Emphasizing* the importance of safeguarding the integrity of company personnel and property, Companies recognize a commitment to act in a manner consistent with the laws of the countries within which they are present, to be mindful of the highest applicable international standards, and to promote the observance of applicable international law enforcement principles (e.g., the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials), particularly with regard to the use of force;

*Taking note* of the effect that Companies' activities may have on local communities, we recognize the value of engaging with civil society and host and home governments to contribute to the welfare of the local community while mitigating any potential for conflict where possible;

*Understanding* that useful, credible information is a vital component of security and human rights, we recognize the importance of sharing and understanding our respective experiences regarding, inter alia, best security practices and procedures, country human rights situations, and public and private security, subject to confidentiality constraints;

*Acknowledging* that home governments and multilateral institutions may, on occasion, assist host governments with security sector reform, developing institutional capacities and strengthening the rule of law, we recognize the important role Companies and civil society can play in supporting these efforts;

We hereby express our support for the following voluntary principles regarding security and human rights in the extractive sector, which fall into three categories, risk assessment, relations with public security, and relations with private security:

## RISK ASSESSMENT

The ability to assess accurately risks present in a Company's operating environment is critical to the security of personnel, local communities and assets; the success of the Company's short and long-term operations; and to the promotion and protection of human rights. In some circumstances, this is relatively simple; in others, it is important to obtain extensive background information from different sources; monitoring and adapting to changing, complex political, economic, law enforcement, military and social situations; and maintaining productive relations with local communities and government officials.

The quality of complicated risk assessments is largely dependent on the assembling of regularly updated, credible information from a broad range of perspectives – local and national governments, security firms, other companies, home governments, multilateral institutions, and civil society knowledgeable about local conditions. This information may be most effective when shared to the fullest extent possible (bearing in mind confidentiality considerations) between Companies, concerned civil society, and governments.

Bearing in mind these general principles, we recognize that accurate, effective risk assessments should consider the following factors:

*Identification of security risks.* Security risks can result from political, economic, civil or social factors. Moreover, certain personnel and assets may be at greater risk than others. Identification of security risks allows a Company to take measures to minimize risk and to assess whether Company actions may heighten risk.

*Potential for violence.* Depending on the environment, violence can be widespread or limited to particular regions, and it can develop with little or no warning. Civil society, home and host government representatives, and other sources should be consulted to identify risks presented by the potential for violence. Risk assessments should examine patterns of violence in areas of Company operations for educational, predictive, and preventative purposes.

*Human rights records.* Risk assessments should consider the available human rights records of public security forces, paramilitaries, local and national law enforcement, as well as the reputation of private security. Awareness of past abuses and allegations can help Companies to avoid recurrences as well as to promote accountability. Also, identification of the capability of the above entities to respond to situations of violence in a lawful manner (i.e.,

consistent with applicable international standards) allows Companies to develop appropriate measures in operating environments.

*Rule of law.* Risk assessments should consider the local prosecuting authority and judiciary's capacity to hold accountable those responsible for human rights abuses and for those responsible for violations of international humanitarian law in a manner that respects the rights of the accused.

*Conflict analysis.* Identification of and understanding the root causes and nature of local conflicts, as well as the level of adherence to human rights and international humanitarian law standards by key actors, can be instructive for the development of strategies for managing relations between the Company, local communities, Company employees and their unions, and host governments. Risk assessments should also consider the potential for future conflicts.

*Equipment transfers.* Where Companies provide equipment (including lethal and non-lethal equipment) to public or private security, they should consider the risk of such transfers, any relevant export licensing requirements, and the feasibility of measures to mitigate foreseeable negative consequences, including adequate controls to prevent misappropriation or diversion of equipment which may lead to human rights abuses. In making risk assessments, companies should consider any relevant past incidents involving previous equipment transfers.

## INTERACTIONS BETWEEN COMPANIES AND PUBLIC SECURITY

Although governments have the primary role of maintaining law and order, security and respect for human rights, Companies have an interest in ensuring that actions taken by governments, particularly the actions of public security providers, are consistent with the protection and promotion of human rights. In cases where there is a need to supplement security provided by host governments, Companies may be required or expected to contribute to, or otherwise reimburse, the costs of protecting Company facilities and personnel borne by public security. While public security is expected to act in a manner consistent with local and national laws as well as with human rights standards and international humanitarian law, within this context abuses may nevertheless occur.

In an effort to reduce the risk of such abuses and to promote respect for human rights generally, we have identified the following voluntary principles to guide relationships between Companies and public security regarding security provided to Companies:

### *Security Arrangements*

Companies should consult regularly with host governments and local communities about the impact of their security arrangements on those communities.

Companies should communicate their policies regarding ethical conduct and human rights to public security providers, and express their desire that

security be provided in a manner consistent with those policies by personnel with adequate and effective training.

Companies should encourage host governments to permit making security arrangements transparent and accessible to the public, subject to any overriding safety and security concerns.

#### *Deployment and Conduct*

The primary role of public security should be to maintain the rule of law, including safeguarding human rights and deterring acts that threaten Company personnel and facilities. The type and number of public security forces deployed should be competent, appropriate and proportional to the threat.

Equipment imports and exports should comply with all applicable law and regulations. Companies that provide equipment to public security should take all appropriate and lawful measures to mitigate any foreseeable negative consequences, including human rights abuses and violations of international humanitarian law.

Companies should use their influence to promote the following principles with public security: (a) individuals credibly implicated in human rights abuses should not provide security services for Companies; (b) force should be used only when strictly necessary and to an extent proportional to the threat; and (c) the rights of individuals should not be violated while exercising the right to exercise freedom of association and peaceful assembly, the right to engage in collective bargaining, or other related rights of Company employees as recognized by the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

In cases where physical force is used by public security, such incidents should be reported to the appropriate authorities and to the Company. Where force is used, medical aid should be provided to injured persons, including to offenders.

#### *Consultation and Advice*

Companies should hold structured meetings with public security on a regular basis to discuss security, human rights and related work-place safety issues. Companies should also consult regularly with other Companies, host and home governments, and civil society to discuss security and human rights. Where Companies operating in the same region have common concerns, they should consider collectively raising those concerns with the host and home governments.

In their consultations with host governments, Companies should take all appropriate measures to promote observance of applicable international law enforcement principles, particularly those reflected in the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms.

Companies should support efforts by governments, civil society and multilateral institutions to provide human rights training and education for public security as well as their efforts to strengthen state institutions to ensure accountability and respect for human rights.

#### *Responses to Human Rights Abuses*

Companies should record and report any credible allegations of human rights abuses by public security in their areas of operation to appropriate host government authorities. Where appropriate, Companies should urge investigation and that action be taken to prevent any recurrence.

Companies should actively monitor the status of investigations and press for their proper resolution.

Companies should, to the extent reasonable, monitor the use of equipment provided by the Company and to investigate properly situations in which such equipment is used in an inappropriate manner.

Every effort should be made to ensure that information used as the basis for allegations of human rights abuses is credible and based on reliable evidence. The security and safety of sources should be protected. Additional or more accurate information that may alter previous allegations should be made available as appropriate to concerned parties.

#### **INTERACTIONS BETWEEN COMPANIES AND PRIVATE SECURITY**

Where host governments are unable or unwilling to provide adequate security to protect a Company's personnel or assets, it may be necessary to engage private security providers as a complement to public security. In this context, private security may have to coordinate with state forces, (law enforcement, in particular) to carry weapons and to consider the defensive local use of force. Given the risks associated with such activities, we recognize the following voluntary principles to guide private security conduct:

Private security should observe the policies of the contracting Company regarding ethical conduct and human rights; the law and professional standards of the country in which they operate; emerging best practices developed by industry, civil society, and governments; and promote the observance of international humanitarian law.

Private security should maintain high levels of technical and professional proficiency, particularly with regard to the local use of force and firearms.

Private security should act in a lawful manner. They should exercise restraint and caution in a manner consistent with applicable international guidelines regarding the local use of force, including the UN Principles on the Use of Force and Firearms by Law Enforcement Officials and the UN Code of Conduct for Law Enforcement Officials, as well as with emerging best practices developed by Companies, civil society, and governments.

**VOLUNTARY**  
**PRINCIPLES**  
**ON SECURITY + HUMAN RIGHTS**

Private security should have policies regarding appropriate conduct and the local use of force (e.g., rules of engagement). Practice under these policies should be capable of being monitored by Companies or, where appropriate, by independent third parties. Such monitoring should encompass detailed investigations into allegations of abusive or unlawful acts; the availability of disciplinary measures sufficient to prevent and deter; and procedures for reporting allegations to relevant local law enforcement authorities when appropriate.

All allegations of human rights abuses by private security should be recorded. Credible allegations should be properly investigated. In those cases where allegations against private security providers are forwarded to the relevant law enforcement authorities, Companies should actively monitor the status of investigations and press for their proper resolution.

Consistent with their function, private security should provide only preventative and defensive services and should not engage in activities exclusively the responsibility of state military or law enforcement authorities. Companies should designate services, technology and equipment capable of offensive and defensive purposes as being for defensive use only.

Private security should (a) not employ individuals credibly implicated in human rights abuses to provide security services; (b) use force only when strictly necessary and to an extent proportional to the threat; and (c) not violate the rights of individuals while exercising the right to exercise freedom of association and peaceful assembly, to engage in collective bargaining, or other related rights of Company employees as recognized by the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work.

In cases where physical force is used, private security should properly investigate and report the incident to the Company. Private security should refer the matter to local authorities and/or take disciplinary action where appropriate. Where force is used, medical aid should be provided to injured persons, including to offenders.

Private security should maintain the confidentiality of information obtained as a result of its position as security provider, except where to do so would jeopardize the principles contained herein.

To minimize the risk that private security exceed their authority as providers of security, and to promote respect for human rights generally, we have developed the following additional voluntary principles and guidelines:

Where appropriate, Companies should include the principles outlined above as contractual provisions in agreements with private security providers and ensure that private security personnel are adequately trained to respect the rights of employees and the local community. To the extent practicable, agreements between Companies and private security should require investigation of unlawful or abusive behavior and appropriate disciplinary action. Agreements should also permit termination of the relationship by

**VOLUNTARY**  
**PRINCIPLES**  
**ON SECURITY + HUMAN RIGHTS**

Companies where there is credible evidence of unlawful or abusive behavior by private security personnel.

Companies should consult and monitor private security providers to ensure they fulfill their obligation to provide security in a manner consistent with the principles outlined above. Where appropriate, Companies should seek to employ private security providers that are representative of the local population.

Companies should review the background of private security they intend to employ, particularly with regard to the use of excessive force. Such reviews should include an assessment of previous services provided to the host government and whether these services raise concern about the private security firm's dual role as a private security provider and government contractor.

Companies should consult with other Companies, home country officials, host country officials, and civil society regarding experiences with private security. Where appropriate and lawful, Companies should facilitate the exchange of information about unlawful activity and abuses committed by private security providers.

July 2006

## The "Equator Principles"

### A financial industry benchmark for determining, assessing and managing social & environmental risk in project financing

[www.equator-principles.com](http://www.equator-principles.com)

#### **PREAMBLE**

Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world.<sup>1</sup> Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

The Equator Principles Financial Institutions (EPFIs) have consequently adopted these Principles in order to ensure that the projects we finance are developed in a manner that is socially responsible and reflect sound environmental management practices. By doing so, negative impacts on project-affected ecosystems and communities should be avoided where possible, and if these impacts are unavoidable, they should be reduced, mitigated and/or compensated for appropriately. We believe that adoption of and adherence to these Principles offers significant benefits to ourselves, our borrowers and local stakeholders through our borrowers' engagement with locally affected communities. We therefore recognise that our role as financiers affords us opportunities to promote responsible environmental stewardship and socially responsible development. As such, EPFIs will consider reviewing these Principles from time-to-time based on implementation experience, and in order to reflect ongoing learning and emerging good practice.

These Principles are intended to serve as a common baseline and framework for the implementation by each EPFI of its own internal social and environmental policies, procedures and standards related to its project financing activities. We will not provide loans to projects where the borrower will not or is unable to comply with our respective social and environmental policies and procedures that implement the Equator Principles.

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<sup>1</sup> **Project finance** is "a method of funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as security for the exposure. This type of financing is usually for large, complex and expensive installations that might include, for example, power plants, chemical processing plants, mines, transportation infrastructure, environment, and telecommunications infrastructure. Project finance may take the form of financing of the construction of a new capital installation, or refinancing of an existing installation, with or without improvements. In such transactions, the lender is usually paid solely or almost exclusively out of the money generated by the contracts for the facility's output, such as the electricity sold by a power plant. The borrower is usually an SPE (Special Purpose Entity) that is not permitted to perform any function other than developing, owning, and operating the installation. The consequence is that repayment depends primarily on the project's cash flow and on the collateral value of the project's assets." Source: *Basel Committee on Banking Supervision, International Convergence of Capital Measurement and Capital Standards* ("Basel II"), November 2005. <http://www.bis.org/publ/bcbs118.pdf>.



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## **SCOPE**

The Principles apply to all new project financings globally with total project capital costs of US\$10 million or more, and across all industry sectors. In addition, while the Principles are not intended to be applied retroactively, we will apply them to all project financings covering expansion or upgrade of an existing facility where changes in scale or scope may create significant environmental and/or social impacts, or significantly change the nature or degree of an existing impact.

The Principles also extend to project finance advisory activities. In these cases, EPFIs commit to make the client aware of the content, application and benefits of applying the Principles to the anticipated project, and request that the client communicate to the EPFI its intention to adhere to the requirements of the Principles when subsequently seeking financing.

## **STATEMENT OF PRINCIPLES**

*EPFIs will only provide loans to projects that conform to Principles 1-9 below:*

### *Principle 1: Review and Categorisation*

When a project is proposed for financing, the EPFI will, as part of its internal social and environmental review and due diligence, categorise such project based on the magnitude of its potential impacts and risks in accordance with the environmental and social screening criteria of the International Finance Corporation (IFC) (Exhibit I).

### *Principle 2: Social and Environmental Assessment*

For each project assessed as being either Category A or Category B, the borrower has conducted a Social and Environmental Assessment ("Assessment") process<sup>2</sup> to address, as appropriate and to the EPFI's satisfaction, the relevant social and environmental impacts and risks of the proposed project (which may include, if relevant, the illustrative list of issues as found in Exhibit II). The Assessment should also propose mitigation and management measures relevant and appropriate to the nature and scale of the proposed project.

### *Principle 3: Applicable Social and Environmental Standards*

For projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the Assessment will refer to the then applicable IFC Performance Standards (Exhibit III) and the then applicable Industry Specific EHS Guidelines ("EHS Guidelines") (Exhibit IV). The Assessment will establish to a participating EPFI's satisfaction the project's overall compliance with, or justified deviation from, the respective Performance Standards and EHS Guidelines.

The regulatory, permitting and public comment process requirements in High-Income OECD Countries, as defined by the World Bank Development Indicators Database, generally meet or exceed the requirements of the IFC Performance Standards (Exhibit III) and EHS Guidelines (Exhibit IV). Consequently, to avoid duplication and streamline EPFI's review of

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<sup>2</sup> **Social and Environmental Assessment** is a process that determines the social and environmental impacts and risks (including labour, health, and safety) of a proposed project in its area of influence. For the purposes of Equator Principles compliance, this will be an adequate, accurate and objective evaluation and presentation of the issues, whether prepared by the borrower, consultants or external experts. Depending on the nature and scale of the project, the assessment document may comprise a full-scale social and environmental impact assessment, a limited or focused environmental or social assessment (e.g. audit), or straight-forward application of environmental siting, pollution standards, design criteria, or construction standards. One or more specialised studies may also need to be undertaken.

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these projects, successful completion of an Assessment (or its equivalent) process under and in compliance with local or national law in High-Income OECD Countries is considered to be an acceptable substitute for the IFC Performance Standards, EHS Guidelines and further requirements as detailed in Principles 4, 5 and 6 below. For these projects, however, the EPFI still categorises and reviews the project in accordance with Principles 1 and 2 above.

The Assessment process in both cases should address compliance with relevant host country laws, regulations and permits that pertain to social and environmental matters.

### *Principle 4: Action Plan and Management System*

For all Category A and Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the borrower has prepared an Action Plan (AP)<sup>3</sup> which addresses the relevant findings, and draws on the conclusions of the Assessment. The AP will describe and prioritise the actions needed to implement mitigation measures, corrective actions and monitoring measures necessary to manage the impacts and risks identified in the Assessment. Borrowers will build on, maintain or establish a Social and Environmental Management System that addresses the management of these impacts, risks, and corrective actions required to comply with applicable host country social and environmental laws and regulations, and requirements of the applicable Performance Standards and EHS Guidelines, as defined in the AP.

For projects located in High-Income OECD countries, EPFIs may require development of an Action Plan based on relevant permitting and regulatory requirements, and as defined by host-country law.

### *Principle 5: Consultation and Disclosure*

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, the government, borrower or third party expert has consulted with project affected communities in a structured and culturally appropriate manner.<sup>4</sup> For projects with significant adverse impacts on affected communities, the process will ensure their free, prior and informed consultation and facilitate their informed participation as a means to establish, to the satisfaction of the EPFI, whether a project has adequately incorporated affected communities' concerns.<sup>5</sup>

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<sup>3</sup> The **Action Plan** may range from a brief description of routine mitigation measures to a series of documents (e.g., resettlement action plan, indigenous peoples plan, emergency preparedness and response plan, decommissioning plan, etc). The level of detail and complexity of the Action Plan and the priority of the identified measures and actions will be commensurate with the project's potential impacts and risks. Consistent with Performance Standard 1, the internal **Social and Environmental Management System** will incorporate the following elements: (i) Social and Environmental Assessment; (ii) management program; (iii) organisational capacity; (iv) training; (v) community engagement; (vi) monitoring; and (vii) reporting.

<sup>4</sup> **Affected communities** are communities of the local population within the project's area of influence who are likely to be adversely affected by the project. Where such consultation needs to be undertaken in a structured manner, EPFIs may require the preparation of a Public Consultation and Disclosure Plan (PCDP).

<sup>5</sup> **Consultation** should be "free" (free of external manipulation, interference or coercion, and intimidation), "prior" (timely disclosure of information) and "informed" (relevant, understandable and accessible information), and apply to the entire project process and not to the early stages of the project alone. The borrower will tailor its consultation process to the language preferences of the affected communities, their decision-making processes, and the needs of disadvantaged or vulnerable groups. Consultation with Indigenous Peoples must conform to specific and detailed requirements as found in Performance Standard 7. Furthermore, the special rights of Indigenous Peoples as recognised by host-country legislation will need to be addressed.

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In order to accomplish this, the Assessment documentation and AP, or non-technical summaries thereof, will be made available to the public by the borrower for a reasonable minimum period in the relevant local language and in a culturally appropriate manner. The borrower will take account of and document the process and results of the consultation, including any actions agreed resulting from the consultation. For projects with adverse social or environmental impacts, disclosure should occur early in the Assessment process and in any event before the project construction commences, and on an ongoing basis.

### *Principle 6: Grievance Mechanism*

For all Category A and, as appropriate, Category B projects located in non-OECD countries, and those located in OECD countries not designated as High-Income, as defined by the World Bank Development Indicators Database, to ensure that consultation, disclosure and community engagement continues throughout construction and operation of the project, the borrower will, scaled to the risks and adverse impacts of the project, establish a grievance mechanism as part of the management system. This will allow the borrower to receive and facilitate resolution of concerns and grievances about the project's social and environmental performance raised by individuals or groups from among project-affected communities. The borrower will inform the affected communities about the mechanism in the course of its community engagement process and ensure that the mechanism addresses concerns promptly and transparently, in a culturally appropriate manner, and is readily accessible to all segments of the affected communities.

### *Principle 7: Independent Review*

For all Category A projects and, as appropriate, for Category B projects, an independent social or environmental expert not directly associated with the borrower will review the Assessment, AP and consultation process documentation in order to assist EPFI's due diligence, and assess Equator Principles compliance.

### *Principle 8: Covenants*

An important strength of the Principles is the incorporation of covenants linked to compliance. For Category A and B projects, the borrower will covenant in financing documentation:

- a) to comply with all relevant host country social and environmental laws, regulations and permits in all material respects;
- b) to comply with the AP (where applicable) during the construction and operation of the project in all material respects;
- c) to provide periodic reports in a format agreed with EPFIs (with the frequency of these reports proportionate to the severity of impacts, or as required by law, but not less than annually), prepared by in-house staff or third party experts, that i) document compliance with the AP (where applicable), and ii) provide representation of compliance with relevant local, state and host country social and environmental laws, regulations and permits; and
- d) to decommission the facilities, where applicable and appropriate, in accordance with an agreed decommissioning plan.

Where a borrower is not in compliance with its social and environmental covenants, EPFIs will work with the borrower to bring it back into compliance to the extent feasible, and if the borrower fails to re-establish compliance within an agreed grace period, EPFIs reserve the right to exercise remedies, as they consider appropriate.

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### *Principle 9: Independent Monitoring and Reporting*

To ensure ongoing monitoring and reporting over the life of the loan, EPFIs will, for all Category A projects, and as appropriate, for Category B projects, require appointment of an independent environmental and/or social expert, or require that the borrower retain qualified and experienced external experts to verify its monitoring information which would be shared with EPFIs.

### *Principle 10: EPFI Reporting*

Each EPFI adopting the Equator Principles commits to report publicly at least annually about its Equator Principles implementation processes and experience, taking into account appropriate confidentiality considerations.<sup>6</sup>

### **DISCLAIMER**

The adopting EPFIs view these Principles as a financial industry benchmark for developing individual, internal social and environmental policies, procedures and practices. As with all internal policies, these Principles do not create any rights in, or liability to, any person, public or private. Institutions are adopting and implementing these Principles voluntarily and independently, without reliance on or recourse to IFC or the World Bank.

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<sup>6</sup> Such reporting should at a minimum include the number of transactions screened by each EPFI, including the categorisation accorded to transactions (and may include a breakdown by sector or region), and information regarding implementation.

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### Exhibit I: Categorisation of projects

As part of their review of a project's expected social and environmental impacts, EPFIs use a system of social and environmental categorisation, based on IFC's environmental and social screening criteria, to reflect the magnitude of impacts understood as a result of assessment. These categories are:

- **Category A** – Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented;
- **Category B** – Projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and readily addressed through mitigation measures; and
- **Category C** – Projects with minimal or no social or environmental impacts.

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### **Exhibit II:**

#### **Illustrative list of potential social and environmental issues to be addressed in the Social and Environmental Assessment documentation**

In the context of the business of the project, the Assessment documentation will address, where applicable, the following issues:

- a) assessment of the baseline social and environmental conditions
- b) consideration of feasible environmentally and socially preferable alternatives
- c) requirements under host country laws and regulations, applicable international treaties and agreements
- d) protection of human rights and community health, safety and security (including risks, impacts and management of project's use of security personnel)
- e) protection of cultural property and heritage
- f) protection and conservation of biodiversity, including endangered species and sensitive ecosystems in modified, natural and critical habitats, and identification of legally protected areas
- g) sustainable management and use of renewable natural resources (including sustainable resource management through appropriate independent certification systems)
- h) use and management of dangerous substances
- i) major hazards assessment and management
- j) labour issues (including the four core labour standards), and occupational health and safety
- k) fire prevention and life safety
- l) socio-economic impacts
- m) land acquisition and involuntary resettlement
- n) impacts on affected communities, and disadvantaged or vulnerable groups
- o) impacts on indigenous peoples, and their unique cultural systems and values
- p) cumulative impacts of existing projects, the proposed project, and anticipated future projects
- q) consultation and participation of affected parties in the design, review and implementation of the project
- r) efficient production, delivery and use of energy
- s) pollution prevention and waste minimisation, pollution controls (liquid effluents and air emissions) and solid and chemical waste management

*Note:* The above list is for illustrative purposes only. The Social and Environmental Assessment process of each project may or may not identify all issues noted above, or be relevant to every project.

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### Exhibit III: IFC Performance Standards on Social and Environmental Sustainability

As of April 30, 2006, the following list of IFC Performance Standards were applicable:

- Performance Standard 1: Social & Environmental Assessment & Management System
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Pollution Prevention and Abatement
- Performance Standard 4: Community Health, Safety and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Natural Resource Management
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

*Note:* The IFC has developed a set of **Guidance Notes** to accompany each Performance Standard. While not formally adopting the Guidance Notes, EPFIs or borrowers may use the Guidance Notes as useful points of reference when seeking further guidance on or interpretation of the Performance Standards. The IFC Performance Standards, Guidance Notes and Industry Sector EHS Guidelines can be found at [www.ifc.org/enviro](http://www.ifc.org/enviro)

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### Exhibit IV: Industry-Specific Environmental, Health and Safety (EHS) Guidelines

EPFIs will utilise the appropriate environmental, health and safety (EHS) guidelines used by IFC which are now in place, and as may be amended from time-to-time.

IFC is using two complementary sets of EHS Guidelines available at the IFC website ([www.ifc.org/enviro](http://www.ifc.org/enviro)). These sets consist of all the environmental guidelines contained in Part III of the World Bank's Pollution Prevention and Abatement Handbook (PPAH) which went into official use on July 1, 1998 and a series of environmental, health and safety guidelines published on the IFC website between 1991 and 2003. Ultimately new guidelines, incorporating the concepts of cleaner production and environmental management systems, will be written to replace this series of industry sector, PPAH and IFC guidelines.

Where no sector specific guideline exists for a particular project then the PPAH's General Environmental Guidelines and the IFC Occupational Health and Safety Guidelines (2003) are applied, with modifications as necessary to suit the project.\*

The table below lists both the World Bank Guidelines and the IFC Guidelines as of March 1, 2006.

#### Industry Specific EHS Guidelines:

World Bank Guidelines (PPAH)	IFC Guidelines
1. Aluminum Manufacturing	1. Airports
2. Base Metal and Iron Ore Mining	2. Ceramic Tile Manufacturing
3. Breweries	3. Construction Materials Plants
4. Cement Manufacturing	4. Electric Power Transmission and Distribution
5. Chlor-Alkali Plants	5. Fish Processing
6. Coal Mining and Production	6. Food and Beverage Processing
7. Coke Manufacturing	7. Forestry Operations: Logging
8. Copper Smelting	8. Gas Terminal Systems
9. Dairy Industry	9. Geothermal Projects
10. Dye Manufacturing	10. Hazardous Materials Management
11. Electronics Manufacturing	11. Health Care
12. Electroplating Industry	12. Life & Fire Safety
13. Foundries	13. Occupational Health and Safety
14. Fruit and Vegetable Processing	14. Office Buildings
15. General Environmental Guidelines	15. Offshore Oil & Gas
16. Glass Manufacturing	16. Polychlorinated Biphenyls (PCBs)
17. Industrial Estates	17. Pesticide Handling and Application
18. Iron and Steel Manufacturing	18. Plantations
19. Lead and Zinc Smelting	19. Port and Harbor Facilities
20. Meat Processing and Rendering	20. Rail Transit Systems
21. Mini Steel Mills	21. Roads and Highways
22. Mixed Fertilizer Plants	22. Telecommunications
23. Monitoring	23. Tourism and Hospitality Development
24. Nickel Smelting and Refining	24. Waste Management Facilities
25. Nitrogenous Fertilizer Plants	25. Wastewater Reuse
26. Oil and Gas Development (Onshore)	26. Wildland Management
27. Pesticides Formulation	27. Wind Energy Conversion Systems
28. Pesticides Manufacturing	28. Wood Products Industries



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29. Petrochemicals Manufacturing	
30. Petroleum Refining	
31. Pharmaceutical Manufacturing	
32. Phosphate Fertilizer Plants	
33. Printing Industry	
34. Pulp and Paper Mills	
35. Sugar Manufacturing	
36. Tanning and Leather Finishing	
37. Textiles Industry	
38. Thermal Power Guidelines for New Plants	
39. Thermal Power Rehabilitation of Existing Plants	
40. Vegetable Oil Processing	
41. Wood Preserving Industry	

\* Exception (the following are World Bank Guidelines not contained in the PPAH and currently in use)

Mining and Milling - Underground  
Mining and Milling - Open Pit