



Graduate School of Development Studies

**Mining Revenues for
Territorial Competitiveness: An Elusive Future?
The case of Rural Towns in Southern Peru**

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List of Acronyms

CL	Canon Law
C&R	Canon and Royalties
EDO	Economic Development office
FAO	Food and Agriculture Organization of the United Nations
FU	Formulation Unit
INEI	National Institute of Statistics
LEADER	Liason Entre Actions de Development de l'Economie Rurale (Links between actions for the development of the rural economy)
LED	Local Economic Development
LG	Local Governments
MEF	Ministry of Economy and Finance
OECD	Organization for Economic Co-operation and Development
OML	Organic Municipal Law
OPI	Investment and Program Office
PB	Participatory Budgeting
PIP	Public Investment Project
RG	Regional Government
SNIP	National System of Public Investment

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Abstract

Taking advantage of mining canon and royalties (C&R), local governments make efforts to improve the 'quality of life' in their jurisdictions and to generate employment opportunities for the present and future generations. The objective of this research is to describe and analyze local economic development initiatives undertaken by the rural local governments of Torata and Ite in order to use mining canon and royalties (C&R) sustainably. The analysis is made using the perspective on sustainable development in economies that depends on natural resources, and territorial based rural development's strategies and approaches. A general conclusion is that LG of Torata and Ite are in a learning process of local economic development where policies, strategies, approaches and projects still need to be enhanced under a territorial competitiveness perspective in order to use mining canon and royalties (C&R) sustainably and to hinder economic distortions generated by resource abundance.

Keywords

Mining canon and royalties; Local Economic Development; Rural Development; Territorial Competitiveness; Local Government.

Chapter 1 Introduction

1.1 Background

Local governments' role as promoters of local sustainable development and local economic development started with the new Organic Municipal Law launched in 2003 as part of the country's decentralization process in Peru. One year before, in 2002, the revenues from the mining industry started to increase due to higher international prices of copper, bringing to some local governments abundant resources to put in practice the new rules of the decentralization process. These abundant resources are the canon and royalties (C&R) calculated from the mining revenues collected by the national government, and then transferred to local governments.

However, local governments (LG) and civil society were not prepared to manage C&R. Many LG have used the resources to finance irrelevant and fragmented projects like monuments, stadiums, squares and municipal buildings (Boza, 2006: 101). With the passing of the time, there have been changes in the legal framework to guide LG' expenditure, and different mechanisms have been implemented to ensure a better management of C&R. According to the existing legal framework, C&R have to be used to finance 'public investment projects' (PIP) to achieve local goals stipulated in the local development plans. PIP are also elected and prioritized in democratic local spaces like the Participatory Budgeting (PB). Moreover, PIP have to be approved by the national system of public investment (SNIP) that controls the economic viability of the projects.

The unexpected increment of the C&R has provided LG enough resources to invest in projects they consider relevant for the community development, but also challenged them to adapt their *modus operandi* according to the decentralization process and the new legal framework imposed by the national government.

This is the case of the rural towns of Torata and Ite, both located in Southern Peru, in the regions of Moquegua and Tacna respectively, whose main fiscal income are based on C&R. In both cases, C&R represents more than 80% of their LG' annual income (2005-2008) and these towns are positioned among the 20th local governments of Peru that receive the biggest quantities of C&R (Baca et al., 2009: 71). At the same time, authorities of Torata and Ite are aware that C&R depends on the fluctuating price of minerals and in the finite reserves of natural resources, therefore they need to invest the money in economic activities to generate employment and economic growth for the present and future generations.

In this new scenario of C&R abundance and new mechanisms to control the expenditure, LG have entered in a learning process to improve their managerial, planning and negotiation skills to contribute to the sustainable development of their jurisdiction.

1.2 Problem statement

Mining industries in Peru are usually located in rural areas with high levels of poverty and are not a direct source of employment for the local population (Boza, 2006; Slack, 2004: 49). At the same time, abundant C&R depends on the fluctuating profitability of the companies and on the finite reserves of minerals. For these reasons, local governments make efforts to take advantage of these abundant resources to improve the 'quality of life' in their jurisdictions and to generate employment opportunities for the present and future generations.

Due to the rural characteristics of Torata and Ite, a local economic development initiative to support smallholder farmers, entrepreneurial farmers and non-farm activities is undertaken by LG. Local governments became key actors as promoters of local economic development managing abundant resources, hence the need to pay attention to their local economic development process to extract lessons and support or criticize their initiatives.

1.3 Justification

Funding local economic development is often a challenge for LG in developing countries because 'in determining and agreeing a municipal budget, local economic development competes for limited resources with departments such as housing, health and education' (Swinburn et al., 2006: 44). Since this is not the case of some local governments that receive abundant C&R in rural areas of Peru, a description and analysis of these experiences aims to contribute identifying other relevant bottlenecks in the process of local economic development.

At the same time, more case studies relating C&R and local economic development that bring a discussion about the quality of investment undertaken by local governments are needed. Previous researches talked about the initial experiences related to the local governments' management of the C&R (presented by "Ciudadanos al Día" describing the intricate legal framework and how some LG invest mining canon) (Boza, 2006); the analysis about mining canon and the decentralization policy implementation (Calmell, 2007); the relation between mining revenues and poverty (Barrantes et al., 2005; Echave and Torres, 2006; Hinojosa, 2009); case studies about the public expenditure of the regional government of Cuzco and the local governments of Echarati, Santa Ana and Urubamba using canon from gas extraction (Baca and Narvaez, 2009); among others studies about mining and social conflicts. However, the exceptional process of local economic development undertaken by LG with abundant resources have to be described and analyzed constantly due to the changing context in which they operate. The modifications in the legal framework, the strategies, the initial outcomes and also the new initiatives to enrich the process are part of the changing context.

1.4 Research objectives

The objective of this research is to describe and analyze local economic development initiatives undertaken by the rural local governments of Torata

and Ite in order to use mining canon and royalties (C&R) sustainably. We pay special attention to the role of the local governments in promoting local economic development.

Secondly, we want to classify the public investment projects (PIP) formulated and implemented by these local governments according to their contribution to territorial competitiveness.

Finally, it is an attempt to provide input for policy analysis through the identification of limitations in the process of investing mining canon and royalties for sustainable development.

1.5 Research questions

In the course of this paper we want to answer the following question: To what extent do local governments (LG) of rural towns invest mining canon and royalties (C&R) in territorial competitiveness?

Sub-questions:

1. How is the process of local economic development organized by LG with C&R in the rural towns of Torata and Ite?
2. To what extent are LG investing C&R in the dimensions to achieve territorial competitiveness in their communities?
3. To what extent are LG investing C&R to diversify the economic activities in their communities?
4. To what extent do LG with C&R apply adequate approaches for the territorial competitiveness of their communities?

1.6 Methodology and limitations of the research

To answer the questions mentioned above, we revised previous studies focused on mining revenues and their use in Peru. In addition, we take into consideration economic perspectives on sustainable development, and the theories and approaches related to local economic development and rural economic development to construct an analytical framework which helps to describe and analyze the initiatives of local economic development that LG are undertaking in the study area.

According to 2008 economic data, there are 1,717 out of a total of 1,834 local governments which receive mining canon and royalties in Peru (MEF, 2009a). Due to the large number of LG and the constraints in resources and time, we decided to choose two LG that have enough similar characteristics and differences to describe their strategies of local economic development using C&R. These are the districts of Torata and Ite which are located in southern Peru, in the regions of Moquegua and Tacna respectively, in the area of influence of Southern Copper Corporation. Both districts have similar distribution of urban and rural population and their main economic activities are mining and agriculture. Torata and Ite receive different amounts of money but the share of C&R in their annual budgets for more than 80% of the total.

The district of Torata was chosen because it is a 'producer district'. This means the local government receives more C&R because the mineral is

extracted in its territory. Besides, in four years Torata will receive additional C&R from another mining company that is also going to exploit copper in its territory. Since resources will be available for a long period, funding local economic development will not be a problem for this LG.

Primary data was collected in the field during a five day visit in each community. Semi-structured interviews were conducted with local authorities, civil servants, leaders of CBOs and citizens from both localities regarding the use of C&R and their perception of local development (see Annex). Besides, semi-structured interviews were also carried out with experts on C&R from NGOs located in Lima and Moquegua. Finally, we use LG data of annual expenditure for the last years to assess the allocation of resources to human capital, physical capital and natural capital according to the data from the Ministry of Economy and Finance (MEF).

Regarding the limitations of this study, it is relevant to mention that limited resources and time made it impossible to interview more beneficiaries (farmers) of the PIP, especially those whose farms are several kilometres away from the urban centres of Torata and Ite. For this reason, the majority of interviews were done with LG's public servants, experts on C&R and farmers that were close to the urban centre.

Chapter 2 Theoretical Framework

2.1 Introduction

There is a permanent discussion about the benefits of natural resources exploitation for development which is generally focused in national impact measures (GDP, trade, poverty, etc.). Attention is also needed about the impact in local levels where local governments has significantly increased their revenues due to natural resources exploitation. Therefore, in this chapter we present theories and concepts which suggest a means to evaluate the use of these revenues in local areas taking into consideration the achievement of sustainable development through the implementation of local economic development strategies and approaches for the territorial competitiveness of rural areas.

2.2 Sustainable development in economies that depends on natural resources

When economists talk about sustainable development they refer to ‘a developmental path that ensures future generations have at least the same potential economic opportunities to achieve welfare as the current generations’ (Pearce and Barbier, 2000: 19-21; Hamilton, 2001). Another condition is that welfare should not decline; for this a constant ‘total capital stock’ is needed (Pearce and Barbier, 2000: 21). The total capital stock is composed of natural capital, physical capital, and human capital available to the economy for producing goods and services, and ultimately human welfare (*Ibid.*)

Natural capital is an important economic concept for understanding the role of the environment in sustainable development. This concept refers to the natural resources and the ecological services that are available to an economy (Barbier, 2005: 11) and ‘provide economic benefits as being similar to the way in which any valuable asset provides “services” to an economy’ (Pearce and Barbier, 2000: 21). Physical capital consists of ‘machinery, equipment, factory buildings, tools and other investment goods that are used in production’. In addition, human capital is represented by the ‘skills necessary for advanced production processes and for research and development activities that lead to technical innovation’ (*Ibid.*)

All forms of capital also contribute directly to human welfare independently of their contributions through the economic process. For example:

... physical capital is also fine architecture and other physical components of cultural heritage; the increase of human capital also contributes to more increases in the overall stock of human knowledge; and natural capital also provides aesthetically pleasing natural landscapes and a variety of ecological services that are essential for supporting life (Barbier, 2005: 11-12)

It is the management of the ‘total capital stock’ that is critical to determining whether or not the economy is on a sustainable development path, because this concept not only refers to the ability to maintain an aggregate

stock of capital, but also what kind of capital the present generations are using to meet their needs (Barbier, 2005: 15). This discussion is related to current economic development processes, which are leading to a rapid accumulation of physical and human capital, but at the expenses of natural capital depletion and degradation (*Ibid.*: 16). The major concern is that by depleting the world's stock of natural capital irreversibly, the development path chosen today will have detrimental implications for the well-being of future generations (*Ibid.*).

Following this discussion, there are two contrasting perspectives related to the role of natural capital in sustainable development: 'weak sustainability' versus 'strong sustainability'. The former suggest that there is no difference between natural and other forms of capital, hence if natural capital is depleted it could be replaced with even more valuable physical and human capital (Pearce and Barbier, 2000: 24). On the other hand, 'strong sustainability' argues that environmental resources and ecological services cannot be easily replaced by human and physical capital; hence they should be protected and not depleted (*Ibid.*).

There are perspectives that support that 'a minimal criterion to attain sustainable development in an economy dependent on natural resources exploitation is that this exploitation satisfies 'weak sustainability' conditions' (Barbier, 2005: 344). In other words, the development path must ensure an efficient management of natural resources meaning that the revenues obtained by its depletion are maximized and invested in other productive assets in the economy (*Ibid.*). This idea is developed by Auty who argues that:

A guiding principle in exploiting finite resources is to invest sufficient rent to replace the wealth-generating capacity of the depleting mineral asset so future generations can enjoy the same income stream in perpetuity as the present generation draws from mineral extraction (2007: 631).

Besides, Onguleye's statement about oil resources also stipulates the same idea:

The theoretical analysis of the impact of oil income on economic development is based on models which assume that the important means of translating oil wealth into sustainable development is through investment of the income in other catalytic sectors of the economy and to expand infrastructure, improve the welfare of citizens in all respects and increase the growth of the economy (2008: 170).

Making a separation between finite natural resources (minerals) and renewable resources (water, air, land, etc.) the idea is that finite natural resources exploitation will not degrade renewable natural resources and ecosystem services. In this sense, we consider natural capital (renewable natural resources and ecological services) irreplaceable according to the 'strong sustainability' position and also an important asset for economic development as we will see further bellow. At the same time, we agree with Barbier (2005), Auty (2007) and Onguleye (2008) that revenues obtained from the finite natural resources exploitation must be used sustainably investing them into other assets to provide welfare for the present and future generations.

Consequently, mining industry's long term contribution to local economic development must be the transformation of revenues in the diversification of

the economic activities and the protection of the natural capital to prevent problems associated with future finite resources scarcity (Slack, 2004: 55)

2.3 Local economic development in rural areas

Following the experience of OECD countries, there is an increased interest in local economic development in developing countries (Meyer-Stamer, 2003). This interest is due to two factors: their decentralization processes and the limited governance and delivery capacity of the national levels (*Ibid.*). Because of the decentralization process, the promotion of local economic development is delegated to provincial and local governments with the hope that governing at this level is easier and allows diminishing the overburdening of government bodies (*Ibid.*). At the same time, due to structural adjustment and market liberalization, national governments stopped being the main organizing actor, and local actors get involved in economic promotion activities since problems of unemployment are most urgently suffered at the local level (Helmsing, 2003; Meyer-Stamer, 2003).

Local economic development is defined by Helmsing (2003) as ‘a *process* in which partnerships between local governments, community and civic groups, and the private sector are established to manage existing resources to create jobs and stimulate the economy of a well defined area’. The term ‘local’ has different meanings. According to Davis and Rylance (2005), the term ‘local’ is a new way to analyze development in a territory. For the World Bank it refers to cities, towns, metropolitan areas or sub-national regions (Swinburn et al., 2006: iv). In this paper, ‘local’ alludes to small towns surrounded by their rural hinterlands.

LED initiatives have been mainly applied in urban areas in South-Africa, the United States or the European Union to create industrial districts, attract foreign direct investment, alleviate urban poverty, etc. There also strategies and approaches concerned about the development of rural areas like clusters, agricultural value chains, and rural non-farming economy.

Clusters

According to Humphrey and Schmitz, cluster is a ‘sectoral and geographic concentration of enterprises’ (1995: 8). In addition, Altenburg and Meyer-Stamer (1999: 1693) differentiate three types of clusters: a) survival clusters of micro and small-scale enterprises, b) clusters of more advanced and mass producers, and c) clusters of transnational corporations. In this paper, we are interested in the first type of cluster, however the majority of literature is related to urban industry clusters and little has been written about rural industrial clusters (Weijland, 1999).

Survival clusters produce low quality consumer goods for local markets where barriers to entry are low. These entrepreneurial activities are generally part of the informal sector, have lower productivity and wages, and scarce cooperation among entrepreneurs (Altenburg and Meyer-Stamer, 1999). In that sense the interest in the creation of clusters is the opportunity for collective efficiency. Collective efficiency can be understood as the dissemination of knowledge and innovation due to shared cultural norms and a strong network

of institutions. Collective efficiency also brings low transaction costs and joint actions (*Ibid.*).

Other strategies related with the promotion of clusters are ‘upgrading’ and ‘learning and innovation’. According to Smichtz and Knorriga (2000) upgrading is ‘enhancing the relative competitive position of a firm’ (to make better products, more efficiently or move into more skilled activities). There are two categories of upgrading: production and market upgrading. The former refers to improvements in the production process and the latter looks for competitiveness. Learning and innovation is a way to take advantage of the knowledge based-economy and represents an addition to human capital stock (Wilson, 2007: 14). Both actions are key factors to compete in a globalized market. For this reason, one of the local governments’ roles is to remove obstacle to learning through the provision of the adequate infrastructure and key linkages.

Agriculture value chains

A general concept of value chain explains it as ‘the full range of activities which are required to bring a product or service from conception, through the different phases of production (...), delivery to final consumers, and final disposal after use’ (Klapinsky and Morris, 2000: 4). In a more specific way, the agricultural value chain describes the productive processes around a product from the provision of inputs to production, transportation, transformation, processing, marketing, trading and retailing to final consumption (Hoffler and Maingi, 2005).

Due to globalization and market liberalization, the focus of agricultural activities has changed. In the 1970’s agricultural policies were concentrated only in the production side, to raise the productivity of certain crops, without taking into account the consumer side, product quality, product differentiation or environmental protection. Nowadays, the focus is on demand with an emphasis on quality and differentiation (Wenner, 2003).

The focus on the demand side can be explained by the agricultural value chain approach which ‘encourages looking at the production process from the consumer’s end since production only translates into income once final consumers really demand and buy goods’ (Hoffler and Maingi, 2005). At the same time, the value chain allows analyzing the institutional arrangements that link the various economic players and highlights the importance of private sector development (*Ibid.*).

There are implications for the different local actors participating in the value chain. To help farmers, the government needs to support the development of market information systems, invest in technology research and adaptation for the agro-food sector and finance technical assistance services. At the same time, farmers need to adopt a more business like mentality. They have to seek out information and technology and boost productivity and quality. They need to manage risks, gain access to financing and improve management of their agro-businesses (Wenner, 2003).

According to the new perspectives on agriculture discussed by the Food and Agriculture Organization- FAO farmers have three choices if they hope to

survive and prosper in this globalized and market integrated world: i) they need to fit themselves into dynamic, efficient chains in order to continue farming, ii) they need to migrate or iii) they can try to shift away from farming and move into non-farming activities (*Ibid.*).

Rural non-farm economy

Rural non-farm economy represents 40% of the income of rural households in Latin America according to FAO estimations. Livelihood is a key concept to understand rural non-farm activities. It is defined by Ellis (2000), as:

‘The assets (natural, physical, human, financial, an social capital), the activities and the access and returns to these (mediated by institutions and social relations) that together determine the living gained by an individual or household’

Households use different assets in a variety of agricultural and non agricultural activities as part of a livelihood strategy looking for multiple options to go out of poverty. The idea is to recognize these different options of households to generate income in the rural economy (*Zezza et al., 2009*).

There is a range of possible approaches to contribute and enhanced the diversification of livelihoods. The one that recently come into fashion is the ‘territorial approach’ which is based on the experience of the European Union LEADER Community Initiative. The goal of this approach is to go beyond only agriculture as the main activity to achieve rural development. This approach emphasizes rural-urban linkages, the link with dynamic markets, technological innovation, and the need for institutional reform decentralization, the strengthening of local governments and of public-private partnerships (*Zezza et al., 2009*).

For governments is difficult to decide which rural economic activities to support through projects, thereby the tendency is to focus on agriculture and in particular the production of staple crops. However, the strategy is to focus on a few key rural activities ‘providing some options, yet allowing for a critical mass of a certain set of activities’ (*Ibid.*: 1300). The choice of activities to target should be based in the resources available in the particular region (agriculture, resource-based extractive industries, traditional rural skills, tourism and recreation, etc.) According to the LEADER Community Initiative, the economic globalisation process will prompt rural areas to increase their competitiveness by capitalising on their distinctive assets in terms of natural resources, heritage, knowledge and know-how (*Farrel and Thirion, 1999*).

2.4 Territorial based rural development

A territorial approach enables the consideration of rural spaces as a territorial entity with a local economy comprising agricultural, industrial and services facilities (*Terluin, 2001: 21*). In other words, the territorial approach uses a broad concept of the term rural, including not only the farming sector, but also other sectors or potential ones (*Lobo, 2000*). This approach abandons the strong relations of rural with agriculture and the urban- rural dichotomy of other approaches emphasizing the economic diversification of rural areas (*Terluin, 2001: 21*).

The territorial approach was implemented by the 'LEADER Community Initiative' which has been dedicated to promote local economic development in the least developed rural areas of the European Union since the 90's¹. According to LEADER's experience the emergence of the territorial approach was fostered by the following aspects: 'changing consumer expectations and markets, the introduction of new communication technologies and gradual changes in institutions'(Farrel and Thirion, 1999: 10):

- Urbanization provided rural players with the opportunity to satisfy the need of city-dwellers to escape to the countryside by supplying quality provision in terms of accommodation, leisure and cultural activities, etc. This led to the development of multiple forms of rural tourism.
- Consumer demand for 'regional' or 'local' produce also represents an economic opportunity for less productive agricultural areas: it encourages local producers to process quality products on a small scale on site and to regain a level of competitiveness by highlighting the distinctive qualities of their own products.
- New communication technologies are helping to make rural areas seem less remote by facilitating access to information, and thereby creating the prerequisites for setting up new businesses.
- Local, regional, national and supranational institutions are becoming increasingly aware of territorial development approaches, even though the problems of distributing power among the various decision-making levels are far from resolved (*Ibid.*).

Furthermore, the territorial approach is not longer restricted to an endogenous development because 'relations with the outside world are playing an increasing role, and differentiated partnership of networks and links with a multitude of virtual areas are becoming essential elements of territorial development strategies' (*Ibid.*: 11). The new scenario for rural development proposed by the territorial approach is territorial competitiveness.

Territorial competitiveness

The key issue of the 'territorial approach' is that looks to revitalize and develop rural areas through the acquisition of 'a genuine *territorial competitiveness*'(Farrel and Thirion, 1999: 5). Competitive is usually understood as 'to be able to withstand market competition'; nonetheless this narrow definition (strictly economic) does not take into consideration issues of sustainability. In this sense, the LEADER program attributed a broader meaning to the term 'competitiveness' expressed by the concept of *territorial competitiveness*: 'an area becomes competitive if it is able to face up to market competition whilst at the same time ensuring environmental, social and cultural sustainability based in networking and inter-territorial relationships'(*Ibid.*). In other words, the concept of territorial competitiveness involves:

- Taking the area's resources into account in a bid for overall coherence;
- Involving different actors and institutions;
- Integrating business sectors into an innovation dynamic;
- Cooperating with other areas and linking up with regional, national [...] policies as well as with the global context (*Ibid.*)

The territorial competitiveness scenario is proposed as the only one that is able to ensure the long-term viability of a rural area. Moreover, as a result of a territorial approach, the scenario allows:

- The modernization of the agricultural sector within the perspective of managing an area and its natural resources (no longer limiting agriculture solely to its food-producing function).
- Greater coherence throughout the area by ensuring that public funding is allocated on the basis of local consultation between public and private sectors (*Ibid.*: 10)

The rural area will put in practice these processes in the context of what LEADER called a *territorial project* a vision of the future of the territory in which territorial competitiveness is assured and therefore the local area fulfils its potentialities (Kammeier and Guimaraes, 2005: 28). The aim of developing a territorial project is to ensure that local actors and institutions acquire four types of skills: 'the skills to take joint action, to assess their environment, to create links between sectors by ensuring that maximum added value is retained, and lastly to liaise with other areas and the rest of the world' (Farrel and Thirion, 1999: 5).

Strategies for territorial competitiveness

The four skills can be linked with what is called 'the four dimensions' of territorial competitiveness, which are: social competitiveness, environmental competitiveness, economic competitiveness and global competitiveness. Achieving these dimensions implies to apply strategies; therefore in this paper we present each dimension as strategies of territorial competitiveness.

Social competitiveness

Social competitiveness (or social capital) is defined as the ability of the various actors and institutions to take collective action at local level. It has to become a mindset, a proper 'culture' that relies on mutual trust, as well as on the willingness and the ability to recognise, express and link together individual and collective interests (Farrel and Thirion, 2000a).

Social competitiveness is an indispensable element of any territorial approach. It concerns the organization of local actors and the relationships between people, between actors and institutions and between the institutions themselves. It also helps the area to take more advantage of the outside world, while at the same time enhancing the area's internal ties of solidarity (*Ibid.*).

Therefore, a meticulously analysis of the area's situation (human resources, culture and identity, governance, know-how and skills) is key to determine if it is necessary to rebuild or strengthen the social capital. After the analysis, information about human capital will be available, but this is not enough because actors need to identify collectively new requirements for knowledge and research (*Ibid.*). The suggested strategies for these are a combination of participation, collaboration, consultation, training, conflict management, and institutional and social adjustment to a changing environment (*Ibid.*)

Partnerships and networks for 'collective action' are the first outcomes. Collective action also helps the improvement of local clusters and consequently

the generation of collective efficiency. Moreover, collective action of the different local clusters is a signal of social competitiveness.

Environmental competitiveness

Here the concept of environment has a broader perspective, not only referring to natural capital like natural resources and ecological services, etc.; but also to physical capital like architectural heritage, transport infrastructure, etc.

Environmental competitiveness is the ability of local actors to ‘valorise’ (preserve, develop and enhance) their environment. The term ‘valorise’ should be taken in its broad sense: valorisation can be not only economic, but also ecological, social, cultural and aesthetic in nature. (Farrel and Thirion, 2000b). By expanding the concept of valorisation, the environment emerges as both a product and an engine of territorial development, making it an essential component of the ‘territorial capital’. According to this approach, preservation and valorisation are intricately linked and the two are encompassed within a dual perspective of competitiveness and sustainability (*Ibid.*)

Therefore a new approach of managing the environment is needed. An approach that involves public and private partnerships, encourage owner’s responsibility for the use they make of their property (as opposed to ownership rights), promote a collective ‘area-wide project’ to valorise the area’s natural and heritage resources, and protects all area’s resources (*Ibid.*)

In terms of economic development this new approach to the environment fosters the following outcomes: emphasis in product quality (in order to assert their competitiveness) than on quantity allowing the provision of environmentally-sound products demanded by consumers (natural products in general); and the creation of new products, especially in tourism, based on a set of resources and the specific identity of the area (*Ibid.*)

Some strategies to generate more local actors’ interests in the environment as part of a territorial competitiveness scenario: awareness of the value of the area’s environment (even if they are not economically profitable in the short-term), negotiation among local actors about environmental interests, look for new markets penetration, physical transformation of the environment (*Ibid.*)

Economic competitiveness

The term ‘territorial economic competitiveness’ means the ‘ability of the local actors to create and retain added value by integrating local resources into products and services that meet new consumers expectations in response to changing markets’ (Farrel and Thirion, 2000c). In this sense, public interventions policies and the production and distribution processes are directed to create competitive advantages by ‘promoting the distinctiveness of each area’ (*Ibid.*)

There are possible obstacles for economic competitiveness, for example in the relationships among local actors to negotiate and implement productive projects. But also, there are obstacles (or weaknesses) in the process of the economic activity manifested in three levels:

- Upstream of production, the right infrastructure and services for local production and the possibilities for producing inputs, intermediary

products and technologies to strengthen the various sectors may not be available.

- During production itself, product quality or quantity may be insufficient and there may also be more serious underlying structural problems, such as a predominance of traditional mono- production that has no multiplier effect in terms of business and skills creation.
- Downstream of production - there may be problems with linking markets to consumers, and producers may be unable to organise themselves in order to achieve appropriate economies of scale; there may also be problems with creating new products based on the area's own resources and, above all, on its distinctive image (*Ibid.*)

For these reasons, the strategy is to focus not only in the tangible factors, but also in the intangible and cultural factors of development. Other strategies are focused in the strengthening of the abilities of local actors to generate added value:

- The ability to develop and promote local skills and know-how, while mastering new technology.
- Their ability to make optimum use of the financial resources available in the area, whether from private or public sources.
- Their ability to create and manage businesses and to organise not only each business internally but also the business community as a whole.
- Their ability to enter lucrative markets that yield economic value-added (*Ibid.*)

In summary, economic competitiveness is a long term process which looks for boosting the endogenous ability to innovate, improving inter-institutional relations and consultation mechanism, and forging stronger links between local business and markets (*Ibid.*).

Global competitiveness

Globalization is understood as a 'direct correlation between elements located at diverse points of the globe like people, institutions, enterprises, products, geographical areas, etc. in spheres open to the entire world i.e. markets, information, standards, and legal frameworks' (Farrel and Thirion, 2001).

Taking into consideration these aspects, global competitiveness is 'the ability of the actors involved to find the area's role in relation to other areas and to the outside world in general, in such a way as to develop their territorial plan to the full and to ensure its viability within the global context' (*Ibid.*)

The suggested components and values key to global competitiveness in rural areas are: area's image, degree of openness (external relations), local economic fabric, and the area's level of governance. The area's image is the promotion of a positive characteristic related to the local history and the themes that characterize the territory. The local economic fabric refers to the businesses in the area taking into consideration their degree of geographical concentration, their structure (size) and their capacity for collective action. And the area's level of governance refers to the local institutions and administrations, the political rules of the game, the actors involved, and the quality of the interaction between the public and private sector (*Ibid.*)

Each of the components and values can be achieved through specific strategies, but also are part of a broad strategy to exchange experiences and

good practices, to attract media attention, to extend services to other several areas, finding complementarities between areas and generating links of solidarity (*Ibid.*)

The focus in social, environmental, cultural and economic aspects of competitiveness enhance small towns and their rural hinterlands long-term development. In some areas this processes have already begun, however the objective is to ensure that they form part of a long-term approach (Farrel and Thirion, 1999: 5).

Approaches for territorial competitiveness

LEADER program has adapted to all different governance contexts and specific challenges from different rural areas; it has been responsive to small-scale activities and it has changed the social fabric of rural areas in the European Union (Depoele and Ertugal, 2005: 12). To achieve these, the program has implemented successful approaches which characterize its method: decentralized management, area-based approach (or in a broader perspective territorial approach), bottom-up approach, partnership approach, innovation, integrated approach and networking. These approaches have not been ‘invented’ by the program but they were used together in one strategy to tackle problems of rural areas. Nowadays, these approaches are mainstream in the EU’s rural policy for national and regional rural development (LEADER+, 2009: 2). In this section we will present the concepts of each approach.

Decentralized management

The decentralized approach refers to the ‘multi-level’ character of policy implementation. National, regional and local levels need to co-operate to identify needs, to define appropriate measures, and to manage instruments and programs. Therefore, rural development policies aim to respond to regional and local needs because they know best what these needs are (Depoele and Ertugal, 2005).

Area-based approach

This approach as opposed to a sectoral approach, indicates that development is focused on a specific territory (beyond the perception of a political administration), in integration of activities, in common identities and in a shared vision of the area (CEC, 2003: 253; ELO, 1999). It contributes to a more effective use of endogenous resources due to the proximity of project implementation and the creation of new links which allow natural, cultural and technological, and human resources to be mobilized and safe from forgetfulness and to turn them into economic value for the area (Depoele and Ertugal, 2005).

Bottom-up approach

This approach refers to the active participation of all interested people and organizations in planning, decision making and implementation of social and economic development (CEC, 2003: 253). ‘By bringing the program close to people new opportunities are created for the inclusion of new beneficiaries and weaker members of the population’ (Depoele and Ertugal, 2005). The

advantages of the bottom-up approach include more clearly identified local problems and needs, better organisation of development, better understanding of local decisions by the community, greater acceptance of local decisions by the higher authorities and stimulation of ideas and project leading to innovative local actions (*Ibid*). The added value of this approach is the creation of local groups that will be in charge of a strategic plan for the development of the area (ELO, 1999).

Partnership approach

Partnership approach refers to temporary coalition of individuals or groups, based on a contract binding all partners under the same conditions and for the same purpose (CEC, 2003: 258). The interesting added value of this approach is the permanent evolution of the partnerships into development agencies and co-operation structures that contribute to the diversification and dynamism of rural territories (Depoele and Ertugal, 2005). According to the LEADER experience, local groups showing a balanced representation of the private, profit-making and non-profit sector most likely achieve the best results (*Ibid.*)

Innovation

According to the Commission of the European Communities (CEC, 2003: 256) 'innovative actions give new answers to existing problems of rural development'. This new answers provide added value to increase territorial competitiveness. For the LEADER program value added is the investment in intangible endogenous aspects (capacity building; technical assistance, collective action; generation of trust and confidence and making people believe in change; etc.) as a complement of the investment in intangible aspects (infrastructure, equipment, etc.) taking into account the distinctiveness of the area (ELO, 1999).

Integrated approach

The integrated approach refers to both the combination of activities of different economic sectors or public and private activities in one project and the strategic coherence between different projects in accordance with a shared vision (CEC, 2003: 257; LEADER+, 2009: 4). One example of this approach is when local restaurants include in their menus typical food products from local producers, thereby stimulating local tourism as well as sales of local products (Depoele and Ertugal, 2005).

Networking

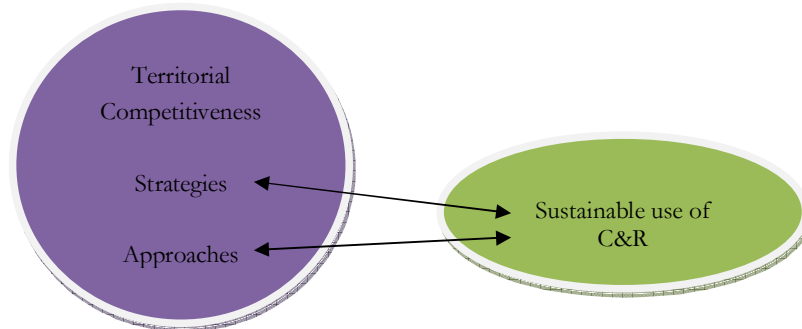
Networking emerges from interactions between local groups and between their strategies. It is the capacity and readiness for collective action with other independent actors for a common purpose (CEC, 2003). It is instrumental in strengthening the economic links of local players to the outside world, bringing in expertise and establishing commercial links at long distance. Networking facilitates the dissemination of information, the dissemination and transfer of know-how and good practice (Depoele and Ertugal, 2005).

2.5 Analytical Framework

The territorial approach defines the sustainable development of a rural area when the area has achieved a territorial competitiveness scenario. Territorial competitiveness is achieved through the application of strategies designed according to each of its dimensions: social competitiveness, environmental competitiveness, economic competitiveness and global competitiveness. In other words, each dimension is composed by a set of strategies that together will lead to territorial competitiveness. In addition, these strategies need to be accompanied by successful approaches for the least developed rural areas: decentralized management, area-based approach, bottom-up approach, partnership approach, innovation, integrated approach and networking.

For this reason, in this paper we consider that the economical benefits obtained from the exploitation of natural resources (C&R) are used sustainably if they are invested in 'public investment projects' (PIP) that pursue strategies and approaches to achieve territorial competitiveness in the rural areas (sustainable development). In summary, there is a sustainable use of C&R when PIP are implemented under a strategy and approaches for territorial competitiveness or when PIP finance a strategy implementation or an approach application for territorial competitiveness.

Figure 1
The Analytical framework



Chapter 3 The scenario

3.1 Introduction

In this chapter we present the main aspects that conforms the scenario of this research taking into consideration the national legal framework related to C&R and the governmental policies on competitiveness. After that, we describe the socio-economic characteristics of Torata and Ite. Finally we analyze the local government role and other local actors in local development. The objective is to present a background that will help to understand local economic dynamics explained in the next chapter.

3.2 Mining canon and royalties (C&R)

National government collect taxes from mining companies to redistribute them to the regional and local governments where the mineral is exploited. There are two types of transfers: mining canon and mining royalties. Mining canon represents 50% of the companies' income tax; and mining royalties are the 100% contribution of the company for having the right to exploit the resource and is calculated according to the value of the mineral exploited (international price)².

Table 1
Distribution of mining transfers (percentages)

Type of transfer	RG	LG	Universities
Canon	20	75	5
Royalties	15	80	5

RG: Regional Governments; LG: Local Governments

Source: Participa Peru³

Following a distribution policy (Table 1), mining canon goes primarily to the locality where the mineral is exploited, but the focus is also to bring more funds to the poorest places taking into consideration criteria defined by the Ministry of Economy and Finance-MEF (Boza, 2006: 26). According to the Canon Law⁴, the distribution is as follow:

- 10% of total canon goes for the LG of the districts where the mineral is exploited (more than one district divide canon in equal shares).
- 25% of total canon goes for the LG of the districts and provinces where the mineral is exploited (according to population size and unmet basic needs).
- 40% of total canon goes for the LG of the districts or provinces from the RG where the mineral is exploited.
- 25% of total canon goes for the RG where the mineral is exploited. From this percentage, RG must transfer 20% to the public universities in their jurisdiction (MEF, 2006).

C&R and other resources under the item ‘determined resources’ used to be transferred directly to the accounts of the R&LG in monthly shares. However, since 2009 a new regulation⁵ stipulated that ‘determined resources’ would be deposited in the bank account of the ‘National Public Budget Department (DNPP)’. Then, this institution would transfer the resources to the R&LG according to a regulated procedure. In opinion of civil servants of Torata and Ite, this new procedure is just another bureaucratic requirement since they have to request the funds to the DNPP.

Transfers of mining canon are not the same amount every year. They depend on companies’ taxes according to their profitability. At the same time companies’ profitability depends on the international price of minerals. Copper price has been growing constantly since 2001 until 2008 that had a lightly declining as we see in Table 5, therefore the amount of mining transfers are difficult to predict.

Table 2
International prices of copper 2001-2008

Mineral (US\$/Pound)	2001	2002	2003	2004	2005	2006	2007	2008	Dec. 2008
Copper	0.68	0.63	0.72	1.19	1.57	2.77	2.91	2.86	1.39

Source: Baca et al. (2009) with information from the Peruvian Central Bank (BCRP)

With the increase in the international price of copper, LG of Torata and Ite have been receiving high amounts of mining canon as we can see in the transfers of the last eight years in Table 3 and 4. Furthermore, the national government started to transfer the mining royalties since 2005.

Table 3
C&R transfers to Torata’s local government 2001-2008

Torata				
Canon	Royalties	Subtotal	Total Annual Budget	% Annual Budget
396,721.15	-	396,721.15	1,034,156.77	38
616,684.29	-	616,684.29	1,255,241.83	49
829,520.34	-	829,520.34	1,560,439.84	53
2,370,953.39	-	2,370,953.39	3,014,224.55	79
20,166,837.87	15,380,526.14	35,547,364.01	36,197,901.77	98
36,615,598.86	24,025,043.19	60,640,642.05	61,329,757.73	99
64,384,747.94	22,520,016.08	86,904,764.02	87,580,776.41	99
28,654,831.06	25,057,217.52	53,712,048.58	54,421,309.56	99

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: System of Economic Transparency, Ministry of Economy and Finance⁶

Table 4
C&R transfers to Ite's local government 2001-2008

Year	Ite				
	Canon	Royalties	Subtotal	Total Annual Budget	% Annual Budget
2001	53,243.89	-	53,243.89	351,002.12	15
2002	483,091.35	-	483,091.35	835,495.07	58
2003	1,078,005.21	-	1,078,005.21	1,441,343.03	75
2004	6,653,733.32	-	6,653,733.32	7,230,482.96	92
2005	19,620,382.55	6,682,064.06	26,302,446.61	26,876,356.90	98
2006	30,170,324.91	7,349,350.41	37,519,675.32	38,053,033.19	99
2007	78,303,854.60	9,244,554.50	87,548,409.10	88,024,953.69	99
2008	85,500,750.31	8,289,009.97	93,789,760.28	94,207,807.24	99

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: System of Economic Transparency, Ministry of Economy and Finance⁷

Besides the distribution, there are also regulations for the expenditure. Mining canon and royalties must be used for public investment projects (PIP)⁸ to cover the community needs with universal access. These projects should be under LG' competences and should not have entrepreneurial purposes. To control the expenditure of LG, the 'national system for public investment' (SNIP)⁹ was created in the year 2000. This is a strategic tool to select 'public investment projects' (PIP) that results in more social benefits and to achieve expenditure efficiency. According to law, the objectives of the SNIP are:

1. Promote the use of the public investment project cycle: profile, pre-feasibility, feasibility, implementation and ex- post evaluation.
2. Strengthen the planning capacities of the public sector.
3. Create the conditions for the elaboration of plans of public investment for multiannual periods not least than 3 years (MEF, 2009b).

Both Torata and Ite were necessarily incorporated in the SNIP in 2005 due to the budget increments, furthermore they had to hire professionals for the new offices that have to formulate, evaluate and approve project profiles. It took one year for Torata and Ite to organize the new office and to start the formulation of the projects. Their first approved projects date from 2007.

Since the beginning, Canon Law stipulated that canon resources should be used in 'capital spends' and not in 'current spending'¹⁰. After that the modifications in the law stipulated that canon have to be spent 'in public investment projects of infrastructure with local and regional impact'¹¹. Since then, changes have been done in the regulations to facilitate local governments' public investment (Baca et al., 2009: 41):

- In 2004, Canon Law was modified to allow local governments of 'producer districts' (were the mineral is exploited) to spend 30% of the mining canon in 'productive investment for the sustainable development of the communities'.

- In 2005, it was authorized that 20% of the mining canon and royalties could be spent in the maintenance of the infrastructure¹².
- In 2006, it was authorized to use 5 % (from the 20%) to finance project profiles¹³.
- In 2007, it was authorized that the 5% for project profile must be calculated from the total amount of mining canon transferred¹⁴.

There is no explanation of what the government means by ‘productive investment for the sustainable development of the communities’. None of these regulations give specific guidelines to measure sustainable development.

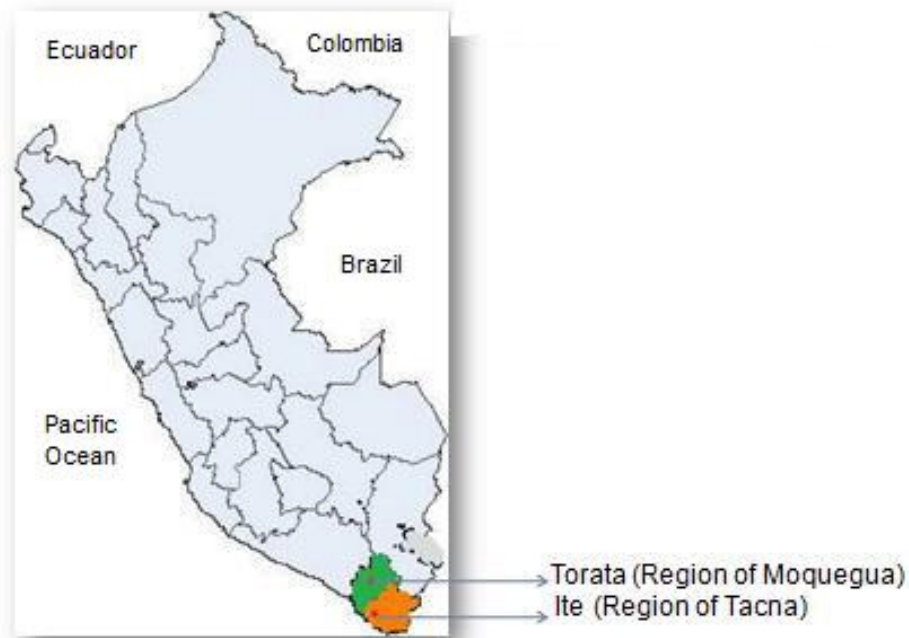
3.3 Governmental competitiveness policies

There are institutions and policies exclusively oriented to competitiveness in different levels of government. In the national level, the National Competitiveness Council (CNC) implements the National Competitiveness Plan (PNC). This plan is focused in the country weakest factors of competitiveness to attract foreign investment, like: institutional strengthening; economic policy, and financial and capital markets; infrastructure; business articulation; business and technological innovation; education; and environment. However, the initiatives to implement the strategies are limited. The CNC mainly works with the exportation sector and supports ongoing agro-exportation value chains. In addition, there is not specific description of how this plan is going to be related to other policies like for example the National Strategy for Rural Development (ENDR)¹⁵

In the regional level, Moquegua has a competitiveness plan elaborated by the regional government (GRM, 2005); it is not the case of the Region of Tacna. Moquegua’s Competitiveness Plan 2005-2015 presents a broader concept of competitiveness incorporating social, economical, environmental and global aspects and the different levels of government. The strategic objectives are focus in the following aspects: productivity; attraction of investment; exportation; education; integration and institutional strengthening. The coordination of the plan is responsibility of the Regional Competitiveness Council who has to give policy advices and propose economic research. The plan does not take into consideration specific approaches for rural development and do not give more explanation about the implementation of the projects and the participation of local authorities.

In conclusion, the plans do not give orientation to local governments about how to foster local competitiveness following regional and national goals with an understanding of rural development. The plans are reduced to documents listing objectives and projects with lack of orientation about the actions and resources to implement them. In this context, local governments have enough freedom to design their own strategies on local economic development and competitiveness.

Map 1
Map of Peru and the location of the districts of Torata and Ite



3.4 The district of Torata

Torata is located in the Southern Andean Mountains in Peru, in the Region of Moquegua, province of Mariscal Nieto. The district has a population of approximately 6,500 inhabitants where the 50.5% live in the small urban centre¹⁶ and the 49.5%, in different rural communities spread in the district's territory (INEI, 2007). The main economic activities are copper mining, agriculture, construction and services. Torata is called 'producer district' due to the copper pit 'Cuajone' exploited by Southern Copper Corporation is located in its territory since the 1970's.

Torata's natural capital is formed by its Andean ecosystem located at 2000 to 4000 meters above sea level in a total land area of 1,793.37 km² with different ecological zones, climates and biodiversity. The annual rainfall is scarce; it varies between 0 to 260mm depending on the altitude and the season. River Torata and river Asana are the main water sources that irrigate Torata's valley besides there are small rivers and lagoons.

Two international highways cross the district: the 'Binacional' highway that connect the Province of Ilo (Port), the city of Moquegua (capital of the region located 30 minutes far), Torata and the region of Puno with the international dynamic markets of La Paz and Cochabamba in Bolivia; and the

'Interoceanica' highway that connects the southern regions of Peru with the Amazonian markets of Brazil. The internal roads are asphalted in the urban centre and the rural communities are connected by dry weather roads. The small urban centre is covered by electricity and piped water. Due to the small size and disperse location of the majority of rural communities, only 16 % of their houses have electricity and piped water. Telecommunication networks (telephone, internet and cable TV) are covered in the entire district's territory; therefore 50 % of the population have at least mobile phone.

Water scarcity and contamination caused by mining industry is a constant preoccupation of farmers. To exploit the copper pit 'Cuajone' located under the course of the river Torata, Southern Copper Corporation changed the river course altering the normal flow of water for agriculture. Besides, the mineral waste was deposited in the empty river course which in contact with the rain increases the risk of pollution of the rivers and the underground water. Another mining company, Anglo American, is also going to use the same system to exploit the copper deposits of Quellaveco located under the course of the river Asana¹⁷. The contamination of the water have not been proven by the Ministry of Mines and Energy, however farmers are constantly pressuring local government to monitor the presence of heavy metals and other component in the water. For this reason, the SNIP declared feasible a PIP to install in Torata a laboratory of high technology to test water quality.

Small holders farming generate little income representing approximately the 20% of the economically active population of Torata. The productive lands is own by smallholders with fragmented plots of 0.5 to 5 hectares. Due to its small amounts of production, apricot, avocado, alfalfa and oregano are cash crops produced for the local and regional markets. Raising livestock of alpacas, lamas and guinea pigs is also an activity in the area.

Economical and social local dynamic is influenced by the windfall C&R received during the last four years. More public servants work in the city hall increasing the demand on transportation, food and other services. Besides, employment opportunities are found in the projects for constructing new infrastructure or maintaining the existing one, or in the new 'productive projects'. As we will see further below, local government is betting for agro-industry and tourist as a way to translate C&R in future employment opportunities and growth.

The political context is not completely stable in Torata. Accused of nepotism, the former Major of Torata elected in 2006 was revoked by the councillors after two years of mandate. The current Major was part of the board of councillors. She took office in March 2008. This situation has generated more instability in the municipality because a new government brings new public servants that came with their own perspectives about development and sometimes dismissing previous advances. Due to next local government elections will be held in 2010, there is little time and interest to reform the LG administration.

3.5 The district of Ite

Ite is located in the province of Jorge Basadre, Region of Tacna. The district has a population of approximately 3,299 inhabitants of which 48.9% is considered urban and the 51.1%, rural (INEI, 2007). Ite receives C&R due to the presence of the 'Toquepala' copper pit also exploited by Southern Copper Corporation in the province.

The coastal hills of the southern dessert of Peru located at 175 meters above the sea level host the town of Ite. The weather is warm and temperate most days of the year. Its 834 km² of territory are divided in two prairies: 'Pampa Baja' and 'Pampa Alta'. In both prairies there are lands for agriculture (permanent crops and crops rotation) and raising livestock, and deserted zones and wetlands. Water is provided by the Locumba river basin which is alkaline and acid due to the presence of upstream volcanoes.

'The Costanera' is the main highway of Ite. This highway connects the district with the city of Tacna (region' capital) by the south, and with the Port of Ilo (Region of Moquegua) and the 'Pan-American highway' (national via) by the north. The roads in the small urban centre and the ones that connect the main rural communities are asphalted. Electricity is covered in the entire district. Piped water and sewage system is also covered in the small urban centre. Ite has access to public fixed telephones and mobile phones, open signal television and the schools have access to internet. The municipality has a radio station which transmits national, regional and local news and farming information programs. There are three public schools in Ite: two secondary and primary schools and one primary school). At the same time there is one public health centre which gives general medical attention.

Farming is the activity of the 30 % economically active population of Ite. There are 314 farms land identified by the national authority with areas between 100m² to 10 hectares. Corn, garlic, onion, chilli and alfalfa are the main cash crops. Fresh milk from the sixteen cowsheds located in Ite is sale to a big milk company. Cattle for meat are also an important activity and raising livestock of goats and guinea pigs have been introduced recently. Among other economic activities we found the provision of services (restaurants, private transport services, and small shops) and construction.

Ite has a strong political leadership represented by the Major who have been elected in three periods (1995-1998, 2003-2006 and 2006-2010). In the last elections, the Major was a guest of the most traditional political party in the country (APRA) and due to its successful mandate he would postulate to the provincial local government (Province of Jorge Basadre). Public servants have been working for various years helping with the continuity of the development policies and vision of the local government.

The local government financed different social, physical and economical projects with C&R since 2003. Like in the case of Torata, it was easier and faster than now to formulate and approve projects in different areas. With the registration of the local government in the SNIP the support to the farming activity continues and also the projects related to tourism as potentials economic bases for the district.

3.6 The role of the local governments

Since the decentralization process initiated in 2002, LG have assumed a more relevant role in the development of their communities. Nowadays, LG have the mandatory task of elaborating an integrated development plan for the community. This is called the 'local development concerted plan' (development plan) in which is described the community development vision. The plan also indicates social, economical and environmental strategic objectives. At the same time, LG in Peru have the mandate of promoting local economic development emphasizing the development of small and medium enterprises (SME)¹⁸.

LG of Torata and Ite, that receive C&R, are able to improve their managerial and organizational structure therefore they have created an 'Economic Development office' (EDO). In both cases the EDO provides the technical knowledge to implement a local economic strategy oriented to improve the value chains of the district. The EDO helps in the design of 'productive projects' and is in charge of the implementation of these projects.

There is a consensus among the managers of the LG of Torata and Ite that the C&R are a windfall resource that would decrease considerably in the next years; hence they need to develop other economic sectors to diversify the economic base of the localities. In both LG the agriculture sector is considered the second economic activity, however it has serious limitations. In the case of Torata is mainly a subsistence activity with low private investment and poor technological advances. In Ite the agriculture sector is affected by the low quality of the land and water and the poor associative capacity of the farmers. In this scenario the role of the LG and the EDO becomes more relevant in designing a local economic strategy and the subsequently investment of C&R in productive projects.

Besides local governments, there are not other institutions with specific role and interest in promoting local economic development. The farmers associations are weak, the mining company does not participate in the spaces of local development dialogue (nor in Torata neither in Ite), and there are not others private sector initiatives.

In summary, LG have the concentration of power (political instruments and financial resources) and there are no other actors investing great sums of resources in initiatives of local economic development in the communities.

3.7 Local actors' participation

In addition the decentralization process has created new democratic spaces for Local actors' contribution to development. According to the legal framework, LG has to institutionalize spaces for local actors' participation like the Local Coordination Council, and the Participatory Budgeting (PB). PB is a key step in the management of C&R since PIP financed by this resource arises from the project ideas of the local actors (community based organizations) that participate in this space. The process of PB consists in workshops starting by capacity building, continuing with problems identification, project identification, technical evaluation, project prioritization and ending in budget

distribution. However, the relative newness of the PB (applied since 2004) and the 'resource abundance' circumstances of Torata and Ite cause a particular problematic.

In Torata, the PB has been installed since 2005. There is a perception of civil servants that civil society is still not prepared enough to demand and prioritize projects. First, local actors do not know the limitations of the legal framework (SNIP, canon law, public budget law), for example which type of projects LG can invest in according to the legal framework. Second, civil society does not have an integrated view of local development (social, economics and infrastructure projects that respond to a long term goal), they tend to demand projects for their own towns or neighbourhoods. Finally, civil society demands projects of infrastructure (construction or maintaining) that would provide them temporary employment. On the other hand, Southern Copper Corporation are not taken into account as local actors who influence local development in democratic spaces, although they pay revenues, use local natural resources (water and land), and negotiate with local governments the implementation of certain projects like highways, irrigation canals, etc.

In Ite the situation goes a little different. The PB started in 2005 with a poor participation of the civil society, but with many projects to finance. Nowadays, the perception of civil servants is that civil society from the urban areas (mainly immigrants) is not interested in participating in the PB because they already have all the basic service covered by the LG. At the same time, survival farmers also demand projects of infrastructure to increase their possibilities of a more profitable temporal employment than agriculture or other local activities. A different perception is related to the participation of farmers whose demands are specifically oriented to their needs as local entrepreneurs. The difference with Ite is that civil servants also perceive that local actors, mainly farmers and small entrepreneurs, have a sense of long term development and that it should not only involve investment in infrastructure, but also in human capital.

PB also depends in the level of power of the actors. In the case of Torata, civil society has strong leadership and mobilization power making easier for them to pressure the municipality according to their interest which not necessarily follow a common vision or strategy of local development. On the contrary, the LG of Ite is the one that has strong leadership in the locality routing the process to a common vision of local development.

In short, the experience of the PB shows the necessity of working in social capital to improve civil society participation in the management of C&R and local economic development.

Chapter 4 Betting for territorial competitiveness?

4.1 Introduction

Using the territorial approach for territorial competitiveness of rural areas (described in Chapter 2) and the concepts of the successful approaches applied by the LEADER Community Initiative in the least developed European rural areas; we will describe and analyze how LG of Torata and Ite are investing C&R to promote local economic development in their jurisdictions taking into consideration their strategies, projects and approaches. This is not an exhaustive analysis (due to the limitations of the research) which will provide initial qualitative information. Our main argument is that local governments and local actors involved in the development of Torata and Ite are part of a learning process; therefore we aim to analyze their practices according to the territorial based rural approach.

4.2 Analyzing LG' strategies

The development strategy (or 'territorial project') in the context of Torata and Ite is manifested in the 'development plan' which is a formal document describing local strategies related to the social, economic and environmental dimensions of local development. This strategy is manifested in a vision of development and projects. According to the legal framework, the projects identified and prioritized in the PB and financed by C&R should correspond to the vision and strategic objectives of the 'development plan'¹⁹.

The vision of development of Torata aims for a competitive and sustainable economy. Torata's vision of development to 2021, as indicated in the 'development plan' is:

Torata...with a dynamic, competitive and sustainable economy, based in tech agriculture, raising livestock, agro-industry...complemented with the tourist activity and responsible mining; ...articulated to the regional, national and international economy (MDT, 2007: 54)

The local government requires implementing strategies to achieve this vision. One characteristic of this strategy is that the local government does not have an institutionalized policy on competitiveness, but is using C&R and its empirical experience to foster local economic development.

The SWOT Analysis made in Torata, as we can see on Table 5, is useful for a territorial approach, because it is not only concentrated in the competitiveness of business. The analysis gives a broader view of the area's assets, although it lacks detailed background information. This happens due to civil servants that prepared the analysis does not use primary information and there are no explicit policies to promote territorial competitiveness as an expected scenario.

Table 5
SWOT Analysis of Torata's economic development

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ C&R ▪ Different ecological zones to facilitate variety of cultivations ▪ Historical remains, natural capital and cultural heritage ▪ Irrigation and transport infrastructure available ▪ Active participation of local actors ▪ Basic services covered ▪ CSR of mining companies (SCC and possibly Anglo American) ▪ Dialogue and negotiation spaces (Participatory Budgeting) 	<ul style="list-style-type: none"> ▪ Water scarcity for agriculture ▪ Predominance of smallholders farmers and survival entrepreneurs ▪ Weak association of producers ▪ Lack of technology to improve productivity ▪ Expensive labour force for agriculture ▪ Poor market research and lack of market links. ▪ Weak coordination with regional and national institutions ▪ Lack of property rights ▪ Lack of management skills
Opportunities	Threats
<ul style="list-style-type: none"> ▪ International demand of organic products ▪ International highways cross the district ▪ 'Pasto Grande' irrigation project 	<ul style="list-style-type: none"> ▪ Global economic crisis ▪ Free Trade Agreement (FTA) ▪ Low temperatures and natural disasters ▪ Droughts

Source: Development Plan 2007-2021, Local government of Torata and information from people interview during fieldwork (see annexe)

Ite's vision of development is based in the upgrading of the farming sector, as it is indicated in its development plan: 'Ite, agro-exporter district...leader in agriculture and raising livestock; with manufacturer, agro-industry and touristic potentialities...' (MDI, 2007). The importance of the farming sector is also highlighted in the SWOT Analysis (Table 6) presented in the development plan. The analysis is informed by a diagnostic of the different activities in Ite including the farming, fishing, commercial, mining and tourism sector, and the social, environmental and institutional aspects of the territory (*Ibid.*)

Ite does not have a written policy on competitiveness but is implementing a full strategy to enhance its traditional economic activity, farming. The process of developing a complete strategy started in 2005. It is an integrated strategy which contains programs and projects in the farming sector. The goals are to increase business performance and exploit more lucrative market segments.

Table 6
SWOT Analysis of Ite's economic sector

Strengths	Weaknesses
<ul style="list-style-type: none"> ▪ C&R ▪ Qualified human resources ▪ Transport and irrigation infrastructure covered ▪ Basic services covered ▪ Participation of CBO ▪ Natural and physical resources to potentiate tourism ▪ Farming know-how and tradition 	<ul style="list-style-type: none"> ▪ Lack of producers' associations ▪ Application of traditional agricultural techniques ▪ Extreme salinity in the soil ▪ Water scarcity ▪ Soil and water contamination ▪ Some authorities with limited vision of development ▪ Paternalistic mindset ▪ Poverty and extreme poverty ▪ Low skilled labour force
Opportunities	Threats
<ul style="list-style-type: none"> ▪ Irrigation projects from the Regional Government ▪ Capacity building for farmers from Regional Government ▪ Development plans from the Regional Government ▪ External markets for local products 	<ul style="list-style-type: none"> ▪ Low prices of agrarian products ▪ High costs of agrarian production inputs ▪ Limited agrarian national policy ▪ Slow decentralization process

Source: Development Plan 2007-2015, Local government of Ite

LG do not have a defined method to elaborate the 'development plan'. It is a strategic planning process; however the process has gaps. Public servants elaborate the strategy with outdated second hand information and without participation of the local actors in the entire process. Generally this information is collected by the planning office of the local government without a proper methodology and an assigned budget. In other words, there is not reliable information about social, economical, environmental and other kind of data relevant for decision-making process of local development. For these reasons, the 'development plan' is not a useful tool for the identification of sound projects of investment.

Investing in the social dimension

Torata and Ite are rural areas dominated mainly by small family farms and strong attachment to individual land ownership, with difficulties to consolidate partnerships, poor entrepreneurial spirit and risk-taking attitude, and a scarce confidence in public institutions. On the other hand, both communities have community based organizations, association of producers, and certain levels of democratic consultation.

The lack of policies and strategies orientated to social competitiveness in the national and regional levels; moreover, the restriction in the legal framework, which stipulate that C&R have to be invested in 'productive projects' give little incentives for LG to foster social competitiveness (basic education, training, etc.) On the other hand, it would depend on the capacity of local governments to design their own strategies.

Torata has a variety of community based organizations and associations of producers, and historical and cultural identity that can be exploited by the local

government to achieve social competitiveness. Nevertheless, civil servants interviewed mentioned it was still necessary to strengthen associations of producers promoting the benefits of collective action. Besides, they mentioned the necessity of long-term investments to improve human capital prioritizing children education. Even though, civil servants recognized the relevancy of education for human capital, they have not designed projects related to this topic. As we see in Table 7, the projects financed by C&R are related to women empowerment and capacity building of civil servants; the positive actions promoted by these projects are the gender approach promotion, children development (strengthening local identity), and the formation of local groups (partnerships and networking). However, these are isolated projects which are not integrated in programs with a long term perspective.

Table 7
PIP related to social competitiveness in Torata, 2007-2009

PIP name	Cost (Euros*)	Beneficiaries	Date of Viability	Duration (months)
Capacity building for women to improve the management of the 'Glass of milk' social program	99,782.17	664	2008	12
Strengthening the organizational capacity of women to participate in household economic activities	105,571.02	686	2007	26
Strengthening the cultural and athletic abilities of children	68,125.60	1,488	2009	12
Capacity building for civil servants in land management	215,504.05	6,753	2009	60
Capacity building for civil servants to improve the formulation and evaluation of PIP	315,321.26	4246	2009	24

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Projects bank, SNIP²⁰

According to the interviewed, there is a difficulty to generate spontaneous associations of producers and partnerships in Ite, due to the individualistic tradition of local farmers. Lack of trust is another characteristic of the social relations in this community. Local governments found it difficult to implement the economic projects and had to invest time and resources in sensitization about the benefits of collective action. On the other hand, with a long-term perspective the local government has implemented projects focused in the 'human capital' of Ite with especial interest in childhood. Before the registration in the SNIP, local government invested C&R in an 'integral education program' which consisted in capacity building for local teachers, alimentation for students, and improvement of student's performance. After registration in the SNIP the program has been reduced to capacity building for local teachers and the improvement of the student's performance which is part of the project 'Improvement of the education quality' as we see in Table 8. Other complementary projects are the 'Early stimulation projects' (for children

under four years old), nutrition projects, etc. As in Torata, there are also capacity building projects for civil servants.

Table 8
PIP related to social competitiveness in Ite, 2007-2009

PIP name	Cost (Euros*)	Beneficiaries	Date of viability	Duration (months)
Improvement of the education quality	637,359.38	964	2008	24
Capacity building for teacher and parents about 'early stimulation' for children	-	2,330	2008	-
Strengthening the nutrition system in community based organizations	604,887.98	3,728	2007	36
Strengthening the cultural and athletic abilities of children	595,006.20	2,900	2008	36
Strengthening the institutional capacity of civil servants to improve municipality management and building the city hall	1,230,420.88	2,878	2007	12
Capacity building for civil servants in land management (plus equipments and research)	322,444.23	3,240	2008	26

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Projects bank, SNIP²¹

There are advances related to social competitiveness in both communities such as: associations of producers, projects to increase local identity, investment in human capital, etc. However, there are no specific sensitizations projects about the benefits of 'collective action' for economic added value that integrates local actors of different activities.

Investing in the environmental dimension

The interest of the different levels of governments on developing an environmental policy has increased. In Torata, the local government has established an environmental office; but do not have an environmental policy yet. The focus of this office is related to solid waste management and the risk of contamination of the main rivers due to the presence of the mining industry. To control the level of contamination they are implementing an environmental monitoring laboratory to test the quality of water, air and soil which is financed by C&R resources.

Alternatively, historical remains, natural capital and cultural heritage are going to be exploited for tourism. Torata is the most important archaeological zone of the Region of Moquegua with remains from the pre-Inca culture (700 B.C.); and the ecosystem presents a variety of touristic attractions like mountains, waterfalls, canyons, and forests. Likewise traditional cuisine, beverages, and artisanal bread are on offer in the locality. These potentialities are going to be promoted by the 'improvement and promotion of the tourist circuit of Torata' project financed by C&R. The project's activities will be carried out by the 'tourism office' and correspond to capacity building, participation in regional fairs and inter-institutional coordination; the goal is to

include Torata as a touristic destiny in the region. Unfortunately; there is no clarity about the possible employment opportunities that the tourism sector will generate in the long term.

Local government of Torata are investing C&R in environmental projects to enhance the natural capital such as the monitoring laboratory, recovery of ecosystems, capacity building to cope with climate change and the valorisation of historical remains. Besides, they are investing large amounts of C&R in physical capital with emphasis in irrigation projects and other infrastructure projects (roads, bridges, etc.) as we can see in Table 9.

Table 9
PIP related to environmental competitiveness in Torata, 2007-2009

Type of capital	PIP name	Cost (Euros*)	Beneficiaries	Date of viability	Duration (months)
Natural	Environmental monitoring laboratory	626,986.41	5,553	2009	24
	Recovery and conservation of 'bofedales' (water sources)	282,316.02	233	2008	30
	Capacity building for farmers to implement strategies to cope with climate change	52,430.89	2,810	2008	2
Physical	Valorisation of historical remains	55,952.57	1,800	2008	7
	Improvement and promotion of the tourist circuit of Torata	460,058.63	5,288	2009	24
	Valorisation of Inca culture heritage for tourism	62,638.47	4,190	2009	12
	Electricity service	-	-	2007	3
	Construction of roads and bridges to communicate rural towns	-	-	2007	-
	Construction and equipment of a soil laboratory	313,693.28	5,463	2007	6
	Equipment of the municipality with computers and other technological needs	57,175.17	5,288	2008	52
	Maintenance of reservoirs and canals (2 projects)	667,875.83	-	2005	-
	Construction of irrigation canals (26 projects)	7'876,307.00	-	2007-2009	-
	Construction of small dam	1'065,348.00	-	2009	-

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Ministry of Economics and Finance/SNIP-Bank of projects

It has no environmental office yet but has initiatives on preservation and valorisation of environmental assets. Local government is designing a project

to recuperate and maintain the different ecosystem in the territory like hills and wetlands to attract tourists. Projects to generate income through the preparation of compost are also being implemented. At the same time, the poor quality of water and soil is treated by a local government project in order to improve the quality of cash crops and expand the market. Projects declared feasible by the SNIP are related to physical capital such as equipment, piped water service, and irrigation and transport infrastructure as we can see in table 10.

Table 10
PIP related to environmental competitiveness in Ite, 2007-2009

PIP name	Cost (Euros*)	Beneficiaries	Date of viability	Duration (months)
Strengthening the unity of mechanical equipment of the municipality	833,772.64	299	2008	12
Piped water service	253,631.08	3,240	2008	11
Improvement of the unity of construction of infrastructure of the municipality	1,239,754.77	550	2007	36
Improvement of the public education infrastructure	481,500.95	190	2008	11
Construction of highways (4 projects)	-	1,228	2007	8
Construction of water reservoirs to improve infrastructure of pressurize irrigation	869,454.48	-	2008	-
Construction of the main irrigation canal of Ite	291,649.19	-	2006	-

*Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Projects bank, SNIP²²

In summary, both communities have initiatives taking into consideration the valorisation of the environmental assets; however there is a need of more integrated and clear policy. Besides, it is necessary to work more in the sensitization of the population to have more support in the different projects of preservation and valorisation of the environmental assets.

Investing in the economic dimension

The economic strategic objective is a key element of development plans. LG with C&R have the mandate of translating these resources in productive investment for the sustainable development of their communities; however managing local assets, organizations and values, and choosing the adequate strategies to translate them in sustainable economic activities is the complex part.

As we mentioned before, completed and updated analysis of local territorial assets that can help to elaborate a strategic plan for economic development are not usually well prepared by local governments. For this reason, it is difficult to obtain specific information about the existing skills in

the area, the rate of unemployment, the existing businesses, the products or services of the area, the links with external markets, etc.; and gives little information to prepare an analysis of the strengths, weaknesses, opportunities and threats (SWOT Analysis).

In Torata

The strategy of the local government is oriented to diversify local products and services, increase business performance, and exploit new markets. Production upgrading activities and investment in the tourism sector are oriented to the diversification of products and services. Capacity building in business management and organization strengthening are components of the projects to increase business performance. Market research is also another component included in the PIP that will help to increase new market options.

Torata's 'productive projects' financed with C&R resources are mostly oriented to the farming sector.

Productive projects

Before the registration in the SNIP in 2005, the 'Productive Development office' of the local government implemented projects to improve the production capacity of local farmers. These projects were financed by mining canon under a particular interpretation of the canon law that only permits infrastructure projects. These projects consisted in the implementation of 'demonstration plots' in local farmers properties for the cultivation of avocado (variety Hass), apricot and green beans. Irrigation techniques were also added in the cultivation of these crops.

Cultivation of oregano was the most successful project in this stage. Capacity building and technical assistance benefited producers to change their traditional management practices (inadequate process of drying and storage). They also created an oregano producers association. With the project the quality of the product improved and the market expanded. Skilled farmers produce 3547 kg of dry oregano from 0.5 hectare obtaining profitability 35% higher than a hectare of avocado or apricot (Ojeda et al., 2006). After the production, farmers sell the dry oregano to local stock-piles and middle men in packages of 46 kg. (*Ibid.*) Finished the first project, the municipality bought dryer machines for the new association of oregano producers. Fourteen dryer machines have been already installed by the municipality.

Apricot value chain was also strengthened by the local government. The project intervened in the production, transformation and promotion phases. They teach farmers how to improve the management of apricot trees in their own lands; for example pest management, irrigation techniques, pruning, etc. Apricot farmers augmented the number of trees per plot. Besides fresh fruit, the transformation phase help to improve traditional techniques to produce macerate, jam and juice. Package and labelling was financed by the local government. The entire production of added value apricot (macerates, jams, and juices) products was bought by the municipality to start the promotion phase. Local government participated in national and regional fairs to promote the products; however the commercialization phase does not take off yet.

By 2006, the local government of Torata registered in the national systems of public investment (SNIP) and started to formulate PIP under this new rule. SNIP makes more rigorous the procedures to design, elaborate, evaluate and approve a PIP. The first projects formulated aimed to support the agriculture activity with infrastructure projects like irrigation canals and transport infrastructure. After that, with the new staff of professionals working in the local government, more diverse productive projects were formulated. Capacity building and technical assistance was included in the projects. Besides, the municipality organized work groups with experts and guided visits to other localities with more technological advance.

Strong participation in the agricultural value chain through the formation of clusters is the main goal of the 'economic development office' of Torata. Since 2007, more than 40 projects to support economic activities have been declared feasible in the framework of the SNIP (including the infrastructure). In Table 11, we can see the agriculture, raising livestock, and capacity building projects for Torata which are oriented to improve the quality and quantity of the production. Projects related to cash crops (oregano, apricot and avocado) also include partnership strengthening and market research.

Table 11
Torata: 'Productive projects' declared feasible by the SNIP, 2007-2009

PIP name	Cost (Euros*)	Beneficiaries	Date of viability	Duration (months)
Technical assistance for the stocking of 'trout' fishes	19,787.89	60	2007	8
Capacity building for small entrepreneurs (service sector)	46,688.72	607	2007	27
Technical assistance to improve raising livestock of vicunas	239,471.40	194	2008	24
Capacity building to produce organic oregano	333,365.59	120	2009	36
Technical assistance to improve raising livestock of guinea pigs	307,919.92	124	2009	24
Strengthened the value chain of avocado (production improvement, transformation and	249,503.81	467	2009	24
Capacity building for apricot producers	180,958.06	205	2009	24

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Ministry of Economics and Finance/SNIP-Bank of projects

On the other hand, PIP are still fragmented by sectors and by projects. Each project hires their personnel (to assist in the project) and works with a specific group of beneficiaries. There is lack of coordination among these

actors. In consequence, this situation takes away the opportunity to achieve common objectives like promotion of skills and know-how, the transformation of C&R in direct financial options, market research, collective action, etc.

In Ite

The local government has the clear goal of transforming Ite as the model of best practices in farming development. In 2006, the Ministry of Agriculture recognized the efforts of this district in the productive sector and awarded them as 'Model of Productive Municipality'. For this reason, delegations from other municipalities inside and outside the region (Cusco, Arequipa and Moquegua) have visited Ite to learn about the methods and techniques used in their 'productive projects'.

Productive projects

With the creation of the 'farming development office' in 2005, the municipality of Ite started the implementation of a holistic plan for farming development. The first step was the elaboration of a deep diagnosis of the sector. With this information the office elaborated the 'agricultural development plan' which contemplates seven strategic programs with their respective projects. The programs are: agricultural basic services, agricultural development, raising livestock development, environment and natural resources program, technological innovation of irrigation techniques, commercialization and business management, and education and technological innovation.

- Agricultural basic services: lower prices for machinery and other agrarian products are offered by the agrarian basic service department. They also rent six modern tractors which make more efficient different kind of agrarian activities helping to reduce cost of production. Seeds, pesticides, fertilizers, and other kinds of chemicals to improve agriculture production are also offered. Balanced feed is distributed and a centre for artificial insemination has been settled. To complete the services, they offer a laboratory for agricultural sanitation testing.
- Agricultural development: this program contains projects to improve the production of cash crops like chilli and maize. Since 2006, the professional staff from the agrarian development program offer technical advice and capacity building to farmers what have resulted in the increased of the production. Since 2008, Capsicum seedlings are produced in the nursery-garden constructed in the experimentation area of the 'economic development office' to sell healthy plants to the farmers.
- Raising livestock development: genetic improvement of cows have been done to increase milk production; capacity building for breeding of goats to produce milk and meat; and capacity building for raising livestock of guinea pigs.
- Environment and natural resources program: the municipality is planting forest species to protect cash crops and soil against the wind. The program also contemplates the construction of a nursery-garden to extend the distribution of forest plantations. This project would last six years and its goal is to reforest 250 hectares in wastelands and hillsides.

- Technological innovation of irrigation techniques: drip irrigation (pressurized system) applied in 1800 hectares of agricultural land is the goal of the project. Nowadays, 900 hectares are already using this innovative irrigation technique due to the installation of irrigation infrastructure by the local government. The new infrastructure (pipes and reservoirs) uses a system to fertilize the water helping to increase the productivity of cash crops and land for agriculture. Besides, the municipality offers capacity building for the appropriate use of the new technology and maintenance reducing water mismanagement in the area.
- Commercialization and business management: the local government is planning to install an agro-industry plant to select, crush and pack chilli production. Furthermore, the local government is evaluating the possibility of installing a Milk Processing Plant.
- Education and technological innovation: this program contemplates four different projects: capacity building for quality management and good agricultural practices; an experimental centre to test the adaptability of new cash crops; a team for market research; and an 'integrated education' alternative program to generate skilled farm workers.

In 2007, the local government was registered in the SNIP, and only two projects related to farming production have been approved (Table 12) since then. In the same year, the name of the office was change to 'economic development office' which is in charge of the seven previous programs with a technical staff of 54 people among agricultural engineers, economists, and experts on zoo-technology.

Table 12
Ite: 'Productive projects' declared feasible by the SNIP, 2007-2009

PIP name	Cost (Euros*)	Beneficiaries	Date of viability	Duration (months)
Technical assistance to improve raising livestock of goats for milk and meat	284,957.82	150	2007	36
Technical assistance in pest management	1'121,587.20	176	2008	36

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Ministry of Economics and Finance/SNIP-Bank of projects

The local government has implemented other projects to diversify the economic activities. Before the registration in the SNIP, a museum and a big stadium were built in the area. According to the General Manager of the local government these projects have a long term perspective to attract tourists to the community. Nevertheless, they still do not have a concrete plan to integrate all the strategies to stimulate tourism.

The process and implementation of the local economic development strategy in Ite is characterized by the following aspects:

- There is a tendency to prioritize the international market without a market research of the demand in the regional and national market first.
- To achieve the international market more improvements in the quality of the product is needed. Besides, this problem is a limitation for product upgrading. For example, cash crops are not attractive to external investor to install transformation plants in Ite.
- Water and soil quality is poor; thereby requires high investment to improve it generating high cost of production that nowadays is being assumed by the local government, for example with the installation of 'filters' to improve water quality.
- There is coordination with national institutions like the Ministry of Agriculture, the Institute of Agrarian Information, etc.; however, the coordination with the regional government is poor due to the differences in the priorities.

Both communities have specific problems according to their economic development strategies, but also they have common problems as we will see bellow.

Common limitations for local economic development

The current situation is also influenced by other features of the local economic development strategy implementation. According to local actors interviewed these are:

- Farmers are accustomed to a paternalistic approach. Farmers have received different kind of subsidies from previous governments (and before the registration of the LG in the SNIP) and they believe that C&R can be spent to give them that kind of support. For this reason, there is lack of interest in risky business.
- Commercialization stage is the weaker link of the value chain. A lot of effort is put in the production side of the chain. There is lack of research from the consumers' point of view. Information of local and regional market is poor and there is a tendency to look only to the international market.
- Finance is difficult to be obtained by local farmers. They usually do not have property rights as a warranty to ask for credits. There are no alternative financial institutions available for small-holder farmers. This situation is a limitation for upgrading. For example, technicians organize periodical visits to the plots to evaluate crops, however suggestion given during the visit are not followed by farmers because they do not have the means to invest.
- A positive aspect of the PIP is that they are focused in working with established association of producers. In Torata there are more than 10 different associations of producers which participate in local government's projects. Nevertheless; not only sensitization about business management, but also about collective action is still required for these associations.

- As we mentioned before, the link with other tiers of government is weak. National institutions e.g. the Ministry of Agriculture do not bring specific support to local initiatives; one interviewed mentioned that ‘they are just looking for successful stories’. Local economic strategies do not follow regional policies and vice versa.
- Upgrading of the economic activities is limited. C&R can not be invested in tangible assets for production upgrading of the private sector (SNIP regulations) and local entrepreneurs do not have capital and/or risk taking perspective.

In summary, there is still needed a deeper analysis of the assets and opportunities to potentiate different economic activities in Torata and Ite. There is not a defined policy on competitiveness and the strategies are not completely integrated. Advances have been made in the integration of local actors through associations, but more coordination among the different associations is still needed.

Investing in global positioning

To analyse the ability of Torata and Ite to acquire global competitiveness we will look at three aspects: the area’s image, external relations, and governance.

Torata’s image has been promoted by the local government’s tourist office as a community with historical heritage and natural capital. The objective is to include Torata as a site in the southern tourist circuit. Diverse strategies of promotion have been carried out like posters, information brochures, etc. to show what this community can offer. Nevertheless, the official web page of the local government fails to show the image of Torata and there is no information about local products and their qualities and the tourist attractions yet. Besides, an evaluation about the tourist market is still needed to compare supply and demand. About the external relations, the local government is trying to obtain international cooperation to enhance some social programs, and also looks to maintain partnerships with national and regional government’ institutions. About governance, Torata have a particular characteristic among other districts of the region, because is a mining ‘producer district’ which receives a lot of attention from the political spheres and local actors. In this sense, there is an opportunity to create networks with external actors.

Ite’s image is well positioned in the South of the country due to their advances in the farming sector. The local government promotes their activities through the publication of a newsletter and also manage a radio station. Improvements in the official web page need to be done to promote local products and services. There are also plans to develop the tourism sector potentiating their natural capital. About external relations, the governments have partnerships with other local governments with similar economic goals, also is in constant coordination with the provincial local government. About governance, local government has strong influence in the development of the community, and also promotes civil society participation. In this sense, local government is one of the main actors in the district and also the one who attracts external actors to the community (high skilled workers, investor, national and regional authorities, etc.)

The strategies of LG to enhance the social, environmental, economical and global dimensions of territorial competitiveness are also characterized by approaches applied by the local actors which will facilitate or hinder their effectiveness.

4.3 Analyzing LG' approaches

In this section, we will analyze LG's intervention taking as a reference the successful approaches applied by the LEADER Community Initiative for a heterogeneous range of least developed rural areas.

Decentralized management

There is a broader difference between the process occurred in the European least developed rural areas and the processes of local economic development undertaken in the rural towns of Peru related to the decentralized management characteristic. LEADER program has been informed by the European Union regional policy for rural development; therefore it applied a decentralized implementation with public and private partnerships in different levels of government (national, regional and local). In the Peruvian case, the programs and projects implemented for rural development in local areas are not well aligned with the national strategy for rural development (ENDR), and they do not generate a 'bridge' between the rural society and the national government (Trivelli, 2005: 12).

Area-based approach

For local authorities and other local actors, the concept of territory is still narrow. They consider it as an administrative unit where local governments are the main actors forging development. This situation is related to a broader problematic that arises from the narrow concept of 'rural' given by the national authorities. The Institute of National Statistics designates as rural areas the agglomeration of less than 100 houses without taking into consideration the economic, social and cultural aspects of the territory (CEPES, 2008). In addition, the Organic Municipal Law stipulates that rural LG have an urban population representing less than the 50% of the total population²³. Based on this, the local government of Torata has elaborated an 'Urban Development Plan' where the rural identity has taken second place behind the urban priorities. For the case of Ite, they do not have an 'Urban Development Plan' because they decided to do land planning; investing first in the elaboration of a zoning study to determine the ecological and economical characteristic of Ite's territory. This methodology of Ite will generate more relevant information about the environmental and economic capital of the territory with a broader perspective of rural and urban areas giving more possibilities to develop the endogenous resources.

At the same time, in both communities there are cultural traditions (like farming activities, traditional festivals, typical food, etc.) and a sense of community which is trying to be valorised by the local government to construct a local development strategy.

Bottom-up participation

Local actors' participation in planning, decision-making and implementation of social and economic development is promoted by the local governments according to the decentralization process (as described before). In this context, there are institutional factors that characterize local governments' implementation of a participation policy in Peru: they based their actions in a legal framework for participation, in the internal organizational structure and resources to facilitate participation, and in the recognition of social organizations. However, this process is criticized because is 'poor' to stimulate real participative processes and is a limitation to generate innovative policies and participatory spaces (Chirinos, n.d.). In addition, there is a need to mobilize and animate more local actors to be partners for medium and long term economic goals. These are the problems identified in Torata and Ite.

Partnership approach and networking

There is no tradition to create strong and dynamic partnerships. In both communities, the local governments work with groups of farmers who are the beneficiaries of the projects, and these are informal negotiations without a clear manifestation of the responsibilities of each partner. One reason is that local associations are still not consolidated and their integration is limited due to the poor sensitization about the benefits of collective action. Hence, there is an increasing dependency in LG leadership for economic development because they have more capacity (high skill workers) and resources (C&R). In both communities, there are not local action group compound by symmetric public and private actors and institution with a decision-making power to foster local economic development with a long term perspective.

Due to partnerships are still not fully developed in both communities, the advantages of networking are not being enjoyed yet. Besides, local actors need to take more advantage of Information Communication Technologies (ICT) to obtain information about possible networks and external partners, for example improving their skills to take advantage of Internet.

Innovative actions

According to how the projects financed by C&R are being implemented at present, in both communities the space for innovative actions depends in the capacity of local governments to identify the need for investment to potentiate community's endogenous resources like value chains upgrading or local actor networks strengthening. What is useful for innovative actions is to make an analysis of the 'territorial capital' to identify the communities' endogenous resources; however this is the weakest part in the elaboration of the development plans in the communities. The innovative actions are found in the projects to improve the production stage. In the case of Torata, the local government supports production upgrading of the most profitable cash crop (oregano) and also promotes the creation of a local association of oregano producers. In Ite, there are several projects for production upgrading and they have projects to generate clusters.

Integrated approach

Local actors have to elaborate together a plan which contemplates a common and shared vision of local development and to identify the projects. Nevertheless, in both communities the projects of the different economic sectors ('productive projects') are still not integrated. For example, in the case of Torata the role of the mining industry is rarely mentioned in relation with the agricultural projects or with the tourism sector. Commonly, the projects are oriented to the farming sector; there are projects related to tourism but there is still little integration of both sectors. In Torata they are trying to introduce a project to promote 'experimental tourism' which includes visits to the local farms. In Ite, farming projects are more integrated and offer a diversified network of activities to generate income while the tourism sector is still separated from this program.

In summary, there are elements in the process of local economic development of Torata and Ite that still need to be strengthened like the recognition of the rural identity, the diversification and integration of economic activities (not only the farming sector), and the mobilization and animation of local actors to be part of a dynamic development where associations, partnerships and networks are part of the methodologies to improve collective action.

Besides the application of strategies and approaches for local economic development, during fieldwork the interviewed mentioned that the scenario of resources abundance brought out by C&R have also negatively influenced in the economic dynamic of the communities. This influence will be explained in the next section using the resource curse theory.

4.4 Is there a slightly local economic distortion?

Even though, the resource curse theory is applied for national economies, the case of Torata and Ite show that the effects of the resource curse can also be suffered in localities which receive C&R. A synthesis of what is the 'resource curse' is explained in the following quote:

The endowment of natural resources has often been associated with disappointing economic development. This phenomenon is referred as the 'resource curse', which hypothesizes that economies experiencing resources booms through price increases will experience unsustainable growth rates (Sarraf and Jiwaji, 2001: v).

The unsustainable growth rate is an outcome of the distortions in the economies of the localities with windfall resources like C&R²⁴. These distortions tend to affect the structure of production and investment (Sarraf and Jiwaji, 2001: 4). The increased incomes allow local governments to spend C&R in infrastructural projects (roads, communal buildings, irrigation canals, schools, coliseums, etc.) that they directly implement contracting skilled labour force (civil engineers, architects, economists) and non-skilled labour force (bricklayers, drivers, carpenters). The new employment opportunities attract non-skilled labour force from the agricultural sector diminishing the supply of workers and increasing the wages in 37.5% for the agricultural sector as we can see in Table 13.

Table 13
Wages of workers in the agricultural sector before and after C&R

	Before C&R (Euros)	After C&R (Euros*)	Increase %
Wage per day	5.96	9.53	37.50%

* Exchange rate of 1Euro=4.196 Nuevos Soles.

Source: Interviews to farmers and public servants in Torata and Ite.

Another distortion of the resource curse in the localities of Torata and Ite is the ‘Dutch disease’. Public investments in the construction sector hinder the support to the agricultural sector. As the theory explains ‘governments tend to reallocate windfall gains from the booming tradable (BT) sectors to non tradable (NT) sectors [construction, services] and non-boom tradable (NBT) sectors [in this case the agriculture sector]’ (Sarraaf and Jiwaji, 2001). However, the ‘spending effect’ leads to movements of labour (as we explained above) and capital towards the NT sectors (*Ibid.*). In Torata and Ite, farmers with low profit from the agricultural sector abandon their lands and seek jobs in the LG’ NT projects as non-skilled workers.

From the political dimension of the resource curse, there are two effects: *unproductive investment booms* and *rent-seeking behaviour* (*Ibid.*). The former explains the tendency of LG to invest the windfalls resources in NT sector and in projects with low rate of return (construction of monuments, squares, coliseums, church, communal buildings, etc.). To avoid this tendency, Peruvian central government introduce policies to control public investment, one of the most important mechanism is the ‘national system of public investment’ (SNIP) as we explained before.

At the same time, rent-seeking is another political dimension of the resource curse. The theory explains that economies with resource-abundant are often ‘more susceptible to rent-seeking behaviour due to the concentration of wealth in the public sector’ (*Ibid.*). In the case of Torata and Ite, there is a perception of the population that LG’ public servants invest public money in infrastructural projects because is easier for them to obtain illegal money through the overestimation of costs.

Chapter 5 Conclusions

We agree with Barbier (2005), Auty (2007) and Onguleye (2008) that revenues obtained from finite natural resources exploitation must be used sustainably investing them into other assets to provide welfare for the present and future generations. Consequently, mining industry's long term contribution to local economic development must be the transformation of revenues in the diversification of the economic activities and the protection of the natural capital (renewable natural resources and ecosystem services) to prevent problems associated with future finite resources scarcity (Slack, 2004).

In this paper, we consider that a rural area is in a sustainable development path when the area has achieved a territorial competitiveness scenario. 'An area becomes competitive if it is able to face up to market competition whilst at the same time ensuring environmental, social and cultural sustainability based in networking and inter-territorial relationships' (Farrell and Thirion, 1999: 5). Therefore, we understand as a sustainable use of C&R the investment in a local economic development processes that applied territorial based rural development strategies and approaches. Territorial based development goes beyond only agriculture as the main activity to achieve rural development and promotes partnerships and networking between private and public actors in the local, regional, national and global spheres.

As a result of the process of decentralization in Peru, local economic development is now also planned and organized by local governments. LG with abundant C&R in rural areas have re-organized their internal structure to manage these funds. They have new offices and staff to formulate, evaluate, approved and implement the 'public investment projects' (PIP). These projects are the concretization of the vision and objectives of development and are discussed with local actors in spaces such as the Participatory Budgeting (PB).

Nevertheless, there are no guidelines to measure if these projects are contributing with the territorial competitiveness of rural areas. Plans on competitiveness, and other regulations do not give specific orientation about how to foster local competitiveness following regional and national goals with an understanding of rural development. In this context, local governments have enough freedom to design their own strategies on local economic development and competitiveness.

Local actors' participation in local development is still weak. In both cases the leadership for local economic development is undertaken by the local governments. Besides, there are no mechanisms to promote more involvement and commitment of community partnerships with local economic development. Because local governments are political unstable actors (government changes or the application of the revocation system like in Torata) the development process is slow and risky (this was not the case of Ite where the Major has been elected in two consecutive periods). The mining company does not participate in any democratic local space; they only negotiate directly with local authorities the projects that they would like to finance.

In Torata, there are advances in social competitiveness and PIP will strength this dimension; however, more projects to integrate different associations of producers to promote collective action are still needed. There are more PIP in tangible factors (roads, irrigation canals, public services, etc) than in intangible factors (training, skills, partnership formation, networking, market research, etc.). Natural resources, natural landscape and also cultural heritage are being valorised by the local government as assets to diversify the economic activities; however, the valorisation of a broader meaning of environment still need to be shared by all the local actors including the mining companies. The economic competitiveness is still weak due to problems with products upgrading which is aggravated by the lack of investment and entrepreneurial mentality of farmers. Finally, there is awareness of the importance of the global dimension of development, but their strategies still need to be integrated according to the development vision.

Ite is recognized as a community with a successful practice in farming development and their goal is to become a farming cluster. They are investing in long term projects for human capital but have little projects to solve current problems of social capital, therefore the risk of the continuation of paternalistic styles in the implementation of projects is latent. In terms of environmental competitiveness, they have initiatives to preserve and valorise natural resources and ecosystems that are potential assets to diversify economic activities (tourism, organic markets, etc.). They have a variety of projects to achieve economic competitiveness but they have serious constraints related to production upgrading that required high investment. In relation to their position in the global sphere, they are working in their image as a model of farming productivity.

Both communities are betting for the farming and tourism sector. However, a deeper analysis of the assets and opportunities to potentiate different economic activities is still needed. There is not a defined policy on competitiveness and the strategies are not completely integrated. Advances have been made in the integration of local actors through associations, but more coordination among the different associations is still necessary.

There are elements in the process of local economic development of Torata and Ite that still require to be strengthened like the recognition of the rural identity, the diversification and integration of economic activities (not only the farming sector), and the mobilization and animation of local actors to be part of a dynamic development where the creation of associations, partnerships and networks are part of the methodologies to improve collective action. Also the consolidation of an independent 'local action group' is essential to assure the continuity of the best strategies.

On the other hand, the abundance of financial resources in hands of the local governments is generating distortions in the economic context of the communities. Scant and expensive labour force for traditional activities (farming), unproductive investments booms, and rent-seeking behaviour are the main consequences.

In brief, LG of Torata and Ite are in a learning process of local economic development where policies, strategies, approaches and projects still need to be enhanced under a territorial competitiveness perspective in order to use mining canon and royalties (C&R) sustainably and to hinder economic distortions generated by resource abundance.

Notes

- ¹ More information about the LEADER Community Initiative can be found in: European Commission: http://ec.europa.eu/agriculture/rur/leaderplus/index_en.htm; LEADER library of rural development: <http://ec.europa.eu/agriculture/rur/leader2/rural-en/biblio/>
- ² Mining royalties start to be transferred in 2005 after the promulgation of the Mining Royalty Law No. 28258, 23 June 2004
- ³ Information obtained from the Web page of Participa Peru NGO, Lima-Peru: http://www.participaperu.org.pe/apc-aa/archivos-aa/3c6bb51ada688b58c57cb18308d59d73/canon_regalias.pdf, 05 September 2009
- ⁴ Canon Law No.27506, 9 July 2001
- ⁵ Directorial Resolution No. 013-2008-EF/77.15 stipulated by Ministry of Economy and Finance.
- ⁶ Information obtained from the Web page System of Economic Transparency- Ministry of Economics and Finance, Lima-Peru: <http://transparencia-economica.mef.gob.pe/>, 06 September 2009
- ⁷ Information obtained from the Web page System of Economic Transparency- Ministry of Economics and Finance, Lima-Peru: <http://transparencia-economica.mef.gob.pe/>, 06 September 2009
- ⁸ A PIP is a time limited intervention that uses total or partial public resources to create, amply, improve or recover the productive capacity or goods and service provision of an Entity (central government, regional government, local government, among others); which benefits are generated during the ‘useful life’ of the project and these would be independent from other projects (SNIP General Guide).
- ⁹ SNIP Law No. 28411, 6 December 2004
- ¹⁰ Canon Law No. 27506, Title III, Article VI, incise 6.2
- ¹¹ Law that modifies several articles of the Canon Law No. 27506, 26 September 2003
- ¹² Extra credit in the national public budget 2005 Law No. 28562, 28 June 2005
- ¹³ Public Budget 2006 Law No. 28562, 21 December 2005
- ¹⁴ Public Budget 2007 Law No. 28927, 11 December 2006
- ¹⁵ Launched by D.S. No. 065-2004-PCM, 02 September 2004.
- ¹⁶ Accordingly to the National Institute of Statistics (INEI) a town with less than 100 houses is considered rural.
- ¹⁷ Information obtained in the Web page of Asociacion Civil Labor NGO, Lima-Peru: <http://www.labor.org.pe/casos/casos-01.php?kdigo=321>, 27 August 2009 (Spanish)
- ¹⁸ Organic Municipal Law No. 27972, 6 May 2003, Article VI
- ¹⁹ National government is also inserting in the coming years the ‘results based budget’ which will help to improve the quality of expenditure of local governments. Public Budget 2007 Law No. 28927, Chapter VI, 11 December 2006
- ²⁰ SNIP-Ministry of Economic and Finance, Lima-Peru: <http://www.mef.gob.pe/DGPM/snipnet.php?mensaje=si>, 07 September 2009
- ²¹ SNIP-Ministry of Economic and Finance, Lima-Peru: <http://www.mef.gob.pe/DGPM/snipnet.php?mensaje=si>, 07 September 2009

²² SNIP-Ministry of Economic and Finance, Lima-Peru:
<http://www.mef.gob.pe/DGPM/snipnet.php?mensaje=si>, 07 September 2009

²³ *Op.cit.* , Article 139

²⁴ Unfortunately, it is difficult to measure the unsustainable growth rate of a rural town in Peru due to the lack of statistical information.

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Annex

Name	Occupation and location	Date of interview
Anthony Jo	Asociación Civil Labor NGO-Lima	20 July 2009
Gustavo Avila	Grupo Propuesta Ciudadana NGO-Lima	20 July 2009
Ricardo Catacora	Responsible of productive projects in Asociación Civil Labor NGO- Moquegua	3 August 2009
Miguel Barreda	Budget and Planning Office-Local government of Torata	3 August 2009
Saul Laureano	Responsible of Tourism project- Local government of Torata	3 August 2009
Freddy Niebles	Manager of Urban Development -Local government of Torata	3 August 2009
Julio Díaz Guerrero	Manager of Environment Office-Local government of Torata	4 August 2009
Noel Flores	Promotion of projects-Local government of Torata	4 August 2009
Richard Pari	Manager of Economic and Social Development Office-Local government of Torata	4 August 2009
Christian Sucla and Roxana	Improving the Municipality Investments (MIM)- Moquegua	4 August 2009
Geiler Vargas	Coordinator of Community Relations of Anglo-American Mining Company- Moquegua	5 August 2009
Nicolas Barrera	Manager of Human Resources Office-Local government of Torata	5 August 2009
Elias Tola	Farmer of the community of Hawai-Torata	6 August 2009
Milciades Huacho	Manager of Investment Office-Local government of Torata	6 August 2009
Sergio Torres	Sub-Manager of Budget Office-Local government of Torata	6 August 2009
Huarsaya	Sub-Manager of Pre-Investment –Local government of Torata	6 August 2009
Victor Silva	Manager of Planning and Budget Office-Local government of Torata	6 August 2009
Alfonso Nina	Farmer –Torata	7 August 2009
Bernabe Flores	Manager of Institutional Image-Local government of Ite	10 August 2009
Carol Medina	Social Worker-Local government of Ite	10 August 2009
Luis Gambeta	Manager of Economic Development -Local government of Ite	10 August 2009
Zuleica Zea	Manager of the Corn project-Local government of Ite	10 August 2009
Mrs. And Mr. Neyra	Farmers-Ite	10 August 2009
Julio Arenas	Manager of Planning and Budget Office-Local government of Ite	11 August 2009
Walter Ruiz	Projects and studies area-Local government of Ite	11 August 2009
Giovanna Herrera	Manager of Investment Office-Local government of Ite	11 August 2009
Alejandro Estrada	General Manager-Local government of Ite	11 August 2009
Epifanio Baca	Gurpo Propuesta Ciudadana NGO-Lima	18 August 2009