

# Conflicting dilemmas: economic growth, natural resources and indigenous populations in South America

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## ■ Executive summary

South American countries have experienced impressive economic growth in the last two decades. This growth, based on natural resource exports and increasing natural resource extraction, is largely dependent on the expansion of the economies of Brazil and China. The cautious optimism that current economic growth may lead to more equitable development is haunted, however, by increasing social unrest that on several occasions has engendered violent responses both by the state and those who protest against extraction activities.

The report discusses how ongoing social conflict relates to prevailing and contested ways of revenue redistribution and social investment that generate and enforce territorial inequalities and promote political patronage and clientelism. It sheds light on current debates about the limits to corporate social responsibility. It also suggests that ongoing social unrest must be seen in relation to the current reconstitution of the nation state and the redefinition of democratic political spaces brought about by the emergence of new local and transnational actors such as the indigenous movement and environmental organisations. In these processes indigenous livelihoods and rights, on the one hand, and environmental effects associated with natural resource extraction and rapid modernisation, on the other, have become issues around which social movements and civil society organisations have coalesced.

## Introduction

South American countries have experienced impressive economic growth in the last two decades. This growth, based on natural resource exports and increasing natural resource extraction, is largely dependent on the expansion of the economies of Brazil and China. The cautious optimism that current economic growth may lead to more equitable development is haunted, however, by increasing social unrest that on several occasions has engendered violent responses by both the state and those who protest against extraction activities.

This report discusses how ongoing social conflict relates to prevailing and contested ways of revenue redistribution and social investment that generate and enforce territorial inequalities and promote political patronage and clientelism. It sheds light on current debates about the limits to corporate social responsibility, while suggesting that ongoing social unrest must be seen in relation to the current reconstitution of the nation state and the redefinition of democratic political spaces brought about by the

emergence of new local and transnational actors such as the indigenous movement and environmental organisations. In these processes indigenous livelihoods and rights, on the one hand, and environmental effects associated with natural resource extraction and rapid modernisation, on the other, have become issues around which social movements and civil society organisations have coalesced.

In comparing the cases of Peru and Ecuador, the report shows the importance of a nuanced understanding of the relationship among the state, capital and rural populations. These cases also show how important it is to develop public policies based on overarching development and territorial planning that go beyond the limited interests of a particular corporate or state-driven programme and that promote consistent and joint management of resources vital to local populations. The democratic challenge is to develop participatory mechanisms and adequate institutional arrangements that both recognise the social and cultural priorities of local populations and promote social cohesion. The report argues, however, that this process might present

the opportunity to transform social conflict into institutional innovation and engender a more inclusive democracy. This is particularly important in a region with high levels of inequality and in which competing interests and social conflict are all too often faced with political repression and persecution.

## Contentious economic growth

As ECLAC (2013) notes, with the exception of Brazil, the impressive economic growth of South American countries is heavily dependent on the extraction and export of natural resources – a trend encouraged by the rise in international prices of crude oil, metals and other raw materials. Dependence on natural resources entails an unparalleled expansion of concessions for hydrocarbon and metal extraction, the production of biofuels, logging, and investments in agroindustry. This expansion is closely linked to significant investment in infrastructure, with China and Brazil as major players, and to the rise of regional initiatives.

The current scale of the exploitation of natural resources and the extent of infrastructure investments are causing unprecedented changes in natural landscapes, territorial dynamics and the control of other vital resources such as water. In 2014 there are 327 oil concessions in the Andean countries alone. In the case of Peru, almost 75% of the country's Amazonian region has been assigned to oil production concessions, while in Ecuador two-thirds of the Amazonian provinces are divided into blocks for oil exploitation. Only 25% of these are under exploitation, which means that the potential for expansion is enormous (Finer et al., 2008; Little, 2012). The mining sector has also experienced rapid growth, especially in Peru. According to De Echave (2005), over half of Peru's peasant communities in the Andean highlands are affected by mineral concessions, while in Ecuador the expansion of the mining sector has been less significant. Currently five large-scale mining projects are located in the Andean highlands and southern Amazonia. Brazil's growing domestic demand for electric power and Peru's and Ecuador's own needs to diversify their energy matrix have also prompted investments in hydroelectricity in the latter countries. Currently there are 139 proposals for building hydroelectric power stations financed by Brazilian and Chinese capital in these two countries and several of these are currently under construction (Finer & Jenkins, 2012). Hydrocarbon blocks, mining concessions, hydropower stations and infrastructure investments overlap with titled land belonging to indigenous and peasants communities, water resources and drainage basins central to local livelihoods, protected areas, and areas that are not titled but are claimed by peasant communities and indigenous groups. Overlapping areas have engendered contested responses that can only be understood in terms of historical legacies and the relationships among the state, capital and rural populations.

## Redistribution of extraction revenues and distortions

In Peru and in Ecuador, as elsewhere in South America, the redistribution of wealth generated by natural resource exploitation – and especially by extraction – is highly contested. Although extraction activities have yielded wealth, they have also left local populations impoverished and caused serious environmental damage, especially in extraction sites. In the last three decades, due to the processes of liberalisation and decentralisation and to the pressure exercised by regional authorities, local populations, and social movements, the patterns of redistribution of oil and mineral revenues, which were highly centralised, have gradually changed. In both Peru and Ecuador this has occurred through the establishment of mechanisms that channel a percentage of extraction revenues to the administrative areas and localities where extractive activities occur. However, the effects of these new patterns of distribution are ambiguous in both countries, and, as described below, have not always been beneficial for the population living in the areas where the extractive activities occur.

In Peru, the redistribution of revenues from mining and oil production occurs by allocating a percentage of tax incomes to the territories in which profits are generated and, in the case of mining, through private development funds owned and managed by mining corporations. The allocated percentage, which is based on annual production, is legally regulated and is known as the mining *canon* and oil *canon*. These *canons* vary and their distribution varies from region to region.<sup>1</sup> Their distribution contributes to an unequal distribution of wealth among the population, as in the case of Loreto. Loreto is the region where oil production started in Peru and which up to the 1980s was responsible for 40% of the country's production. In recent years Loreto has received almost 12% ad valorem of its production. While the distribution of the mining *canon* varies according to which criteria are given priority, by law the distribution of the oil *canon* prioritises population density over proximity to extraction. This creates several distortions: rich city areas receive more resources than oil-producing municipalities and some municipalities in oil-producing provinces receive more resources than the districts hosting the operations (Arellano-Yanguas, 2012; Barclay, 2010). According to the latest (2009) official poverty maps, 30% of the population in 34 of the 51 municipalities that make up the Loreto region are characterised as "extremely poor". In five oil-producing municipalities, five of every ten of its inhabitants are considered to be extremely poor (Barclay, 2010).

In contrast to Peru, the revenue redistribution model in Ecuador has been centralised and has targeted the country's Amazonian provinces and not the territories where production takes place. This model is the result of the demands of the authorities of the Amazonian provinces

<sup>1</sup> Peru is divided into 25 regions, each of which is composed of provinces and each province of districts.

and of social movements that have highlighted the political and economic marginalisation of the whole of Amazonia as one of the country's four regions.<sup>2</sup> The Amazonian provinces are the poorest in the country. In the early 1990s the central government created the Fund for the Sustainable Development of the Amazonian Region (Fondo para el Ecodesarrollo Regional Amazónico), which was financed by taxing each oil barrel produced. The fund received \$0.50 per barrel and its disbursement was regulated by law. Provincial and municipal authorities were obliged to allocate no less than 80% of the resources received to finance roads, sanitation projects and other projects indicated in the Master Plan for Eco-development, while 10% went to the Institute for the Sustainable Development of Amazonia (ECORAE), which financed development projects carried out by social interest groups and community organisations. In addition, and as a result of the liberalisation of the sector, which entailed the withdrawal of state involvement, companies were obliged to draw up a social investment plan for the oil fields they operated.

Even so, in spite of the territorial earmarking of the funds' resources and of the possibility of local social organisations receiving funding from ECORAE, the areas where oil installations were located received limited public funds. According to the 2009 poverty maps drawn up by the Integrated System of Social Indicators and the Coordinating Ministry of Development, the Amazonian provinces, where most of the oil is extracted, have the highest rates of poverty in the country. In Orellana and Sucumbios, where most oil extraction occurs, 62.8% and 59.4% of the population, respectively, lives under the poverty line. The four cantons in which 80% of oil installations are located also have high poverty rates ranging from 0.52% to 0.61% and extreme poverty rates ranging from 0.22% to 0.30%.<sup>3</sup> In spite of these rates, these provinces and cantons are not the poorest in the country; however they score the lowest in terms of access to basic infrastructure and public services, such as clean water and education services (Bustamante & Jarrín, 2004). The new Hydrocarbon Law passed in 2010 attempts to address some of these problems. It states that 12% of company profits have to be directly invested by state authorities in the areas where production occurs. In 2011 the current government launched an investment programme called Strategic Ecuador financed by these resources that targets communities located near oil installations.

The current systems for assigning mining and oil funds have increased the resources received by mining and oil-producing regions, provinces and municipalities. At the same time the allocation of mining and oil funds has reinforced a particular type of state formation characterised by patronage and political clientelism, and has exacerbated social inequalities, with detrimental effects on the well-being of the population.

## Disadvantages of the model: political clientelism and social inequality

The allocation of mining and oil funds to the areas of extraction (regions, provinces or municipalities) has increased the dependence of local authorities and populations on mining and oil companies. In Peru, authorities at different levels depend on oil and mining money. In Loreto, in the last ten years the oil *canon* has constituted 40-60% of the region's annual budget. Dependence takes many other forms, however, and permeates the relations between authorities (at all levels) and oil companies, reinforcing patterns of patronage and political clientelism. Especially at the provincial and municipal levels, the authorities depend on the favours of the oil companies to carry out their duties. Due to budget constraints, these authorities are often unable to fulfil their most basic duties. For instance, they cannot visit a particular place when they need to because they have no means of transport. Oil companies may provide transportation for them or finance projects promised in election campaigns. This creates a situation in which authorities "reciprocate" the favours of the companies by not sanctioning them when they violate regulations.

The authorities' dependence on the favours of oil and mining companies creates a web of joint interests and weakens the authorities' capacity and will to exercise appropriate control over extractive activities, which has had disastrous environmental and social effects. According to the Ministry of Energy and Mines (Nota de Prensa 165-09), the oil companies Perupetro and OXY emptied 1.1 million barrels of waste water per day into the Corrientes river alone. The practice of discharging waste water into lakes, streams and rivers continued until 2009. Regional authorities and public control institutions have been reluctant to enforce existing legislation such as the Water Law of 1969 and a series of environmental regulations related to hydrocarbon activities approved in 1996. Currently, oil spills also continue to be part of oil production practices, and pollution is seldom punished.

In the Ecuadorian Amazonia provincial and municipal authorities depend to lesser extent on funds coming directly from extractive activities located in their territorial jurisdictions.<sup>4</sup> However, until recently, due to low public social investment and contractual obligations, the oil companies were the main providers of social services such as health services and education in the localities near the extraction areas. As in the case of Peru, neither the central nor provincial governments have exercised proper control of extraction activities, which in turn has led to serious environmental degradation and health problems. Billions of gallons of petroleum waste have been dumped into the environment, and in the most affected areas several studies show correlations between residence in oil-produc-

<sup>2</sup> Ecuador is divided in 24 provinces, each of which is composed of municipalities, cantons and parishes.

<sup>3</sup> Poverty is measured by the share of the population whose income or consumption is below the poverty line, i.e. that cannot afford to buy a basic basket of goods.

<sup>4</sup> Ecuador's budget is highly dependent on oil revenues. In the last ten years income from oil exports has constituted 40-53% of the state budget; in this sense, all political/administrative units in the country depend on oil income.

ing areas and a range of medical problems, such as skin ailments and rates of cancer (32% of all deaths) that are higher than the national average (12%) (San Sebastian & Hurtig, 2004).

The ways in which mining and oil revenues are assigned exacerbate territorial and social inequalities. In Peru, the assignments function, on the one hand, as rewards to the productive political/territorial units (even if they do not favour the localities that host operations), directly linking mining and oil extraction and development. This entails that mining and oil-producing territorial units receive substantially more public funds than non-mining or non-oil-producing units, regardless of social indicators such as education, health or poverty levels. On the other hand, the assignments of funds are meant to compensate for social and environmental impacts in localities near the extraction operations. According to Peruvian legislation, as part of their environmental impact studies, companies have to establish the areas directly and indirectly influenced by their operations. Communities located close to operational areas are usually considered to be part of directly influenced areas, while the definition of indirectly influenced areas depends mainly on the company's willingness to intervene socially. Since the state neither regulates the criteria used in defining these areas nor has the technical capacity to evaluate the companies' analysis, the demarcation of these areas engenders conflict and clientelism. Excluded populations try through social protests to be included in the directly influenced areas in order to access private social investments, while the companies use the possible broadening of directly influenced areas as a powerful tool for achieving acceptance by local communities (Damonte, n.d.: 9-12; see also Bebbington, 2012).

In Ecuador, the oil companies have also played a central and defining role in the drawing up of the environmental impact studies that they are obliged to conduct by law. Their investments have followed a particular territorial pattern and have also tended to reflect their own interests. They have invested in the villages situated close to their production facilities and in those that have the political capacity to advance their demands. This pattern has engendered a spiral of continuous conflicts, negotiations and inter-communal inequalities (Guzmán-Gallegos, 2011, 2012: 1; ILAM, 2003). With the new Hydrocarbon Law of 2010 the role of the state in relation to the private oil sector has changed and most of the resources coming from oil have to be channelled through public institutions. Through the public enterprise Strategic Ecuador the government aims to plan and institute development programmes and projects focused on settlements located in the zones of influence of projects considered to be of strategic value to the country, such as mining, oil and hydropower projects. In the case of oil extraction, Strategic Ecuador collaborates closely with the state-owned oil company Petroamazonas in allocating resources and implementing development projects in the communities situated in the oil extraction industry's zones of influence. This poses several challenges.

Petroamazonas's role can generate new relations of dependence and clientelism if the communities that benefit from this programme are only those that have reached particular agreements with the state company or those that the company considers to be in its interests to support. It is also unclear if Strategic Ecuador and Petroamazonas will be under the control of independent institutions that can ensure environmentally sound production practices and can take overarching environmental considerations beyond the immediate areas of influence of an extraction project. Although the Peruvian and Ecuadorian governments favour distinct models for state intervention in extraction areas, both models tend to nurture clientelism as the basis of the local redistribution of resources and as a way of managing conflict.

As mentioned above, current oil extraction, mining, and hydroelectric projects overlap and affect indigenous lands in both countries. This also poses a range of challenges. In both countries the simultaneous emergence of indigenous movements and environmental concerns has created new demands and novel political and power configurations. In the case of Ecuador, its new constitution states that the country is a plurinational state, which means – as the constitution also asserts – that the state is obliged to ensure that indigenous populations are able to define their own developmental priorities. However, this requires a reconfiguration of the state so that it recognises differentiated rights and priorities and promotes social cohesion.

### **New power configurations: indigenous movements and environmental organisations**

During the decades of economic liberalisation and economic growth based on the expansion of the hydrocarbon and mining sectors two new actors emerged: the indigenous movements and environmental organisations. This has brought about a new geography of power: these actors demand the creation of political spaces where the concerns and priorities of groups that have distinct social and cultural practices can be expressed and taken into account.

The emergence of the indigenous movements at the international and national levels is closely linked to a critique of a model of the nation state based on the assimilation of minorities and on the assumption of the cultural and ethnic neutrality of juridical and political institutions. In the Americas, this critique is also a response to significant inequalities and marginalisation caused by ethnic discrimination. As ECLA (2012) points out, indigenous and Afro-populations continue to be the most economically and politically marginalised groups in the region.

The rise of environmental concerns has led to the questioning of the effects that modernisation and industrialisation have on the environment and the use of natural resources in the construction of the nation state.

Environmental agendas have focused on ecological degradation, the social effects of pollution, and the unequal distribution of environmental hazards in terms of the way in which they affect regions and populations. At the international and national levels, environmental organisations seeking to promote sustainable forms of development have brought about changes in international and national legislation. Several international instruments and programmes such as the United Nations (UN) Latin American Global Environmental Citizenship Project, together with a series of environmental standards that apply to extractive industries, have been launched. At the national level environmental organisations have promoted laws and policies that regulate the use of natural resources, increase state control over polluting activities and ecological degradation, and protect the right of the population to a healthy environment.

Important differences characterise the reconfiguration of the relationship between indigenous populations and the state and the role environmental organisations have played in Peru and Ecuador. In Peru, the civil war of the 1980s led to the consolidation of an authoritarian tradition of government and an authoritarian state. The brutal actions of the insurgent group Sendero Luminoso and the repression that followed severely damaged existing forms of popular organisation in the countryside. With popular participation largely absent, neoliberal policies that led to a massive transfer of assets from the state to the private sector were instituted. Although Peru signed international conventions and instruments affirming indigenous rights, national legislation (both the constitution and secondary laws) was changed in the same period and gradually weakened these rights (Chirif & Garcia, 2007; Crabtree & Crabtree-Condor, 2012). In the last decade, however, indigenous identities and local contestation of extractive industries have contributed to the forging of alliances among otherwise-fragmented movements.

In stark contrast to Peru, the Ecuadorian state remained weak in the 1980s and 1990s, torn between the interests of economic elites from the coast and the Andean highlands (Clark & Becker, 2007). Social movements (in particular indigenous ones) developed into powerful actors that questioned the legitimacy of several governments and were able to partially block state initiatives that pursued neoliberal economic agendas (Pachano, 2009). The strength of the indigenous movements and their capacity to establish shared agendas among a range of indigenous actors and alliances with other social movements also led to significant legal changes. Ecuador's constitutions of 1998 and 2008 established that the country is a pluricultural and plurinational state, and awarded special rights to the indigenous and Afro-Ecuadorian populations.

In contrast, in both Peru and in Ecuador, environmental organisations have a more limited social base that is still mainly urban and located in these countries' capitals. In spite of this, these organisations have been able to develop

and present proposals to the state, have promoted better coordination among national, regional and provincial authorities, and have undertaken activities that state institutions were not able to, such as the management of protected areas (Cisneros, 2011). As part of transnational networks, these organisations have been able to carry out activities and link with actors at the international level in order to press national authorities to modify public policies. In the last decades environmentalists have sought to establish alliances with peasant and indigenous movements and have supported their demands for control of resources that are affected by or overlap with mineral and oil concessions. These alliances have achieved important changes while simultaneously generating new dilemmas.

### **Leverage and dilemmas of indigenous movements and their environmental allies**

The demands of the indigenous movements, the agendas of environmental organisations and the collaborative relations established among these actors exercised significant leverage. This leverage is notable especially in national contexts where state authorities historically have had close relations with economic elites or have been largely absent, where the sustainable management of natural resources has been lacking (ECLAC, 2013), where indigenous groups have been largely marginalised and where entire groups of people have been considered less valuable than others.

Throughout South America, oil and mining companies seldom operate with efficient technical safeguards to avoid pollution. In Peru, pollution has been neglected by operators and frequently ignored by the authorities. Local indigenous organisations with the expert assistance of environmental organisations and non-governmental organisations (NGOs) promoting indigenous rights have thoroughly documented water and soil contamination produced by copper and oil operations (Earle, 2009; Guzmán-Gallegos, 2011). These organisations have managed to put the issue of pollution on the policy agenda at the national and international levels and have succeeded in engaging national authorities by providing information and facilitating visits to contaminated sites. In 2011 several indigenous organisations in northern Loreto, in close cooperation with national and international environmental NGOs, denounced the serious contamination of several lakes to the Peruvian Parliament. The validity of this information was denied by Pluspetrol, the oil operator in Loreto, which is also the major oil producer in Peru, with 53% of the country's oil production. When a committee composed of members of Parliament wanted to visit the alleged contaminated sites, the oil operator, which controls the airports in the oil field, did not allow them to do so. After much pressure the committee eventually visited the sites and the company was fined, and obliged to clean up the pollution and compensate the affected communities. Cleaning activities and changes in production practices

such as reinjecting waste water instead of discharging it into rivers and lakes benefit not just indigenous communities, but all the communities that depend on these bodies of water (Guzmán-Gallegos, 2011).

Despite the spaces for the articulation of grass-root interests that indigenous movements and environmental organisations have created and despite the successes they have had in establishing connections with state authorities, these movements' and organisations' actions and alliances present some dilemmas. The most important of these are related to the management of divergent social interests and local disagreements, the nurturing of alliances with other local actors, and the promotion of coherent and overarching public policies.

Firstly, national and international conservation agendas may weaken indigenous movements' ability to relate to the at-times contradictory interests of different groups in their constituencies and thus undermine their ability to manage internal conflict. Local communities often have mixed positions on oil and mining extraction. Given the ways in which the redistribution of oil and mining incomes are organised, the presence of extractive industries in their lands – either privately or publicly owned – may mean access to much needed services such as schools and health facilities. External expectations and accusations of cooption and betrayal may cause and exacerbate internal disagreements in affected communities. Accusations of cooption or collaboration with extractive companies or with state representatives may also prevent local leaders from handling internal differences and disagreements, not only contributing to the fragmentation of social organisations, but also hindering the development of proposals based on internally negotiated agreements and consensus.

Secondly, alliances that build on relations between environmental NGOs and selected communities may generate fragmented solutions. Due to financial restrictions, institutional limitations and their agendas' priorities, international and national environmental NGOs establish dyadic relations or relations with a few selected indigenous organisations or communities. This may imply, for instance, that different organisations representing different communities in the same oil or mining concession are supported by different NGOs. Due to poor coordination among them, they develop separate systems for monitoring environmental degradation. The result is that information produced for areas that are part of the same river basin may be difficult to compare and use in policy proposals. Moreover, this lack of coordination can lead to unequal compensation measures. Due to the advocacy abilities of a supporting NGO and the leaders' bargaining skills, communities living, let's say, in the upper part of a river can be compensated, while those located downstream will not be, even if they also experience the environmental

impacts of an oil or mining concession. This may generate local competition, either creating or worsening already existing conflicts.

Thirdly, a common strategy is to support “emblematic cases” involving communities or organisations that have been fighting for a cause.<sup>5</sup> Due to the political importance such cases may have regarding particular demanded changes, these organisations and communities become particularly attractive to international funding. This funding may allow them to develop economic alternatives and obtain much needed political capabilities, which are important. The drawback of the support given to such emblematic cases is that it generates “not-in-my-backyard” solutions. Compensation paid to some of the affected communities or the creation of special measures that protect some communities from extractive activities and not others in spite of the fact that the latter will be equally affected may hinder the development of local alliances among communities with divergent interests. Such alliances are important for the nurturing of social cohesion and the development of coherent and overarching policy proposals.

Fourthly, a major challenge for cooperation between international and national environmental organisations and indigenous movements is the development of strategies that privilege international political arenas above national arenas. Seeking to influence U.S. or international institutions, such as the headquarters of an oil corporation, the Inter-American Development Bank, the European Parliament or the UN, these organisations may give priority to supporting the participation of social movements' leaders in international arenas. While this is necessary and leads to the acquisition of important experiences and capabilities, it becomes problematic when it fails to engage with state authorities at the national and local levels and does not promote collaborative relations with other actors in the country in question. Overestimating international arenas in countries whose authorities are committed to the expansion of the extractive sector may imply a misreading of power dynamics at the national and local levels (Cisneros, 2011; Pratt, 2012).

The demands of indigenous movements and environmental organisations and the policy proposals they have developed and cooperated on to implement address issues of social and economic inequality, ethnic and cultural discrimination, continuous poor environmental management, and environmental justice. However, by not addressing divergent local interests and by not promoting the development of strategies and policies based on negotiated agreements and consensus, these actors may run the risk of furthering social and territorial fragmentation that, as has been shown, is promoted and created by national policies and the way in which extractive industries are managed in these countries.

<sup>5</sup> Emblematic cases are successful cases through which some conditions or requirements (rules on lending in areas of biodiversity and indigenous populations, or the state's need to respect indigenous consultation rights) can be demonstrated.

## Conclusion

This report focuses on Peru and Ecuador. The conclusions reached, however, are relevant for understanding similar process in other countries in the region, such as Bolivia and Colombia. Moreover, the report's findings are relevant when analysing issues such as corporate social responsibility. Corporates' social investments (which are often part of their social responsibility policies) must be seen in relation to how a state functions in a particular context and the nature of the responses of other actors.

Policies for the redistribution of resources generated by extractive activities continue to cause territorial fragmentation and exacerbate inequalities in the two cases this report has compared. Although the assignment of mining and oil funds has increased the amount of resources received by producing regions, provinces and municipalities, the benefits for the population living in the areas where extractive activities take place are still limited. The rates of poverty in either localities or provinces where resources are extracted are among the highest, and people's access to health and education services in these areas is insufficient.

The ways these assignments of funds are organised favour institutional arrangements and organisational behaviour that engender patronage and conflict. Corporations and state authorities may use assignments of funding strategically to achieve acceptance by local communities while excluded populations may attempt to access services and funding through social protest. The dependence of the authorities on funding assignments and the favours of corporations may also reinforce non-sustainable productive practices that have disastrous environmental and health effects.

In order to reverse these dynamics it is necessary to create public policies guided by overarching development and territorial planning that goes beyond the interests and areas of influence of a particular corporate or state-driven programme. The expansion of extractive industries should be planned, moreover, in relation to other development and environmental priorities. This means, firstly, that there must be joint planning of the management of resources such as water that includes local populations, local organisations and state authorities at different levels. Secondly, independent control and institutional mechanisms for avoiding and punishing contaminating practices must be in place and must function in practice. Thirdly, it should be possible to pre-define areas where extraction should not occur either for environmental or sociocultural reasons.

Most of the countries in South America are home to indigenous and Afro-populations. Current international and national legislation endows these populations with special rights, in particular territorial rights. This legislation, together with environmental laws and regulations, is to a significant degree the result of the actions of indigenous

movements and environmental organisations that in different ways have become important political actors. Because of their different political histories, their influence varies. In Ecuador, indigenous movements in alliance with environmental and human rights organisations demand the creation of a plurinational state that promotes a variety of societal cultures and distinct development priorities. The country's constitution affirms this imperative. However, such a state requires the creation of clear participatory mechanisms and adequate institutional arrangements that also promote social cohesion. Multicultural and multinational policies should, however, not be formulated as ad-hoc bargaining solutions to ensure temporary political stability. It is not enough to create an institution for indigenous and Afro-population issues if this institution does not manage to promote the diverse interests of these populations.

Current processes of interaction and alliance building between indigenous actors and environmental organisations may contribute to social and territorial fragmentation. Relations with selected communities, specific agendas, and limited funding may generate dynamics that prevent the expression and negotiation of distinct interests and priorities in communities. At worst, such dynamics may reinforce internal conflicts and may also seriously weaken their demands for the drawing up and implementation of environmental regulations. In spite of the fact that isolated solutions may protect or compensate certain communities, these can fail to contribute to the development of coherent, overarching public policies and planning. For indigenous populations it is of vital importance to be able to overcome conflicts within and between communities and to link their interests to those of neighbouring non-indigenous communities. This goes beyond the possibility of participation in particular political processes and extends to the question of viable livelihoods.

This report argues that in order to transform social conflict into institutional innovation and to engender a more inclusive democracy, there is a need for a different role for the state in terms of which it is able to mediate among various sociocultural groups rather than function as a facilitator for the agendas of elites. Such a state would need to nurture a political culture of negotiation and the achievement of social pacts and consensus adapted to the new realities described in this report.

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