

## MUNICIPAL CAPACITY BUILDING ENHANCES LOCAL BENEFITS FROM MINING

IFC has helped Los Baños del Inca municipality to boost public works financed by tax-sharing from mining operations

In 2002, the Peruvian Congress modified the mining canon law—the corporate tax payments on profits from the extraction of natural resources shared by regional and municipal governments—increasing the percentage from 20 to 50. In 2004, the distribution of the canon was modified again to benefit particularly producing districts around mining operations. These regulatory adjustments, together with a mineral boom, increased public funds of small rural municipalities located around Yanacocha mine, an IFC investment client. IFC's Technical Assistance Office for Latin America and the Caribbean began a project to increase local governments' ability to invest in the mining canon (MC), and enhance civil society's capacity to monitor public spending. The initial results are promising.

Los Baños del Inca, a rural municipal district in the Peruvian highlands received less than 1 million Peruvian Soles (roughly \$300,000) in mining canon funds annually before the commodities boom started. In 2004, the municipality received 6-times that amount, and in 2005, that amount tripled again. Since the rural municipality was not prepared to manage a large-scale public investment program, a large part of this revenue began accumulating in municipal bank accounts. At the end of 2004, IFC's Technical Assistance Office for Latin America and the Caribbean began implementing a project to enhance the local municipalities' capacity to appropriately and effectively invest these funds. IFC coordinated a participatory assessment of the bottlenecks encountered to design and approve a public works project. In close collaboration with municipal authorities, the project defined priority areas of intervention and adjusted them in a continuous dialogue with all parties involved.

To date, the project has allowed the implementation of a modern, computer-based finance management system approved by the Ministry of Finance (SIAF), and has helped the municipality to shift from an in-house execution of public works to outsource local firms, craftsmen and professionals. In addition, IFC helped create a number of tools to guide the MC investments, including an up-date compendium of rules and regulations governing the canon, a model to forecast municipal revenues, a comprehensive manual for managing municipal revenue under the MC, and a compilation of guidelines for the preparation of public projects.

As a result, municipal investment capacity has increased five-fold between the period 2001-03 and 2005 and is on its way to surpass 20 millions Peruvian Soles (roughly \$6m) by the end of this fiscal year. The municipality's per capita investment in 2005 was three-times larger than that of the capital's urban districts, and it is now able to handle an annual investment plan larger than that of these wealthy districts. The annual investment program now comprises more than a hundred public works for more than 50 communities. Half of these investments address education and health needs, and more than 20% are allocated to improve infrastructure. All of these projects' progress can be monitored by the Ministry of Finance, and details on project spending will soon be available on a webpage.

Also, IFC promoted the creation of an Independent Monitoring Mechanism to contribute to an effective municipal investment management, help manage the community's expectations, and contribute to prioritization of investment needs. The IMM monitors MC spending, organizes workshops to promote discussion, and publishes its findings in a publication. This component has been instrumental to promote the social accountability of local authorities.

Based on the success of this project and as part of a national program, IFC, in collaboration with national and international stakeholders is planning to apply this experience to other Peruvian municipalities around mining operations.

For more information on this project, please contact Gunther Schulz-Heiss ([gschulzheiss@ifc.org](mailto:gschulzheiss@ifc.org)) or Fernando Ruiz-Mier ([fruizmier@ifc.org](mailto:fruizmier@ifc.org)).

## Project News and Highlights

### *Improving the Business Enabling Environment*

**NICARAGUA:** As part of the simplification project for operating licenses and construction permits in Masaya, Granada, and León, a communications strategy tailored to the Nicaraguan entrepreneur and local context was launched. The slogan for this campaign is "RAFLA," which means quick, efficient, and dynamic in Nicaragua. For more information, please contact Kristtian Rada ([krada@ifc.org](mailto:krada@ifc.org))

**NICARAGUA:** The National Plan for Municipal Business Simplification has been extended to Managua, Matagalpa, Rivas, Chinandega and San Juan del Sur. As part of this plan, a diagnostic report for Managua has been finalized. For more information contact Ernesto Martin Montero ([mmontero@ifc.org](mailto:mmontero@ifc.org))

**ECUADOR:** IFC will expand municipal business simplification efforts to Ecuador. The corporation has signed an MOU with the Municipality of Quito and expects to initiate the implementation of the reforms at the end of November. For more information, please contact Ernesto Franco Temple ([efranco@ifc.org](mailto:efranco@ifc.org))

**MEXICO:** In collaboration with World Bank representatives, IFC is assisting Mexico's Government of the Federal District and four selected delegations, Azcapotzalco, Miguel Hidalgo, Iztapalapa, and Cuauhtémoc in implementing a simplification reform. The reform will include regulations to issue an operating license and to obtain a construction permit. For more information, please contact Felipe de la O ([fdelao@ifc.org](mailto:fdelao@ifc.org))

**PERU:** In collaboration with representatives of the recently elected political administration, the National Plan for Business Simplification - Tramifácil - was re-launched in October. For more information, please contact Kristtian Rada ([krada@ifc.org](mailto:krada@ifc.org))

**PERU:** The toolkit for Municipal Business Simplification was finalized. This publication represents an effort to create consensus on a simplification methodology among the donor community in Peru. For more information, please contact Kristtian Rada ([krada@ifc.org](mailto:krada@ifc.org))

**BOLIVIA:** As part of the national plan, simplification efforts will be expanded to Sucre, Oruro, Potosí, Yacuiba, and Quillacollo. Also, a comparative Report of the Municipalities of Cochabamba, El Alto, La Paz, Santa Cruz, Tarija and Trinidad was presented in La Paz to local stakeholders from municipalities and the private sector on August 30th. For more information, please contact Jaime Ortega ([jortega@ifc.org](mailto:jortega@ifc.org)).

### *Enhancing Local Benefits*

**Peru:** The Independent Monitoring Mechanism released the second edition of its newsletter. The content of this bulletin includes different perspectives on the mining

## WIN-WIN BUSINESS PARTNERSHIPS: ENHANCING LOCAL BENEFITS IN PERU'S CUSCO SACRED VALLEY

IFC and Peru Orient Express Hotels and Peru Rail (POEH/PR) collaborated in a pilot project to create successful commercial links between the company and local producers and service providers

IFC is an investor in Peru Orient Express Hotels and Peru Rail (POEH/PR) operations in Peru's Sacred Valley Region, home of the famous Macchu Picchu Sanctuary. Even though POEH/PR and IFC investments in the region have shown financial success, local communities had a misperceived understanding of the long term benefits of these operations. In this context, POEH/PR attempted to improve its relations with the local communities through philanthropic activities; however, these initiatives only created dependency for continued and increased financial support. In order to improve this situation, POEH/PR identified the need to redirect its approach towards generating long-term benefits for both, the company and the communities, through sustainable projects

As a result, in November 2004, IFC's Technical Assistance Office for Latin America and the Caribbean and POEH/PR, in collaboration with IFC's Global Linkage Unit, initiated a partnership to implement a pilot project to assist the company in developing commercial links between its operations in Cusco and local producers and service providers. The goal of the project was to enhance the ability of local producers to meet POEH/PR standards and demand. To kickoff the pilot, IFC and POEH/PR identified the products and services that could potentially be supplied locally, and CENFOPAR, a local NGO, was hired to implement the project. The project included an assessment of both, the company's quality standards demand, and the characteristics of the local suppliers. Based on this assessment, the project partners decided to provide technical assistance to a dance group, trout and potato producers, and corn-on-the-cob sales women.

As part of the technical assistance, a local dance association was created and formalized in Poroy, a village where there is a train station in the way to Macchu Picchu. The project trained 28 women and men on the use of musical instruments, dances, and financial management. The Dance Group began performing for PeruRail's tourists in April 2005, and signed an official contract with the company in March 2006. This business relationship has continued after the end of the pilot project, becoming a self-sustainable business for the local community. The pilot initiative also trained 30 local potato producers on crop improvement, growing practices, fertilizers, and hygiene control. A potato association was formalized and began selling to POEH's Hotel Monasterio in Cusco. During the latest harvest season (July – October 2006), the association sold to the hotel 4,500 kg of a local type of potatoes at a price above the average for the area. The project also trained a local NGO on food hygiene, trout handling, processing, maintenance of the fish ponds, standardization, and finance and marketing. The trout producers have been selling trout to the Hotel since mid 2005, at an average of 400 kg per month during the high season. Additionally, the project provided training to a corn-on-the-cob women association on hygiene, corn manipulation, micro finance, promotion and commercialization. Project's efforts also included the distribution of 2,000 promotional brochures advertising the product (English and Spanish) to guides and travel agents. Since the implementation of the project, corn-on-the-cob vendors increased sales by approximately 25%. In addition, the vendors have received health certification from the municipality.

The pilot project demonstrated that the company's commitment to develop sustainable and win-win business partnerships with local producers and service providers can have a sustainable benefit for the local communities and the company's operations. The company's raised awareness on the importance of enhancing relations with the community lead PeruRail to hire a Community Relations Officer. As an expansion of this pilot project, IFC extended its collaboration with POEH/PR and developed a more comprehensive strategy to reach surrounding communities. This collaboration consisted of completing two diagnostic studies to assist the company in managing its community outreach activities in a more sustainable and integrated manner. The company and the IFC are currently discussing further options for collaboration. For more information on this project, contact Catherine Garcia (cgarcia1@ifc.org) or Victor Grande (vgrande@ifc.org).

## Project News and Highlights (cont'd.)

canon related topics and was developed in its majority by representatives from the local civil society. Also, before the recent municipal elections, IMM produced and distributed a handout that outlined key aspects regarding the mining canon and its challenges for public spending. This material aimed at promoting an informed and responsible decision making among the population. For more information, contact Fernando Ruiz-Mier (fruzmier@ifc.org).

**BRAZIL:** In partnership with Suzano, the Brazilian Support Agency to Micro and Small Enterprises (SEBRAE), the Federation of Industry of Sao Paulo (FIESP), Agencia ABC, and Technology University of Maua (Fatec-Ma), IFC is coordinating a diagnostic study that will provide a specific approach to improve the competitiveness of approximately 50 SMEs in the plastics sector in the municipality of Maua, Sao Paolo. The implementation project is expected to begin in January 2007. For more information, please contact Catherine Garcia (cgarcia1@ifc.org).

### Sustainable Value Chains

**NICARAGUA:** Based on the pilot project that promoted environmentally sound lumber harvesting and provided market information on certified lumber, IFC has continued its partnership with WWF in order to expand the project. Both partners have achieved the introduction of a Lesser Known Species (LKS) of wood – Mora or Vatairea lundellii – into the international market, consolidating a partnership with PanAmerican Woods, an FSC certified wood flooring manufacturer. For more information, please contact Gerardo Leon York (gleonyork@ifc.org)

### Access to Finance

**PERU:** The IFC TA Office and IFC's Environmental Business Facility Program (EBFP) are jointly providing technical assistance to Banco Bilbao Viscaya (BBVA), an IFC client, to help the bank build internal capacity for providing finance to companies that follow Sustainable Forestry Management practices and/or invest in Energy Efficiency projects. In addition, IFC will provide a credit line for housing and sustainable finance, this later one to increase lending to SMEs.

