

REPUBLIC OF PERU

Extractive Industries Transparency Initiative
Working Committee

VALIDATION REPORT

*This Validation Report has been translated from Spanish
Should any doubt arise, the Spanish version prevails*



REPUBLIC OF PERU

Extractive Industries Transparency Initiative Working Committee

SYNTHESIS

Since its sign-up in 2005, the Peruvian government has implemented the Extractive Industries Transparency Initiative in a way that is characterized by:

- Full involvement of the civil society and the extractive companies
- Reconciliation of the essential revenues paid to the State from extractives activities
- A rigorous first reconciliation process and the production of a high-quality EITI Report covering 2004 to 2007
- Dissemination of EITI data in the main extractive regions of the country

We consider that the progress made by the National Initiative has been demonstrated and is sufficient to recommend Peru as an EITI Compliant country.

Mr. Daniel Camac Gutierrez
President of the EITI Working
Committee
Av. Las artes n°260 - San Borja
Lima - Peru

Paris, September 1st 2010

EXECUTIVE SUMMARY

Object: VALIDATION REPORT
EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE FOR THE REPUBLIC OF PERU

Dear Mr. President,

The context

The Extractive Industries Transparency Initiative (EITI) aims to improve transparency of revenues from extractive activities in countries with oil, gas and mining resource wealth.

The Republic of Peru signed-up to EITI in May 2005 and has held Candidate country status since 2007. In order to attain Compliant country status, Peru must provide the EITI International Secretariat with an independent assessment of its progress in implementing EITI principles: i.e. Validation.

The present Validation Report covers the period from the date on which the country signed up to EITI to the date of this report.

Our firm, CAC 75, was selected through an international invitation to tender to carry out Validation of the Initiative in Peru, in the capacity of Validator accredited by the EITI International Secretariat, on the basis of agreed-upon procedures and in accordance with the Validation Guide.

Tasks completed

We began our work in June 2010 by analysing supporting documentation relating to the EITI process in Peru. In addition, we analysed the work plans for the periods 2005-2006 and 2009-2010, the Supreme Decrees, the minutes of the Working Committee, and the 2004-2007 EITI Report prepared by the independent Reconciler. We also sent self-evaluation forms to the companies named by the Working Committee as participating in the Initiative.

Finally, we held a series of interviews in Lima with representatives of the various participants: the Deputy Minister of Energy and Chair of the Working Committee, the Technical Secretary and the independent Reconciler of the 2004-2007 EITI Report. Further interviews, a complete list of which appears in Part 2 of the Report, enabled us to hear the opinions and viewpoints of the following: members of the Working Committee; representatives of the

World Bank in Peru; representatives of the regulatory bodies; company representatives; and one civil society representative who is not a member of the Working Committee.

This Validation Report was discussed with the Working Committee on August 2010 in Lima and endorsed by the said Working Committee on September 1st 2010.

Validation overview

- *Country work plan*

The Working Committee has created, endorsed and published two work plans, the first for the years 2005-2006 and the second for 2009-2010.

The first work plan was divided into three key stages: preparation, implementation and evaluation. It includes deadlines and a preliminary costing estimated at US\$349,800 for the key actions. The delay in implementing the first work plan is the reason given for the absence of a work plan for 2007 and 2008.

The 2009-2010 work plan revisits the key points of the first work plan and completes it with Validation. It contains 22 actions grouped under six key objectives.

It includes deadlines for implementation and an estimated preliminary costing of US\$420,000 for the key actions, specifically:

- Producing the national EITI Report for 2004-2007: US\$142,800
- Developing a communications plan: US\$115,000
- Developing a regional pilot programme: US\$10,000
- Producing a regional EITI Report for 2004-2007: US\$20,000
- Validation process: US\$70,000
- Other expenses: US\$62,200

These costs are financed by the World Bank (IBRD) through a US\$350,000 grant with the rest being met by the State.

The actions of work plan 2009-2010 have been implemented and, in general, deadlines were respected. The two work plans have been published on the Initiative website: <http://intranet2.minem.gob.pe/web/eiti> and www.eitiperu.info.

- *Progress to date*

Since its sign-up, in May 2005, the domestic Initiative has shown numerous indications of progress.

In May 2006, the government created the Multi-Stakeholder Group, called the Working Committee, comprising nine members with absolute equality of representation among the three principal stakeholder groups: three members representing the government, three representing companies, three representing civil society.

The first work plan was created with a provisional costing of US\$349,800 financed by a grant from the World Bank.

In September 2007, Peru was accepted as a Candidate country. A year later, the Working Committee appointed Ernst & Young, Peru, to reconcile the data of the extractive industries sector. Work was carried out during the months of June, July and August 2009. The principal mining, oil, and gas companies, with four exceptions, agreed to participate in the process. Data reconciliation was carried out on the basis of companies' annual sworn declarations and the declarations of the regulatory bodies. Furthermore, this enabled the independent Reconciler to obtain information on the transfer of tax revenues to the extractive regions in

accordance with Peruvian law (known as the “Canon”). A further analysis was carried out by a consultant with the aim of analysing the utilisation of funds in the region of Cajamarca.

The 2004-2007 EITI Report was presented to the participating companies in November 2009. As part of the communications campaign launched during the months of March and July 2010, the Report was widely disseminated in six regions of the country: Moquegua, Ancash, Loreto, Cuzco, Cajamarca and Lima. The Validator was appointed in June 2010. Key documents of the domestic Initiative are available on the following websites: <http://intranet2.minem.gob.pe/web/eiti> and www.eitiperu.info.

We note a serious commitment to the domestic Initiative on the part of the companies and the satisfaction of the civil society representatives at the progress achieved during EITI implementation in Peru.

- *The Validation Grid*

On the basis of the tasks completed, described here above, we believe that Peru has achieved EITI Compliance for all the indicators.

However, particular attention should be paid to monitoring the progress of the following indicators: 9, 12, 13, 14 and 15.

Each indicator is the subject of a detailed analysis in Part 4 of the Report.

- *Company implementation of EITI*

We confirm that companies are particularly involved in the Process on the basis that:

- There was a regular and active presence of company representatives at Working Committee meetings. All of the 33 participating companies submitted information for the data reconciliation in the 2004-2007 EITI Report
- 31 of the 33 companies responded to our self-evaluation forms within the given deadlines. In these, the companies indicated that they had issued public statements of support for EITI at national level
- The majority of companies did not encounter any obstacles and are content with the domestic Initiative work plans
- All the companies confirm that they declared all the payments to the firm contracted to carry out the data reconciliation
- All the companies consider the discrepancies uncovered to be acceptable and are content with the work of the independent Reconciler

An analysis of the responses to our company self-evaluation forms appears in Part 5 of this Report.

- *Recommendations*

Based on the observations above, we believe that certain actions would facilitate an improvement in the quality of the domestic Initiative implementation. Our recommendations are set out in Part 6 of this Report.

Mr. President, be assured of our consideration and respect,

Yours sincerely



Hugues Renaux
Partner - CAC 75

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ACRONYMS AND GLOSSARY

Companies

SNMPE Sociedad Nacional de Minería, Petróleo y Energía

Government

INGEMMET Geological, Mining and Metallurgy Institute

MEF Ministry of the Economy and Finances

MEM Ministry of Energy and Mines

SUNAT National Superintendency of Tax Administration

Civil society

CAD Ciudadanos Al Día (Citizens of Today)

CBC Bartolomé de las Casas Centre for Regional Andean Studies

CEDEP Citizen Action Group

INNOVAPUCP Pontifical Catholic University of Peru – Centre for Consultancy and Integrated Services

Various

IBRD International Bank for Reconstruction and Development

E **EITI IN THE REPUBLIC OF PERU**

EITI aims

EITI Validation process

Extractive industries sector in Peru

The Initiative in Peru

Scope of the EITI Report 2004-2007

✓ EITI aims

The Extractive Industries Transparency Initiative (EITI) aims to improve transparency over payments which oil, gas and mining companies make to the government of a country.

Countries sign-up voluntarily and implementation is the responsibility of governments.

Each country is free to choose its own practical means of implementation within EITI rules. A National Initiative must therefore guarantee the following¹:

1. Regular publication of payments and revenues received by governments from oil, gas and mining companies

“Regular publication of all material oil, gas and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner”.

2. Audit of payments and revenues according to international standards

“Where such audits do not already exist, payments and revenues are the subject of a credible, independent audit, applying international auditing standards”

3. Reconciliation of payments and revenues by an independent Administrator

“Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator’s opinion regarding that reconciliation, including discrepancies, should any be identified”.

4. Participation of state-owned companies

This approach is extended to all companies including state-owned enterprises”

5. Active implication of the civil society

“Civil society is actively engaged as a participant in the design, monitoring and evaluation of this process and contributes towards public debate”.

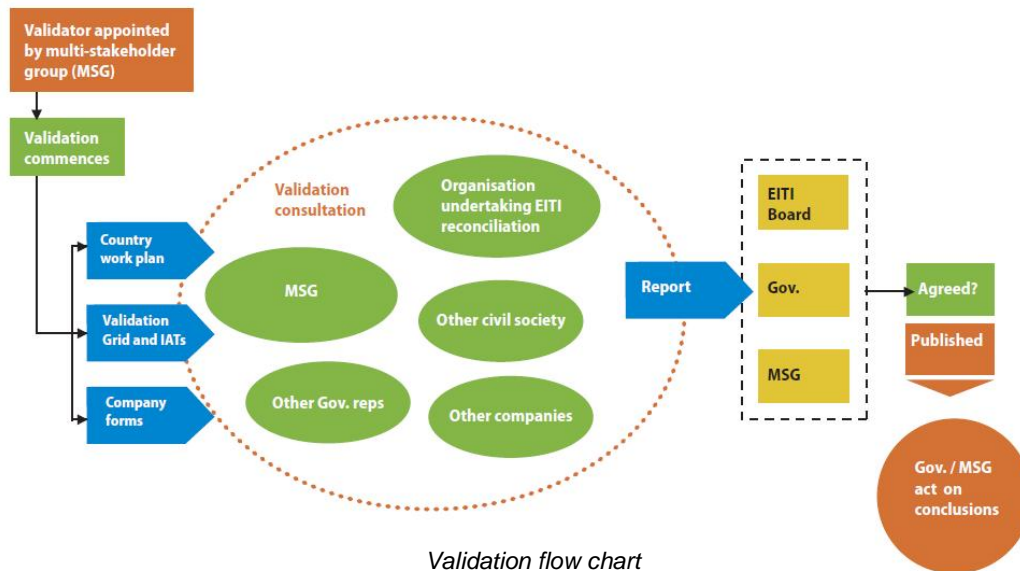
6. Development and publication of a detailed, financially sustainable work plan

“A public, financially sustainable work plan for all the above is developed by the host government, with assistance from the international financial institutions where required, including measurable targets, a timetable for implementation, and an assessment of potential capacity constraints”.

¹ Criteria from the EITI Sourcebook

✓ EITI Validation process

The purpose of Validation is to judge whether the National Initiative has achieved EITI Compliance. The Validation process can be broken down as follows:



Validation flow chart

The Validator uses three key documents in accomplishing the task:

- The country work plan, established and endorsed by the National Committee (work plan 2009-2011 appears in Annex I)
- The company self-evaluation forms submitted to the Validator (Annex II)
- The EITI Validation Guide published by the International Secretariat (Annex III)

Validation begins with an analysis of the supporting documentation relating to the development of the EITI process in the country. Self-evaluation forms are sent to the companies involved for assessments of the quality of their own EITI implementation.

Validation continues through a series of interviews with the stakeholders of the Initiative, in particular: the Multi-Stakeholder Group (representatives of the government, companies and civil society); the organisations appointed to reconcile the figures; and other principal stakeholders including funding organisations, companies and civil society organisations outside the Multi-Stakeholder Group.

The Validation Report includes:

- Progress in implementing the country work plan
- Analysis of each indicator in the Validation Grid
- The completed Validation Grid
- Progress of company implementation of the EITI rules
- Self-evaluation forms received from companies
- Overall assessment of implementation of the National Initiative

The Validation Report is sent to the Multi-Stakeholder Group for comment and endorsement and then to the EITI Board for its decision on country Compliance.

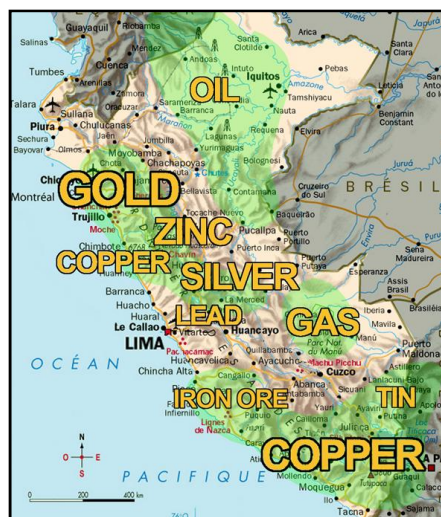
✓ Extractive industries sector in Peru

• Important mining, oil and gas reserves

Peru possesses significant mining resources, especially copper, gold, zinc, silver, tin, lead and iron. The country also has a subsoil rich in oil and gas resources.

The most important copper reserves are found in the south east of the country. The gold reserves are situated in the north east of the country.

The oil reserves are found particularly in the Amazon region. Offshore reserves have been identified along the coast of the country. In addition, Peru possesses significant natural gas reserves which are found in the east of the country in the Cuzco region.



Extractive activity reserves in Peru

• Country output

Country output is largely based on mining production and, to a lesser degree, oil and gas production.

The mining sector²

The country's main output is concentrated in the following sectors: copper, world's third-largest producer; gold, world's fourth producer with 182 tons in 2009; zinc, world's second producer; and silver, world's largest producer with 3,800 tons in 2009.

Copper

Copper production reached 1,274,000 tons in 2009. The main actors are: Southern Perú Copper Corporation (28% of production), Compañía Minera Antamina (27% of production), Cerro Verde (24% of production) and Xstrata Tintaya (8% of production).

Gold

Two large companies (Yanacocha and Barrick) share more than 57% of national gold production which rose to 182 tons in 2009. The percentage of production represented by each company was 35% and 22% respectively in this same year.

Zinc

Peru accounted for more than 13% of world zinc production with 1,500 tons. The main actors in the sector are: Compañía Minera Antamina (32%), Volcan (17%), Milpo (10%) and Chungar (7%).

Silver

Peru accounted for more than 18% of world silver production in 2009. More than 3800 tons were produced in the country in that same year. The main actors in the sector are: Compañía Minera Antamina (13%), Volcan (13%), Buenaventura (10%) and Ares (10%).

² Sociedad Nacional de Minería, Petróleo y Energía (2009) – Reporte Estadístico Minero energético

The hydrocarbons sector³

In 2008, the production of oil and natural gas in Peru rose to 80,000 barrels a day and 40,000 barrels equivalent per day, respectively.

Oil

The main actors in the oil sector are Pluspetrol Perú Corporation (49% of production), Pluspetrol Norte (21% of production), Petrobras (9.2% of production) and Petrotech (8% of production). Most of the production occurs in the areas of Cuzco (48% of production) and Loreto (20.7% of production).

Natural gas

More than 80% of the national production of natural gas is concentrated in the region of Cuzco. Pluspetrol is the leader in this sector (81% of production).

✓ The Initiative in Peru

Peru signed up to EITI in May 2005 in order to improve transparency in the activities of the extractive industries sector in the country. The Multi-Stakeholder Group, known as the Working Committee, was created in May 2006. The country was declared a Candidate country in September 2007.

The work plans for the years 2005-2006 and 2009-2010 were published on the Initiative website.

The country's first EITI Report covered data from the years 2004-2007. It is available on the domestic Initiative website. It was presented in the six principal mining regions of the country.

✓ Scope of the EITI Report 2004-2007

• Sectors

The current scope of the EITI Report for Peru covers all three sectors of the extractive industries envisaged by EITI: the mining sector, the oil sector and the gas sector.

• Companies

Thirty three companies took part in the first data reconciliation exercise for 2004-2007. These operate across the different sectors and cover:

- 95% of copper production
- 70% of gold production
- 53% of zinc production
- 54% of silver production
- 40% of lead production
- 100% of tin production
- 100% of molybdenum production

³ Perupetro (2008) – Estadística petrolera

Mining companies

Companies in production:

- Cedimin S.A.C.
- Compañía de Minas Buenaventura S.A.A.
- Compañía Minera Antamina S.A.
- Compañía Minera Argentum S.A.
- Compañía Minera Milpo S.A.A.
- Compañía Minera Raura S.A.
- Empresa Minera Los Quenuales S.A.
- Inversiones Mineras del Sur S.A. (absorbida por Buenaventura S.A.A. en el año 2007)
- Minera Barrick Misquichilca S.A.
- Minera Bateas S.A.C.
- Minera Pampa de Cobre S.A.
- Minera Yanacocha S.R.L.
- Minsur S.A.
- Pan American Silver S.A.C.
- Mina Quiruvilca
- Perubar S.A.
- Sociedad Minera Cerro Verde S.A.A.
- Sociedad Minera El Brocal S.A.A.
- Southern Perú Copper Corporation, Sucursal del Perú
- Xstrata Tintaya S.A.

Companies in the exploration phase:

- Anglo American Exploration Perú S.A.
- Anglo American Michiquillay S.A.
- Anglo American Quellaveco S.A.
- Río Tinto Minera Perú Limitada S.A.C
- Río Tinto Mining and Exploration S.A.C.

List of hydrocarbon companies

Companies in production:

- Hunt Oil Company of Peru L.L.C.
- Maple Gas Corporation del Peru S.R.L.
- Olympic Peru INC, Sucursal del Perú
- Petrobras Energía Perú S.A.
- Pluspetrol Camisea S.A.
- Pluspetrol Norte S.A.
- Pluspetrol Perú Corporation S.A.
- Repsol Exploración Perú, Sucursal del Perú

Companies in the exploration phase:

- Perenco Perú Limited, Sucursal del Perú

• Financial flows

The scope of revenue flows analysed for the EITI Report 2004-2007 covers:

- Income Tax
- Mining Royalty
- Oil Royalty
- Gas Royalty
- Property Fee

Income Tax

Third Category Income Tax is the tax which companies pay for the profits or earnings gained through company activities including those of a commercial, industrial, service or business nature.

Mining Royalty

The Mining Royalty is a financial consideration established by law according to which the owners or concession holders of mines are obliged to make a monthly payment to the state for the exploitation of metallic and non-metallic mineral resources. This consideration has been in place since June 2004.

Oil Royalty

This is the consideration paid to the Peruvian state by extractive industry companies in the oil sector for the exploitation of oil resources in Peruvian territory. The aforesaid royalty is set and collected by Perupetro.

Gas Royalty

This is the consideration paid to the Peruvian state by extractive industry companies in the gas sector for the exploitation of gas resources in Peruvian territory. The aforesaid royalty is set and collected by Perupetro.

Property Fee

This is the consideration paid to the Peruvian state by extractive industry companies in the mining sector for the exploitation of mining resources in Peruvian territory.

• The regulatory bodies

The regulatory bodies included in the scope of the 2004-2007 EITI Report are:

- SUNAT (National Superintendency of Tax Administration)
- INGEMMET (Geological, Mining and Metallurgy Institute)
- Perupetro

SUNAT (National Superintendency of Tax Administration)

SUNAT is a decentralised state institution in the Economy and Finance sector. Its role includes administration, control and collection of national taxes including Income Tax and Mining Royalties.

INGEMMET (Geological, Mining and Metallurgy Institute)

INGEMMET is responsible for implementing and developing studies into the country's mineral resources. It collects the Property Fee.

Perupetro

Perupetro is a state-owned company subject to private law which exists to promote investment in exploration activities and in the exploitation of hydrocarbons in Peru. Perupetro is responsible for calculating and collecting the Oil Royalties and Gas Royalties.

Type of payments	Sector	Raising Institution
Income Tax	Mines and Hydrocarbons	⇒ SUNAT
Mining Royalty	Mines	⇒ SUNAT
Oil Royalty	Oil	⇒ Perupetro
Gas Royalty	Gas	⇒ Perupetro
Property Fee	Mines	⇒ INGEMMET

Synthesis of financial flows

INTERVIEWS PARTICIPANTS

Members of the Working Committee

Technical Secretariat Representative

Former Members of the Working Committee

Independent Reconciler of the 2004-2007 EITI Report

World Bank

Representatives of the regulatory bodies

Civil society representatives not on the Working Committee

Representatives of companies not on the Working Committee

As part of the second phase of the EITI Validation process for Peru, we interviewed various people involved in the National Initiative. Interviews were held on a one-to-one basis and facilitated constructive and open dialogue with the Validator. The list of people interviewed is as follows:

✓ Members of the Working Committee

Name	Role/title	Represented organization
<u>Government representatives</u>		
Daniel Camac Gutierrez*	President of the Working Committee and Vice-Minister of Energy	MEM (Ministry of Energy and Mines)
Hugo Oropeza*	Official of the Direction of Economic and Social Affairs	MEF (Ministry of the Economy and Finances)
Javier Paucar**	Official of the Direction of Economic and Social Affairs	MEF (Ministry of the Economy and Finances)
<u>Civil society representatives</u>		
Jame Consiglieri*	EITI Representative	CooperAcción
Cynthia Sanborn*	Director of the Investigation Center of the University of the Pacific	University of the Pacific
Epifanio Baca Tupayachi**	EITI Representative	CEDEP (Citizen Action Group)
Carlos Wendorff**	Director of Innova PUCP	Pontifical Catholic University of Peru
<u>Representatives of companies</u>		
Caterina Podestá Mevius*	General Manager	SNMPE (Sociedad Nacional de Minería, Petróleo y Energía)
Carlos Aranda Arce*	Manager	Southern Peru Copper Corporation
Pablo de la Flor Belaúnde**	Vice-President	Compañía Minera Antamina
Luis Ibarra**	Manager of Communication and External Relations	Repsol Exploración Perú
Jorge Luis Mercado**	Assistant Manager of External Relations	Repsol Exploración Perú
Carmen Mendoza**	Manager of the Economic Studies	SNMPE (Sociedad Nacional de Minería, Petróleo y Energía)

*National titular

**National alternate

✓ Technical Secretariat representative

Name	Role/title	Represented organization
José Luis Carabjal Briceño	General Director of Social gestion Technical Secretariat	MEM (Ministry of Energy and Mines)

✓ Former members of the Working Committee

Name	Role/title	Represented organization
Felipe Isai Cayo	Ex-Viceminister of Minas Ex-President of the Working Committee	Fernandez, Heraud & Sanchez Abogados
Pedro Gamio	Ex-President of the Working Committee	GVEP International
Domingo Drago	General Manager of Asuntos Corporativos	Xstrata

✓ Independent reconciler of the 2004-2007 EITI report

Name	Role/title	Represented organization
Numa Arellano	Associate, Advisory Services	Ernst & Young Peru
Renzo Valera	Advisory Services	Ernst & Young Peru

✓ World Bank

Name	Role/title	Represented organization
Eleodoro Mayorga Alba	Oil Engineer	World Bank
Mirco Kreibich	Official of the EITI Peru Program	World Bank

✓ Representatives of the regulatory bodies

Name	Role/title	Represented organization
Edwin Gutierréz	National Manager of Tax Studies and Planning	SUNAT (National Superintendancy of Tax Administration)
Luis Barrazuola	<i>EITI Representative</i>	INGEMMET (Geological, Mining and Metallurgy Institute)
Desy Mogollon Curay	Contracts Manager	Perupetro
Jessica Gallo Cabrera	Treasury	Perupetro
Gustavo Vásquez Guevara	Treasurer	Perupetro

✓ Civil society representatives not on the Working Committee

Name	Role/title	Represented organization
Caroline Gibu	Civil Society member not attached to the EITI	Ciudadanos Al Día (Citizens of Today)

✓ Company representatives not on the Working Committee

Name	Role/title	Represented organization
Yssac Cruz Ramirez	General Manager	Sociedad Minera El Brocal
Pedro Kcomt	Manager Administration Risks and Control	Empresa Minera Los Quenuales
Emilion Alfageme	Legal Adviser	Minsur
Carlos Scerpella Cevallos	Senior Specialist in Human Rights & Ethical Advocate	Minera Yanacocha (Promoter Group Cajamarca)

C **COUNTRY WORK PLAN**

Progress since 2005

The 2009-2010 work plan

The Working Committee has created, endorsed and published two work plans. The first Report was for 2005-2006 and enabled Peru to achieve Candidate country status. The second was for 2009-2010 and appears in Annex I of this Report.

The delay in the implementation of the first work plan is the reason given for the absence of a work plan for 2007 and 2008.

✓ Progress since 2005

• The 2005-2006 work plan

The work plan was approved by the Supreme Decree of 5 May 2005. The Plan is divided into three key stages: preparation, implementation and evaluation.

As we understand, the key objectives of the work plan are:

- Creating a working group and holding meetings
- Reconciliation of figures at national level
- Implementation of pilot programmes in different regions
- Developing a communications plan
- Disseminating EITI Principles
- Validation

This work plan includes a series of deadlines for implementation and a costing of US\$349,800 for the key actions which cover:

- Reconciliation of data at national level costed at US\$87,000
- Developing a plan for communicating and disseminating EITI Principles costed at US\$40,800
- Implementation of pilot programmes in different regions costed at US\$22,000

We note that:

- The cost of data reconciliation at national level was US\$144,000 and not US\$87,000
- The actual cost of the communications campaign was US\$115,000, more than twice the costing originally envisaged (US\$40,800)
- Furthermore, there was only one pilot programme which cost US\$20,000

This work plan was published on the website of the Ministry of Energy and Mines <http://intranet2.minem.gob.pe/web/eiti> and is also available on the domestic Initiative website www.eitiperu.info. However, there was no specific launch event nor has it been widely disseminated. Furthermore it does not include an assessment of potential capacity constraints.

We understand that activation of the work plan took three years owing to the time needed to ensure the full participation of all the members of the Working Committee and a consensus on the most important decisions.

• Absence of a work plan for 2007-2008

The delay in the implementation of the first work plan is the reason given for the absence of a work plan for 2007 and 2008. The reasons for this delay have been explained above.

✓ The 2009-2010 work plan

The 2009-2010 work plan, in Annex I, revisits the key points of the first work plan and adds additional actions related to Validation.

This work plan was discussed by the members of the Working Committee who endorsed it. It contains 22 actions grouped under six key objectives:

- Producing the 2004-2007 EITI Report for the Republic of Peru
- EITI communications plan
- Developing a regional pilot programme in Cajamarca
- Producing the regional EITI Report for 2004-2007 in Cajamarca
- Validation of the domestic Initiative
- Establishing institutional bases which guarantee the sustainability of EITI

This work plan includes a series of deadlines for implementation and an estimated preliminary costing of US\$420,000 for the key actions which cover:

- Producing the national EITI Report for 2004-2007: US\$142,800
- Developing a communications plan: US\$115,000
- Developing a regional pilot programme: US\$10,000
- Producing the regional EITI Report for 2004-2007: US\$20,000
- Validation process: US\$70,000
- Other expenses: US\$62,200

Such costs are financed by the World Bank (IBRD) through a US\$350,000 grant with the rest being met by the State.

During the years 2009-2010, the following actions were implemented:

- Production of an EITI Report for the period 2004-2007
- Development of an EITI communications plan
- Production of the 2004-2007 EITI Report for the region of Cajamarca (comprising a study on the utilisation of the region's extractive industry revenues)
- EITI Validation process in Peru

V THE VALIDATION GRID

Progress to date

Summary of our judgement

The Validation Grid

Analysis of indicators

✓ Progress to date

Since sign-up in May 2005, the domestic Initiative has indicated numerous signs of progress.

In May 2006, the government created the Multi-Stakeholder Group, called the Working Committee, comprising nine members with absolute equality of representation among the three principal stakeholder groups: three members representing the government, three representing companies, three representing civil society.

The cost of the first work plan was previously estimated at US\$349,800 financed by a donation from the World Bank.

In September 2007, Peru was accepted as a Candidate country. A year later, the Working Committee hired Ernst & Young, Peru, to reconcile the data of the extractive industries sector. Work was carried out during the months of June, July and August 2009. The principal mining, oil, and gas companies, with four exceptions, agreed to participate in the process. Data reconciliation was carried out on the basis of companies' annual sworn declarations and the declarations of the regulatory bodies. Furthermore, this enabled the independent Reconciler to obtain information on the transfer of tax revenues to the extractive regions in accordance with Peruvian law (known as the "Canon"). A further analysis was carried out by a consultant with the aim of analysing the utilisation of funds in the region of Cajamarca.

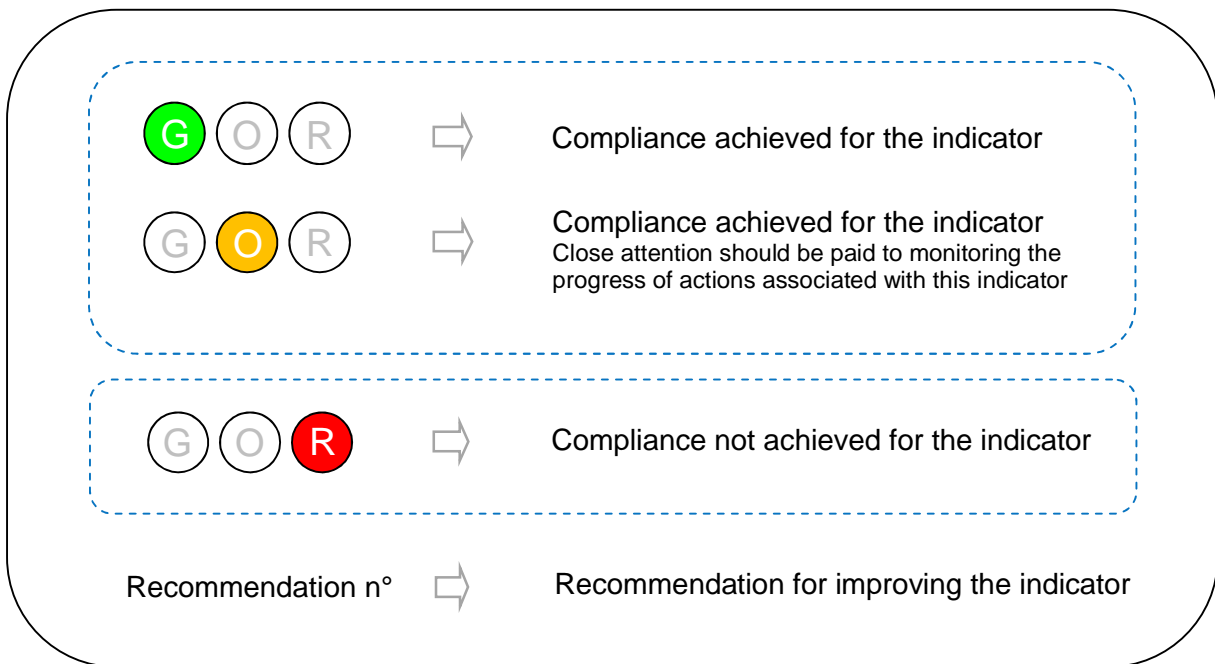
The 2004-2007 EITI Report was presented to the participating companies in November 2009. As part of the communications campaign launched during the months of March and July 2010, the Report was widely disseminated in six regions of the country: Moquegua, Ancash, Loreto, Cuzco, Cajamarca and Lima. The Validator was appointed in June 2010. Key documents of the domestic Initiative are available on the following websites: <http://intranet2.minem.gob.pe/web/eiti> and www.eitiperu.info.

We note a serious commitment to the domestic Initiative on the part of the companies and the satisfaction of the civil society representatives at the progress achieved during EITI implementation in Peru.

✓ Summary of our judgement

We use the visual format below in order to make our Validation Report easier to read. It is colour-coded (green, orange and red) to show whether a given indicator is Compliant (green or orange) or non-Compliant (red) in Peru.

Recommendations are indicated by the word “Recommendation” followed by the relevant number. Recommendations appear in Part 6 of this Report.



Colours representing Compliance with indicators
in the Validation Grid

✓ The Validation Grid

EITI Implementation			
SIGN-UP	PREPARATION	DISCLOSURE	DISSEMINATION
<p>1. Has the government issued an unequivocal public statement of its intention to implement EITI?</p> <p>G O R</p> <p>Recommendation n°1</p>	<p>5. Has the government established a multi-stakeholder group to oversee EITI implementation?</p> <p>G O R</p> <p>Recommendation n°5</p>	<p>10. Is the multi-stakeholder committee content with the organisation appointed to reconcile figures?</p> <p>G O R</p> <p>Recommendation n°6</p>	<p>18. Was the EITI Report made publicly available in a way that was: – publicly accessible; – comprehensive; and – comprehensible?</p> <p>G O R</p> <p>Recommendation n°11</p>
<p>2. Has the government committed to work with civil society and companies on EITI implementation?</p> <p>G O R</p>	<p>6. Is civil society engaged in the process?</p> <p>G O R</p>	<p>11. Has the government ensured that all companies will report?</p> <p>G O R</p>	<p>14. Were all material oil, gas and mining payments by companies to government ("payments") disclosed to the organisation contracted to reconcile figures and produce the EITI Report?</p> <p>G O R</p> <p>Recommendation n°9</p>
<p>3. Has the government appointed a senior individual to lead on EITI implementation?</p> <p>G O R</p>	<p>7. Are companies engaged in the process?</p> <p>G O R</p> <p>Recommendation n°7</p>	<p>12. Has the government ensured that company reports are based on audited accounts to international standards?</p> <p>G O R</p> <p>Recommendations n°10 and n°13</p>	<p>15. Were all material oil, gas and mining revenues received by the government ("revenues") disclosed to the organisation contracted to reconcile figures and produce the EITI Report?</p> <p>G O R</p> <p>Recommendation n°9</p>
<p>4. Has a fully costed Work Plan been published and made widely available, containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society)?</p> <p>G O R</p> <p>Recommendations n°2, n°3 and n°4</p>	<p>8. Did the government remove any obstacles to EITI implementation?</p> <p>G O R</p> <p>Recommendation n°6</p>	<p>13. Has the government ensured that government reports are based on audited accounts to international standards?</p> <p>G O R</p> <p>Recommendation n°14</p>	<p>16. Was the multi-stakeholder group content that the organisation which was contracted to reconcile the company and government figures did so satisfactorily?</p> <p>G O R</p>
	<p>9. Have reporting templates been agreed?</p> <p>G O R</p> <p>Recommendations n°7, n°8 and n°9</p>	<p>17. Did the EITI Report identify discrepancies and make recommendations for actions to be taken?</p> <p>G O R</p>	

The EITI Validation Grid in the Republic of Peru

✓ Indicator 1: “Has the government issued an unequivocal public statement of its intention to implement EITI?”

■ Progress to date

The Peruvian government affirmed its willingness to co-operate fully in the EITI implementation process with the publication of its sign-up declaration to the Extractive Industries Transparency Initiative on 15 May 2005.

The government commitment led to the following:

- Creation of the Working Committee through the Supreme Decree of 12 May 2006
- Appointment of representatives from the Ministry of the Economy and Finances (MEF) through the Ministerial Resolution of 19 July 2006
- Appointment of representatives from the Ministry of Energy and Mines (MEM), including the Chair and the Technical Secretary, through the Ministerial Resolution of 14 August 2006

The government’s ongoing commitment was also evident in the changes in government representatives effectuated by Ministerial Resolution and in the extension to the existence of the Working Party which was approved by Supreme Decrees:

- Appointment of the new Chair of the Working Committee and MEM representatives by Ministerial Resolution
- Appointment of new representatives from the mining sub-sector by the Ministerial Resolution of 4 June 2007
- Extension of the life of the Working Committee until 31 December 2010 by Supreme Decree No. 020-2010
- Extension of the life of the Working Committee until 31 December 2009 by Supreme Decree No. 044-2008

Furthermore, we note strong indications of transparency in the extractive industries sector:

- Publication of contracts currently in force on the Perupetro website www.perupetro.net.pe
- Publication of the Law on Transparency and Public Access to State Information, 3 August 2002
- Publication of the international co-operation agreement between the MEM and the investment company International Finance Corporation on 27 June 2007
- Publication of the Memorandum of Understanding (MoU) between the MEM and the International Development Association (IDA)

■ Stakeholder views

The representatives of civil society and companies appreciated the commitment of the Peruvian government to implementing EITI but regretted the absence of regular public statements at the highest level of State.

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 1.

■ Recommendation

⇒ R1 - Regular periodic reaffirmation of the government commitment to EITI

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 2: “Has the government committed to work with civil society and companies on EITI implementation?”

■ Progress to date

The government declared its willingness to work with civil society and companies in its sign-up declaration of 15 May 2005:

- “The EITI implementation process has been underway since 2004 with the help of international organisations and official bodies and with the participation of representatives from civil society organisations and the business sector”.

The government has shown its willingness to work with civil society and companies by creating the Working Committee through the Supreme Decree of 12 May 2006 which guarantees broad representation of civil society and companies on the Working Committee, assigning them three seats each from a total of nine.

The three civil society seats are distributed as follows:

- One seat for CooperAcción Acción Solidaria para el Desarrollo (Working Together for Development)
- One seat for the Labor Centre for Popular Culture
- One seat for the University of the Pacific

The three company seats are distributed as follows:

- One seat for the Southern Perú Copper Corporation
- One seat for the Compañía Minera Antamina
- One seat for the Sociedad Nacional de Minería, Petróleo y Energía

We note that Peru, unlike other countries, has accepted an absolutely equal division of seats among the three types of stakeholder:

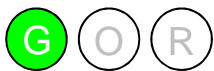
- One third of the seats for state representatives
- One third of the seats for civil society representatives
- One third of the seats for company representative

■ Stakeholder views

The civil society members of the Working Committee confirmed that they were fully involved in the Process and expressed their satisfaction at having been able to participate freely on the Working Committee and in the information forums which took place in Peru and abroad.

The company representatives did not make any particular comments on this matter.

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 2.

✓ Indicator 3: “Has the government appointed a senior individual to lead on EITI implementation?”

■ Progress to date

Mr. Daniel Camac Gutierrez has been Chair of the Working Committee since 9 January 2009, the date when a Ministerial Resolution containing changes to the government representatives was published. Previously, the Chair of the Group was held by Mr. Pedro Gamio Aíta who was appointed by the Ministerial Resolution passed when the Working Committee was created.

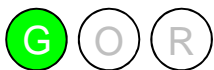
Both chairpersons were Deputy Ministers of Energy and, given their offices, fully competent to remove potential obstacles to EITI implementation.

The Technical Secretary of the Working Committee, Mr. José Luis Carbajal, Director General of Social Management, responsible for implementing the Initiative since 4 June 2007, is a high ranking official who enjoys the respect of the stakeholders.

■ Stakeholder views

The stakeholders did not make any particular comment on this matter.

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 3.

- ✓ Indicator 4: “Has a fully costed work plan been published and made widely available, containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society)?”

- Progress to date

The 2005-2006 work plan

The work plan was approved by the Supreme Decree of 5 May 2005. The work plan is divided into three key stages: preparation, implementation and evaluation.

The work plan includes deadlines for implementation and an estimated costing of US\$349,800 for the key actions. However, we understand that there was no budget envisaged for capacity building.

This work plan was published on the MEM website <http://intranet2.minem.gob.pe/web/eiti> and is available on the domestic Initiative website www.eitiperu.info. However there was no launch event and nor has it been widely publicised. Furthermore, it does not include an assessment of potential capacity constraints.

We understand that activation of the work plan took three years owing to the time required to ensure the full participation of all the members of the Working Committee and to reach consensus among participants on the most important decisions.

Absence of a work plan for 2007-2008

The delay in the implementation of the work plan is the reason given for the absence of a work plan for 2007 and 2008.

The 2009-2010 work plan

The 2009-2010 work plan, in Annex I, revisits the key points of the first work plan and completes it with Validation.

This work plan was discussed by the members of the Working Committee who endorsed it. It contains 22 actions grouped under six key objectives:

- Producing the 2004-2007 EITI Report for the Republic of Peru
- EITI communications plan
- Developing a regional pilot programme in Cajamarca
- Producing the regional EITI Report for 2004-2007 in Cajamarca
- Validation of the domestic Initiative
- Establishing institutional bases which guarantee the sustainability of EITI

During the years 2009-2010, the following actions were implemented:

- Producing the EITI Report 2004-2007
- EITI communications plan
- Producing a 2004-2007 EITI Report for the region of Cajamarca (study on the utilisation of the region's extractive industry revenues)
- EITI Validation process in Peru

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Working Committee created, endorsed and published two work plans. The first work plan was for 2005-2006 and enabled Peru to achieve Candidate country status. The second was for 2009-2010 and appears in Annex I of this Report. We may add that the work plans were endorsed and published on the domestic Initiative website.

Further, we ascertained that the 2009-2010 work plan is sufficiently detailed; it includes a budget and a timetable for application which has been followed. However, neither of the two work plans was widely publicised nor did they include an assessment of capacity constraints.

We understand that the lack of a work plan for the year 2007-2008 can be explained by the need to implement the earlier work plan. We consider that the delay was justifiable.

We understand that the issue of the capacity building for stakeholders was not a crucial one as most members of the Working Committee already had a high level of understanding of fiscal systems and the extractives industries.

■ Stakeholder views

The company and civil society representatives appreciate the quality of the second work plan for the years 2009-2010 but note the serious delay in implementing the first work plan.

■ Validator's judgement



Recommendations
n°2, n°3 and n°4

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 4.

■ Recommendations

- ⇒ **R2 - Ensure that work plans are disseminated**
- ⇒ **R3 - Assess capacity constraints in the work plans**
- ⇒ **R4 - Create a work plan for 2011-2012**

These recommendations are set out in detail in Part 6 of this Report.

✓ Indicator 5: “Has the government established a Multi-Stakeholder group to oversee EITI implementation?”

■ Progress to date

The government created the Multi-Stakeholder Group, called the EITI Working Committee, through Supreme Decree No 027-2006 of 12 May 2006. The Working Committee is tasked with “executing the work plan for EITI implementation”. To this end, it has the support of the Technical Secretariat.

● The Working Committee

As previously mentioned, the Working Committee comprises nine named members (plus nine stand-ins) grouped as follows:

- Three representatives of the government
- Three representatives of extractive industry companies
- Three representatives of civil society

Government representatives

Article 3 of the Supreme Decree of 12 May 2006 sets out the distribution of the three government seats on the Working Committee as follows:

- “Two representatives of the hydrocarbons and mining subsectors, appointed by the MEM (Ministry of Energy and Mines)”.
- “One representative involved in tax affairs and other payments made by the extractive industries, appointed by the MEF (Ministry of the Economy and Finances)”.

The three incumbent representatives were appointed by Ministerial Resolution. Each of the three representatives is drawn from high-ranking government officials, deputy-ministers or directors, and has the necessary competence to fulfil his role on the Working Committee.

Representatives of extractive industry companies

The same article stipulates that the three incumbent company representatives are appointed as follows:

- One representative appointed by the Sociedad Nacional de Minería, Petróleo y Energía (SNMPE) which represents almost all the activities of the extractive industries sector in Peru
- One representative chosen by the mining companies
- One representative chosen by the hydrocarbons companies

Currently, the companies are represented by SNMPE, Compañía Minera Antamina and Southern Peru Copper Corporation. The companies are represented by their chief vice-presidents or deputy vice-presidents who have the necessary competence to fulfil their roles.

Civil society representatives

In accordance with the Supreme Decree of 12 May 2006, the three civil society representatives are nominated by Ministerial Resolution.

Two of the incumbent representatives were chosen by representatives of Peruvian civil society organisations on 2 October 2006. This selection was ratified by the government and led to the appointment of the following representatives:

- CooperAcción Acción Solidaria para el Desarrollo (Working Together for Development)
- Labor Centre for Popular Culture

The university representatives were nominated in March 2007.

The civil society representatives showed themselves to be independent of the government and the extractive industries sector. They are free to express their opinions and have the necessary competence to fulfil their role.

• Technical Secretariat

Article 7 of the Supreme Decree of 12 May 2006 stipulates that the Working Committee is to be assisted by a Technical Secretariat with special responsibility for “maintaining operational organisation for the functioning of the Group”.

To date, the Technical Secretariat has comprised a Technical Secretary and an assistant. We understand that the members of the Technical Secretariat have other responsibilities in the MEM and have limited time available to devote to the Initiative.

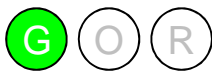
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We can confirm that the government has established a Multi-Stakeholder Working Committee and that the composition of the said Group conforms to the standards for participation of the different parties as stipulated in the EITI Sourcebook: government, companies and civil society. We also note that the members of the Working Committee appear to be a faithful representation of civil society and the extractive industry companies in the country.

■ Stakeholder views

The stakeholders expressed their satisfaction at the structure of the Initiative and confirmed that the Working Committee carried out its activities on a regular basis. However, they commented that the lack of human resources was the reason that the deadlines of the first work plan were not met.

■ Validator’s judgement



Recommendation
n°5

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 5.

■ Recommendation

⇒ R5 - Strengthen human resources in the Technical Secretariat

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 6: “Is civil society engaged in the process?”

■ Progress to date

Civil society has three representatives on the nine-member Working Committee. As noted, Peru, unlike other countries, has accepted equal representation (three members) from each of the three types of stakeholder: government, companies and civil society.

The civil society representatives belong to three different organisations and appear to offer a faithful representative of Peruvian civil society.

On 26 May 2006, an invitation to civil society institutions associated with transparency and public interest activities in the extractive industries to participate in the Working Committee appeared on the MEM website. An election process took place on 2 October 2006 at the MEM office, ratified by a notary public.

The following 15 institutions took part:

- Labor Civil Association Centre for Popular Culture (LABOR Centre)
- Labor Llo Civil Association
- Care Peru
- Bartolomé de las Casas Centre for Regional Andean Studies
- Centre for the Study and Advancement of Campesinos (CIPCA)
- Citizens Today (CAD)
- CooperAcción - Acción Solidaria para el Desarrollo (Working Together for Development)
- Solidarity Peru Forum
- Grupo Andes - Group for Promoting Development in the Andes
- Citizen Action Group (CEDEP)
- Labor Centre for Popular Culture
- Oxfam America
- Pontifical Catholic University of Peru
- Proética, National Council for Public Ethics
- University of the Pacific

We also note the participation of the civil society representatives in some of the international EITI meetings including:

- EITI International Conference, Doha, Qatar, 16-18 February 2009
- EITI training seminar, Berlin, Germany, December 2008

The minutes of Working Committee meetings demonstrate regular and active presence of the civil society members.

We note that the representatives of the civil society have consistently participated in the meetings of the Working Committee (37 reunions between mid-2006 and mid-2010). Further, we understand that the representatives of the civil society in the Working Committee have been involved in communicating the work and the result of the Initiative in numerous meetings with members of their respective organizations.

■ Stakeholder views

The civil society representatives confirmed that they were completely satisfied and that they participated fully in the domestic Initiative.

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 6.

✓ Indicator 7: "Are companies engaged in the process?"

■ Progress to date

Widespread participation of extractive industry companies in the country

The 2004-2007 EITI report includes participation by the most of the important mining, oil and gas companies in the country.

A broad representation on the Working Committee

Companies have three of the nine seats on the Working Committee which guarantees them a generous level of representation.

A strong commitment to EITI

We note that companies are particularly involved in the EITI process. This is demonstrated by:

- Regular and active presence of the company representatives at the Working Committee meetings;
- Participation of all the companies within the scope of the data reconciliation for the EITI Report 2004-2007 (33 companies);
- Of the 33 companies signed up, 31 sent replies to our self-evaluation forms⁴ before the deadlines;
- Two companies: Anglo American and Compañía Minera Antamina signed-up to EITI at international level;
- The participation of company representatives at certain international EITI meetings (EITI training, Berlin, Germany, in December 2008 and EITI General Assembly, Doha, Qatar, 16-18 February 2009)

However, we note that 4 important companies did not wish to participate in the first EITI Report, namely: Volcan (21% of lead production, 17% of zinc production and 13% of silver production), Petrotech (8% of oil production), Chungar (7% of zinc production and 8% of lead production) and Ares (10% of silver production).

We understand that the failure of Volcan to participate is explained by judicial difficulties related to environmental problems. We understand that the failure of Petrotech to participate is explained by its fiscal problems with the Peruvian government.

Sector	% of national production
Copper	95%
Gold	70%
Zinc	53%
Silver	54%
Lead	40%
Tin	100%
Molybdenum	100%
Oil	72%
Natural Gas	59%

Percentage of output of companies included in the scope of 2004-2007 EITI Report

⁴ Analysis of the self-evaluation forms appears in Part 5 of the Report

We understand that the problems of Volcan have been solved, which will facilitate its participation in future reconciliation processes.

We understand that Petrotech has been purchased by a Korean-Colombian consortium which has already expressed its desire to participate to the National Initiative.

In contrast to the previous two companies, the activities of Chungar and Ares are minor and their failure to participate is less significant.

Finally, we understand that should the level of voluntary compliance by companies prove to be unacceptable, that the Peruvian government may be prepared to legislate to mandate participation.

■ Stakeholder views

The government and civil society representatives appreciated the strong participation of the companies but noted the absence of some important companies.

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 7.

■ Recommendation

⇒ R7 - Encourage the key extractive industry companies to sign-up

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 8: “Did the government remove any obstacles to EITI implementation?”

■ Progress to date

We can confirm that the government removed various obstacles to EITI implementation:

Tax regulations

Tax regulations applicable to the extractive industries in Peru have their origin in the foundations established by the national law relating to each tax:

- Income Tax: Supreme Decree No 179-2004-EF and Supreme Decree No 122-94-EF
- Mining Royalty: Law No 28258 (Mining Royalty Law), Law No 28323 (Law modifying Law No 28258), etc.
- Oil Royalty: Law No 27506
- Gas Royalty: Law No 27506 published 10 July 2001 and Supreme Decree No 005-2002-EF published 09 January 2002
- Property Fee: Various laws govern the Property Fee, among them the Consolidated Amended Text of the General Mining Law

Some existing obstacles relating to fiscal regulation were removed thanks to the efforts of the Technical Secretariat.

Regulation of the domestic Initiative

In Peru, EITI implementation is overseen by the MEM. The Supreme Decree No 027-2006 of 15 May 2006 created the Working Committee. Three Ministerial Resolutions were subsequently published regarding the appointment of representative members of the Working Committee.

Voluntary sign-up of companies

There is no law making it obligatory for extractive industry companies in the country to sign-up to and implement the EITI rules. Thus companies participate in the EITI process on a voluntary basis.

In the data reconciliation of the 2004-2007 EITI Report, the Working Committee invited 64 extractive industry companies in the country to participate. Of these, 33 accepted and 31, including some important companies, did not wish to participate.⁵

Adequate funding for the domestic Initiative

We understand that obtaining the necessary funding for the task of implementing the work plan did not constitute an obstacle.

Process of engaging consultants

We have ascertained that the competitive process for recruiting the Validator was declared null and void and postponed twice due to administrative obstacles.

We also understand that the proposal presented by the only foreign company participating, through an invitation to tender for the office of independent Reconciler, was not accepted for administrative reasons.

Obstacle of confidentiality

We understand that the obstacle presented by the Constitution of Peru with regards to the confidentiality of fiscal data has been overcome.

Aggregate or disaggregated diffusion

We understand that the representatives of the civil society have asked for disaggregated publication of data, while companies requested publication of aggregated data. We understand that this debate took a long time and is a significant reason for delay in producing the first reconciliation. In the end, the Working Committee decided to let the companies publish the data in an aggregate or disaggregated way.

■ Stakeholder views

Some civil society representatives advocate EITI becoming Law, thus aiming to make the Initiative permanent. The government representatives currently consider this unnecessary.

⁵ See the analysis of indicator 9

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 8.

■ Recommendation

⇒ R6 - Consider simplifying the process of recruiting consultants

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 9: “Have reporting templates been agreed?”

■ Progress to date

● Scope

To date, there has been only one data reconciliation exercise which led to the recent publication of an EITI Report for the country covering the years 2004 to 2007.

Scope of sector activity

The scope of the 2004-2007 EITI Report for Peru currently covers the entire extractive industries sector envisaged by EITI: the mining sector, the oil sector and the gas sector.

Scope of companies

In the data reconciliation for the EITI Report 2004-2007, the Working Committee invited 64 extractive sector companies in the country to participate. Thirty three companies agreed to participate with sector representation as follows:

- 95% of copper production
- 70% of gold production
- 53% of zinc production
- 54% of silver production
- 40% of lead production
- 100% of tin production
- 100% of molybdenum production

However, 31 companies did not wish to participate. Of these, four companies seem to account for a significant proportion of national production, namely:

- Volcan (21% of lead production, 17% of zinc production and 13% of silver production)
- Petrotech (8% of oil production)
- Chungar (7% of zinc production and 8% of lead production)
- Ares (10% of silver production)

Scope of the financial flows

The scope of the revenue flows as covered by the 2004-2007 EITI Report includes:

- Income Tax
- Mining Royalty
- Oil Royalty

- Gas Royalty
- Property Fee

We understand that the flows taken into consideration for the 2004-2007 EITI Report include the principal payments which extractive sector companies make to the State. However we note that regional and/or municipal taxes, social security contributions and totals relating to the Voluntary Mining Contribution were not included within the scope of the Report (US\$500 million⁶ paid in three years¹).

We note that the Voluntary Mining Contribution only came into effect at the end of 2006, and therefore is only of relevance to part of the period covered by the first EITI Report.

• Materiality level

We understand that the goal defined by the Working Committee was to reach a participation of companies representing at least 75% of the national production in each resource area. We note that this goal has been reached for oil, gas, tin, copper and molybdenum.

• Methodology

The main objective of the 2004-2007 EITI Report was reconciling the declarations of the 33 companies with the declarations of the three regulatory bodies (SUNAT, INGEMMET, Perupetro,) relating to the flows named above.

We understand that, for reasons relating to the quality of the monitoring processes of the Peruvian tax administration, the Working Committee decided to work on the basis of companies' annual sworn declarations and not on an analysis of payment flows as the EITI Sourcebook advises.

We understand that this decision was also motivated by the desire to verify the manner in which state revenues from extractive activities were distributed to the regions in accordance with Peruvian law. The proportion which is distributed to the regions is called the "Canon" and represents a significant proportion of the financial flows included within EITI: 50% of Income Tax and the Gas Royalty; 100% of the Mining Royalty, the Oil Royalty, and the Property Fee.

To our understanding, if the calculations for the data reconciliation had been based on payment flows (the flows recommended by the EITI Sourcebook) similar results would have been obtained for the following reasons:

- The quality of monitoring on the part of the supervisory body
- The absence of discrepancies between the figures declared by the companies and those declared by the supervisory bodies.
- Any discrepancies arising are adjusted at year end and even themselves out
- During the four years covered by the study, discrepancies arising through adjustment of payments at year end cancelled each other out. The only imbalance would arise from the difference between the theoretical discrepancy at year end of the final year and the theoretical discrepancy at the beginning of the first year of the study.

⁶ S/. 1.388 million – National Mining, Oil and Energy Company (2009) – Voluntary Mining Contribution

• The reporting templates

We understand that the reporting templates were created by a subgroup of the Working Committee in accordance with the scope and methodology described above. Both the members of the Working Committee and the representatives of the firm appointed to conduct the data reconciliation discussed the formats of the reporting templates. The Working Committee later endorsed the reporting templates.

We note that the reporting templates were discussed and approved by the Working Committee on June 15th 2009.

■ Stakeholder views

Members of the Working Committee pointed out that the EITI Sourcebook gives different options for ensuring reliability and that data reconciliation based on payment flows is not a requirement.

Both the company representatives and those of civil society were content with how the different scopes were set although some would like future EITI Reports to include:

- Further companies, especially the four important companies that did not wish to participate
- Further payments, especially the Voluntary Mining Contribution

The 31 companies which responded to our self-evaluation forms⁷ confirmed that they were content "with the selection of and the work undertaken by the organisation appointed to reconcile the data".

■ Validator's judgement



Recommendations
n°7, n°8 and n°9

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 9. However, particular attention should be paid to monitoring the progress of this indicator.

■ Recommendations

- ⇒ **R7 - Encourage the key extractive industry companies to sign-up**
- ⇒ **R8 - Consider extending the scope of the flows for reconciliation**
- ⇒ **R9 - Review, at Working Committee level and at the international level of EITI, the need to reconcile data based on payment flow analysis**

These recommendations are set out in detail in Part 6 of this Report.

⁷ Analysis of the self-evaluation forms appears in Part 5 of this Report

✓ Indicator 10: “Is the Multi-Stakeholder committee content with the organisation appointed to reconcile figures?”

■ Progress to date

The terms of reference for appointing the independent Reconciler to produce the 2004-2007 EITI Report were discussed among the Working Committee members who approved them on 11 September 2008. The invitation to tender was issued by a subgroup of the Working Committee comprising one representative of each of the three types of stakeholder: government, companies and civil society.

The invitation to tender was published on 29 September 2008 on the websites of the Ministry of Energy and Mines, the General Office of Social Management of the same ministry, and the website of EITI in Peru. Four consultancy firms expressed an interest and submitted technical and financial proposals. Three were Peruvian companies and one was foreign. The proposal from the foreign company was not accepted for administrative reasons. Consequently, three tenders were assessed.

The company Ernst & Young, Peru, received the highest score and was selected to produce the EITI Report 2004-2007.

We understand that the choice of Ernst & Young was approved by the Working Committee on May 19th 2009.

■ Stakeholder views

The stakeholders confirmed that there was consensus regarding the selection of the independent Reconciler for the 2004-2007 EITI Report.

■ Validator’s judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 10.

■ Recommendation

⇒ **R6 - Consider simplifying the process of recruiting consultants**

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 11: “Has the government ensured all companies will report?”

■ Progress to date⁸

In Peru, companies participate in the domestic EITI Initiative on a voluntary basis. The scope of the 2004-2007 EITI Report covers 33 companies.

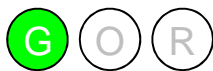
All 33 companies submitted their data and co-operated in producing the 2004-2007 EITI Report.

The reasons for the absence of some important companies, and the actions that have been taken to ensure their participation in future reconciliation exercises, are detailed under the indicator 7.

■ Stakeholder views

The stakeholders did not make any particular comment on this matter.

■ Validator’s judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 11.

✓ Indicator 12: “Has the government ensured that company reports are based on audited accounts to international standards?”

■ Progress to date

Indicator 12 seeks to verify that declarations are based on accounts audited to international standards.

We understand that legislation in Peru obliges mining, oil and gas companies in the country to certify their balance sheets annually.

The 31 responses⁹ to our self-evaluation forms that we received confirmed that “the data which were submitted to the organisation appointed to reconcile the data and produce the EITI Report were based on independently audited accounts to international standards”.

⁸ In the section relating to indicator 9, analysis is presented in accordance with the scope of EITI Rules, particularly in relation to compliance with the Rules in their entirety. Analysis of indicator 11 relates to the companies named by the Working Committee as being within the scope of the exercise.

However, Suggested action 18 in the EITI Sourcebook states that, in addition to the company accounts, the reporting templates should be audited and certified by an external auditor. However we understand that the reporting templates submitted to the independent Reconciler for the 2004-2007 EITI Report were not ratified by the auditors.

■ Stakeholder views

We understand that the companies do not oppose certification of the reporting templates by their external auditors for future data reconciliations.

Civil society did not make any particular comment on this matter.

We understand that the Working Committee feels that certification of the reporting templates by the companies' auditors is unnecessary for the following reasons:

- The data on the templates comes directly from companies' sworn declarations
- The sworn declaration are audited by the companies' auditors

■ Validator's judgement



Recommendations
n°10 and n°13

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 12. However, particular attention should be paid to monitoring the progress of this indicator.

■ Recommendations

⇒ **R10 - Obtain certified reporting templates for future reconciliations**

⇒ **R13 - Consider revisiting indicator 12**

These recommendations are set out in detail in Part 6 of this Report.

✓ **Indicator 13: “Has the government ensured that government reports are based on audited accounts to international standards?”**

■ Progress to date

Indicator 13 seeks to verify that the government declarations are based on accounts audited to international standards.

In the Republic of Peru, State declarations relating to revenues for 2004-2007 were compiled by representatives of SUNAT, INGEMMET and Perupetro. They were not subject to an independent audit.

⁹ Responses to the self-evaluation forms are analysed in Part 5 of this Report.

We believe that complying with what is proposed by this indicator would not be easy for the following reasons:

- There are no specific recognised international standards for auditing government accounts. This difficulty has already been identified by the Validators' Reports of Azerbaijan and Liberia
- States do not have entities established for this kind of audit. The Comptroller General has auditing functions; however such interventions occur on an irregular basis, not necessarily with annual frequency, which is not compatible with EITI rules

Furthermore, we feel that with effective certification of company reporting templates by their auditors, and as discrepancies between the government and company declarations are minimal, the need for government declarations to be audited will reduce proportionally.

■ Stakeholder views

The stakeholders did not make any particular comment on this matter.

■ Validator's judgement



Recommendation n°14

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 13. However, particular attention should be paid to monitoring the progress of this indicator.

■ Recommendation

⇒ R14 - Consider revisiting indicator 13

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 14: “Were all material oil, gas and mining payments by companies to government (“payments”) disclosed to the organisation contracted to reconcile figures and produce the EITI Report?”

■ Progress to date¹⁰

We understand that, according to the 2004-2007 EITI Report, the 33 participating companies supplied all the data required by the independent Reconciler.

The 31 companies which responded to our self-evaluation forms¹¹ confirmed that they “disclosed all substantial payments to the organisation appointed to reconcile data”.

¹⁰ In the section relating to indicator 9, analysis is presented in accordance with the scope of EITI rules, particularly in relation to compliance with the rules in their entirety. Analysis of indicator 14 relates to the comprehensiveness of the payments within the scope of the companies and the flows established by the Working Committee.

Furthermore, the absence of discrepancies between the declarations of payments and the declaration of revenues leads us to infer that all payments were declared.

However, as we indicated in the section on indicator 9, the data reconciliation for the 2004-2007 EITI Report is based on the declaration of annual tax totals and not on the declaration of payments.

The reasons for the absence of some important companies, and the actions that have been taken to ensure their participation in future reconciliation exercises, are detailed under the indicator 7.

■ Stakeholder views

The stakeholders believed that all material payments within the scope of the exercise were declared.

■ Validator's judgement



Recommendation n°9

On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 14. However, particular attention should be paid to monitoring the progress of this indicator.

■ Recommendation

⇒ **R9 - Carry out a review, at Working Committee level, and at the international level of EITI, of the need to reconcile data based on payment flow analysis**

This recommendation is set out in detail in Part 6 of this Report.

¹¹ Responses to the self-evaluation forms are analysed in Part 5 of this Report

- ✓ Indicator 15: “Were all material oil, gas and mining revenues received by the government (“revenues”) disclosed to the organisation contracted to reconcile figures and produce the EITI Report?”

- Progress to date

We understand that, according to the 2004-2007 EITI Report, the three regulatory bodies supplied all the data required by the independent Reconciler.

The absence of discrepancies between the declarations of payments and the declaration of revenues leads us to infer that all revenues were disclosed.

However, as we indicated in the section on indicator 9, the data reconciliation for the 2004-2007 EITI Report is based on the declaration of annual tax totals and not on the declaration of revenues.

- Stakeholder views

The stakeholders did not make any particular comment on this matter.

We understand that the Working Committee considers that only payments and revenues described under the indicator 9 are significant.

- Validator’s judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 15. However, particular attention should be paid to monitoring the progress of this indicator.

- Recommendation

- ⇒ **R9 - Carry out a review, at both Working Committee level and at the international level of EITI, of the need to reconcile data based on payment flow analysis**

This recommendation is set out in detail in Part 6 of this Report.

- ✓ Indicator 16: “Was the Multi-Stakeholder group content that the organisation contracted to reconcile the company and government figures did so satisfactorily?”

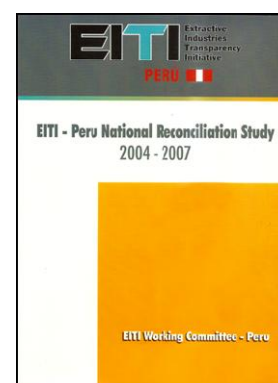
■ Progress to date

The independent Reconciler was appointed through an international tendering process opened on 29 September 2008. The selection of the independent Reconciler was endorsed by the Working Committee. The independent Reconciler carried out the work during the months of June, July and August 2009.

We understand that the independent Reconciler adopted the following procedure:

- Direct collection of data from the 33 participating companies
- Direct collection of data from the three regulatory bodies
- Reconciliation of data collected
- Presentation in a consolidated table
- Compilation of a simplified report

The 2004-2007 EITI Report was presented to the Working Committee which endorsed it.



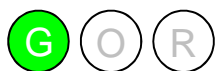
EITI Report 2004-2007

■ Stakeholder views

All the participants expressed their satisfaction with the work of the independent Reconciler.

The majority of the companies¹² confirmed that they were satisfied with the “selection and the work carried out by the organisation responsible for data reconciliation and producing the EITI Reports”.

■ Validator’s judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 16.

¹² Responses to the self-evaluation forms are analysed in Part 5 of this Report.

✓ Indicator 17: “Did the EITI Report identify discrepancies and make recommendations for actions to be taken?”

■ Progress to date

The independent Reconciler which produced the 2004-2007 EITI Report did not find significant discrepancies between the company declarations and those of the government.

Effectively, the discrepancies identified in relation to the principal taxes were minimal:

- Income Tax on the hydrocarbons sector: no discrepancies were found in relation to the totals declared by the companies, being S/.595 million (S/=Peruvian *nuevos soles*) and US\$237 million
- Income Tax in the mining sector: the discrepancies found in relation to the totals declared by the companies are S/.1.3 million out of a total of S/.8,545 million and US\$0.1 million out of a total of US\$3,753 million
- Mining Royalty: some small discrepancies were found in relation to the totals declared by the companies, S/.1.6 million out of a total of S/.871 million
- Hydrocarbons Royalty: the discrepancies noted are around 0.1% in relation to the totals declared by the companies, that is US\$1,594 million

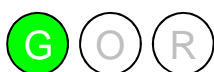
We understand that the reconciliation of data relating to the Property Fee resulted in an accumulated negative discrepancy of US\$3.9 million out of a total of US\$19 million in relation to the company declarations. This discrepancy represents 24% for the year 2005. While the values corresponding to these discrepancies are significant, we accept that they should be taken in relation to the total revenues from the extractive industries sector. As such, the discrepancy totalled US\$3.9 million out of an approximate total of US\$9,100 million¹³. This discrepancy represents 0.04% of total payments.

The 2004-2007 EITI Report proposes nine recommendations presented in Paragraph VIII 2.1 of the said report.

■ Stakeholder views

The stakeholders appreciate the fact that the data reconciliation did not uncover material discrepancies.

■ Validator’s judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 17.

¹³ Calculated on an exchange rate US\$/S/=2,8

- ✓ Indicator 18: “Was the EITI Report made publicly available in a way that was publicly accessible, comprehensive, and comprehensible?”

■ Progress to date

The 2004-2007 EITI Report is available in Spanish and English. The Spanish version was published on the domestic Initiative websites: <http://intranet2.minem.gob.pe/web/eiti> and www.eitiperu.info.

On 13 November 2009, the 2004-2007 EITI Report was presented to the participating companies.

The Report was widely distributed as part of the communications activities undertaken between March and July 2010 in the six principal extractive regions of the country: Moquegua, Ancash, Loreto, Cuzco, Cajamarca and Lima.

The following actions were implemented as part of the dissemination plan created by a consultancy firm specialising in communications:

- Presentation of EITI Principles and distribution of pamphlets entitled “EITI: a commitment to transparency” in forums organised in the six regions of the country.
- Presentation of the EITI Report and distribution of pamphlets entitled, respectively, “EITI: balancing the books in hydrocarbons” and “EITI: balancing the books in mining”.
- Short radio features¹⁴ and advertisements in different languages (Spanish, Quechua, Achuar, Machiguenga)
- Press releases¹⁵

We understand that the data reconciliation of 2008 has not yet begun and therefore there is no Report available for that period.

■ Stakeholder views

The stakeholders appreciated the efforts made in conducting communications and dissemination campaigns. However, some company representatives felt that there should be more continuity to the communications activities.



EITI: balancing the books in mining



EITI: balancing the books in hydrocarbons

¹⁴ The radio features and advertisements are available on the domestic initiative website

¹⁵ Press releases are published before each forum and are available on the Domestic Initiative website

■ Validator's judgement



On the basis of the tasks completed, set out on pages 3-4, it is our judgement that EITI compliance has been achieved for indicator 18.

■ Recommendation

⇒ R11 - Reconcile and publish the data regularly

This recommendation is set out in detail in Part 6 of this Report.

✓ Indicator 19: “How have oil, gas and mining companies supported EITI implementation?”

■ Progress to date

Since 2005, the companies have given their support to the Initiative through their voluntary sign-up and through the participation of their representatives at the meetings of the Working Committee and in the different forums which have taken place.

All of the participating companies from the mining, oil and gas sectors have lent their support to the dissemination and reconciliation of data for the period 2004-2007. Two companies support EITI at international level.

In Part 5 of this Report, there is a detailed analysis of the implementation of the Initiative based on the self-evaluation forms received and the interviews held in Lima.

We note that the SNMPE (the association representing mining and energy companies) has held several meetings (November 2006, April 2007 and April 2009) in order to promote the participation of companies in the Initiative.

We also note that during 2005 and 2006 numerous meetings were held to prepare the country work plan. Considerable efforts were made to ensure that there was regular communication and reports on the progress of the Initiative which were distributed electronically to the non-government organizations involved in the mining and energy sectors.

■ Stakeholder views

The stakeholders appreciated the full engagement of the companies in the Process.

- ✓ Indicator 20: “What steps have been taken to act on lessons learnt, address discrepancies and ensure that EITI implementation is sustainable?”

- Progress to date

The discrepancies uncovered by the 2004-2007 EITI Report are not material. This point is therefore not relevant.

We understand that the domestic Initiative does not face any difficulties in relation to funding. The Working Committee is considering publishing data on a more regular basis in future.

We understand that a key success of the National Initiative has been to ensuring the continued participation of representatives of civil society, of the companies and of the government over the past 5 years, all of whom have worked together with the objective of implementing the EITI in Peru.

- Stakeholder views

The stakeholders did not make any particular comment on this matter.

- Recommendation

- ⇒ **R12 - Limit the number of Initiative websites**

This recommendation is set out in detail in Part 6 of this Report.

PART 5

C COMPANY IMPLEMENTATION

Company implementation

Analysis of responses

List of companies which did not respond

✓ Company implementation

• EITI rules

The objective of Validation is not only to analyse domestic EITI Initiative compliance with EITI rules but also to form an opinion on the implementation of the Initiative by companies.

Our analysis of company implementation is mainly based on the self-evaluation forms received from companies and on the interviews held in Lima.

• Self-evaluation forms

Our self-evaluation forms are based on the recommendations of the EITI rules. These forms include 14 key questions available in Spanish and English.

• Sending the forms

The forms were sent by email to the 33 companies included within the scope of the 2004-2007 EITI Report.

• Results received

Thirty one companies responded to the self-evaluation forms which are attached in Annex II of this Report.

Mining subsector - in operation	Perubar S.A.	Río Tinto Minera Perú Limitada S.A.C.
Compañía de Minas Buenaventura S.A.A.	Sociedad Minera Cerro Verde S.A.A.	Río Tinto Mining and Exploration S.A.C
Compañía Minera Antamina S.A.	Southern Peru Copper Corporation	Hydrocarbons subsector - in operation
Compañía Minera Argentum S.A.	Xstrata Tintaya S.A.	Hunt Oil Company of Peru L.L.C.
Compañía Minera Milpo S.A.A.	Minera Barrick Misquichilca S.A	Olympic Peru INC, Peru Division
Compañía Minera Raura S.A.	Sociedad Minera El Brocal S.A.A.	Petrobras Energía Peru S.A.
Empresa Minera Los Quenuales S.A.	Inversiones Mineras del Sur S.A.	Pluspetrol Camisea S.A.
Minera Bateas S.A.C.	Cedimin S.A.C.	Pluspetrol Norte S.A.
Minera Pampa de Cobre S.A.	Mining subsector - in exploration	Pluspetrol Perú Corporation S.A.
Minera Yanacocha S.R.L.	Anglo American Michiquillay S.A.	Repsol Exploración Perú, Peru Division
Pan American Silver S.A.C. Mina Quiruvilca	Anglo American Quellaveco S.A.	Perenco Perú Limited, Peru Division
	Anglo American Exploration Peru S.A.	

Self-evaluation forms received

Our analysis of EITI implementation by the companies of the country is based on the 31 self-evaluation forms received along with the nine individual interviews which we held in Lima with the principal oil and mining companies.

The mining sector	The oil sector
Sociedad Minera El Brocal S.A.A.	Repsol Exploración Perú, Peru Division
Minsur S.A.	Petrobras Energía Peru S.A.
Compañía Minera Antamina S.A.	
Southern Peru Copper Corporation	
Minera Yanacocha S.R.L.	
Empresa Minera Los Quenuales S.A.	
Xstrata Tintaya S.A.	

Interviews with the principal oil and mining companies in the country

We can confirm that the companies are very much involved in the process, given the regular and active presence of company representatives at the Working Committee meetings and the participation of the 33 companies within the scope of the data reconciliation exercise for the 2004-2007 EITI Report.

Most companies included within the scope of the 2004-2007 EITI Report indicated that they had issued public statements in support of EITI. The majority of the companies had a positive opinion of the discussions relating to EITI.

The majority of companies did not encounter any obstacles and are content with the work plans of the EITI domestic Initiative.

All the companies declare that their accounts are audited. Some specify that their accounts are audited to international standards.

All the companies confirm that they declared all the payments to the firm contracted to carry out the data reconciliation.

The companies confirm that they are satisfied with the number of companies included within the scope of the Report and with the financial flows. They are also satisfied with the reporting templates issued by the independent Reconciler.

All the companies consider that the discrepancies which were found were acceptable. They are content with the work of the independent Reconciler.

The companies would like greater government participation in the domestic Initiative at both national and regional level: for example, a greater level of resourcing for the Technical Secretariat. They also recommend extending the scope of companies involved.

✓ Analysis of responses

Below is the analysis of the 31 responses received on the forms out of 33.

Question 1: Has the company made public statements in support of the EITI process in this country?

The 31 companies included within the scope of the 2004-2007 EITI Report confirmed that they had issued public statements in support of EITI.

Question 2: Were discussions about the National Initiative constructive and could they be improved?

The majority of the companies have a positive opinion of discussions about EITI. However, they underline the need to develop the discussions at the regional level.

Question 3: Have you encountered any obstacles in implementing EITI? If yes, what steps can you suggest to improve the process?

The majority of the companies did not encounter any obstacle. However, some mentioned the need for capacity building for the EITI Technical Secretariat.

Question 4: Are you satisfied with the EITI country work plans developed by the Multi-Stakeholder working group?

The majority of companies are satisfied with the work plans of the domestic Initiative.

Question 5: Has the company committed to support and cooperate with the implementation of the country EITI work plan (as agreed by the Multi-Stakeholder group) including abiding by government EITI-related directives (e.g. laws and MoUs) and, where appropriate, meeting with stakeholders?

All the companies are in favour of offering more support and co-operation in implementing the actions adopted in the National work plans.

Question 6: Was the data that was submitted to the organisation contracted to reconcile figures and produce the EITI Report taken from accounts independently audited to international standards?

All the companies declared that their accounts are audited. Some specify that their accounts are audited to international standards.

Question 7: Were the reporting templates ratified or certified by your auditors to international standards before they were returned to the organisation contracted to reconcile figures and prepare the EITI Reports?

We know that none of the forms was certified during the data reconciliation process of 2004-2007.

Question 8: What are the names and addresses of your auditors in Peru and at company group level?

Most companies use auditors of international repute: KPMG, PriceWaterhouse Coopers, Deloitte, Ernst & Young.

Question 9: Have all material payments been disclosed to the organisation contracted to reconcile figures and produce the EITI Report as per agreed EITI reporting templates and pursuant to agreed timelines?

All the companies confirm that they declared all the payments to the firm contracted to carry out the data reconciliation.

Question 10: Has the company responded to queries from the organisation contracted to reconcile figures and produce the EITI Report to assist in the reconciliation of country payments with government receipts in accordance with EITI reporting templates?

The majority of the companies confirm that they have responded to the queries from the organisation contracted to undertake the reconciliation.

Question 11: Does the scope of the companies involved and payments covered by the EITI Reports appear to you to comply with EITI objectives particularly in terms of what can be considered material?

The companies confirm that they are satisfied with the scope of the companies and the financial flows. However, three of them suggest that the scope of the companies could be extended.

Question 12: Was the company satisfied with the reporting templates issued by the organisation(s) contracted to reconcile figures and prepare EITI Reports?

All the companies are satisfied with the reporting templates issued by the independent Reconciler.

Question 13: Do you consider the discrepancies identified by the organisation(s) contracted to reconcile figures and produce EITI Reports to be acceptable?

All the companies consider the discrepancies acceptable.

Question 14: Was the company satisfied with choice of organisation(s) contracted to reconcile figures and prepare EITI Reports and by the work carried out?

All the companies are satisfied with the work of the independent Reconciler.

✓ List of companies which did not respond

In accordance with the Validation Guide, you are informed that the following companies did not respond to our self-evaluation forms: Minsur S.A. and Maple Gas Corporation del Peru S.RL.

PART 6

R RECOMMENDATIONS

Recommendations to the Working Committee

Recommendations to the international bodies of EITI

✓ Recommendations to the Working Committee

• **R1 - Regular periodic reaffirmation of the government commitment to EITI – indicator 1**

Recommendation:

In order to consolidate the political will to implement EITI in Peru, we recommend that the Working Committee demonstrate lasting support for EITI implementation on the part of the most important state institutions.

This might be effectuated through a statement from the President or Prime Minister which could be published on the homepage of the EITI website.

• **R2 - Ensure that work plans are disseminated – indicator 4**

Recommendation:

In addition to being published on the domestic Initiative website, we recommend that the work plans are subject to a greater level of presentation and dissemination.

• **R3 - Assess capacity constraints in the work plans – indicator 4**

Recommendation:

In accordance with the recommendations of the Validation Guide, we feel that it would be useful to carry out an assessment of capacity constraints regarding implementation of each of the objectives in the national work plan.

This would make it possible to anticipate any difficulties and ensure that the work plan is implemented.

A risk management strategy would be particularly apt as it would guarantee success in achieving the objectives. This strategy would consist of identifying potential risks and ranking them in order of importance. It would then be necessary to take actions targeted at mitigating the higher-level risks.

• **R4 - Create a work plan for 2011-2012 – indicator 4**

The current work plan concludes at the end of 2010.

Recommendation:

In order to facilitate planning and managing actions, and to make funding for the domestic Initiative sustainable, we recommend that the Working Committee develop the work plan for 2011-2012 as soon as possible.

• **R5 - Strengthen human resources in the Technical Secretariat – indicator 5**

We understand that implementation of certain actions envisaged in the domestic Initiative work plan was subject to delay owing to the limited human resources of the Technical Secretariat, i.e. the lack of a dedicated full-time team.

Recommendation:

In order to strengthen the efficiency of the National Initiative, we recommend that the Working Committee strengthen the human resources of the Technical Secretariat. Given the advanced stage which the domestic Initiative has now reached, recruitment of permanent, long-term staff is necessary.

- **R6 - Consider simplifying the process of recruiting consultants – indicator 8 and 10**

We have ascertained that the competitive process for recruiting the Validator was declared null and void and postponed twice due to administrative obstacles.

Recommendation:

In order to guarantee maximum transparency and independence, it would be useful to simplify the selection processes for consultants for the domestic Initiative, including technical experts, the independent Reconciler, Validator etc., especially in the case of foreign consultants.

- **R7 - Encourage the key extractive industry companies to sign-up – indicators 7 and 9**

We understand that 31 of the 66 companies did not wish to participate in the first data reconciliation exercise.

Recommendation:

We recommend that the Working Committee seek to ensure the participation of all the extractive sector companies in the country, especially the following: Volcan, with 21% of lead production, 17% of zinc production and 13% of silver production; Petrotech with 8% of oil production; Chungar with 7% of zinc production and 8% of lead production and Ares with 10% of silver production.

- **R8 - Consider extending the scope of the flows for reconciliation – indicators 9**

We understand that some companies fund projects for the benefit of populations in the extractive regions. This voluntary donation is called the "Voluntary Mining Contribution". Over the last three years, the sums contributed by the companies in this way have amounted to US\$500 million.

Recommendation:

We recommend that the Working Committee consider the possibility of including the Voluntary Mining Contribution within the scope of future EITI Reports.

- **R9 - Carry out a review, at Working Committee level and at the international level of EITI, of the need to reconcile data based on payment flow analysis – indicators 9, 14 and 15**

We understand that, for reasons relating to the quality of the monitoring processes of the Peruvian tax administration, the Working Committee decided to work on the basis of companies' annual sworn declarations and not on an analysis of payment flows as recommended by the EITI Sourcebook.

Given the adjustments which may take place at year end, theoretical differences may result between the two methods. We understand however that this impact is largely cancelled out as a consequence of the balancing adjustments which take place at the beginning of the following year.

Recommendation:

In order to respect EITI rules as closely as possible, we recommend holding a review, at Working Committee level and at EITI international level, to consider data reconciliation based on payment flows in future.

- **R10 - Obtain certified reporting templates for future reconciliations – indicator 12**

We can confirm that the participating companies have their financial statements audited by an independent external auditor. However, this does not necessarily guarantee the quality and the data in the reporting templates.

Recommendation:

We recommend that the Working Committee ask all the participating companies to have their reporting templates certified by their external auditors before submitting them to the independent Reconciler, as per Suggested action 18 of the EITI Sourcebook.

- **R11 - Reconcile and publish the data regularly – indicator 18**

To date, only data from years 2004-2007 have been subject to a data reconciliation exercise.

Recommendation:

In order to respect the first criterion of the EITI Sourcebook, we recommend that the Working Committee seek to reconcile and publish data regularly.

● R12 - Limit the number of Initiative websites – indicator 20



<http://Intranet2.minem.gob.pe/web/eiti>



www.eitiperu.info

The Initiative is presented in two domestic Initiative websites:

- <http://Intranet2.minem.gob.pe/web/eiti>
- www.eitiperu.info

Recommendation:

In order to make the domestic Initiative easier to comprehend, we recommend to the Working Committee to have only one website about the Initiative.

✓ Recommendations to the international bodies of EITI

● R13 - Consider revisiting indicator 12

Indicator 12 seeks to verify that declarations are based on accounts audited according to international standards and regulations.

We feel however that this statement would benefit from clarification. In effect, certification of accounts does not guarantee the quality of the forms which are processed separately and therefore not under the control of auditors.

Recommendation:

In accordance with Suggested action 18 of the Sourcebook, indicator 12 should lead to verify that the forms, and not just the accounts, are the subject of an audit.

As such, we suggest that indicator 12 should be restated, based on the proposed wording: "Has the government ensured that the company declarations have been audited on the basis of international standards?" ».

● R14 - Consider revisiting indicator 13

Recommendation:

In the absence of recognised international auditing standards for government accounts, and given the difficulty of assessing this indicator, we recommend to the international bodies of EITI that indicator 13 be restated, based on the proposed wording: "Has the government taken measures to ensure that its declarations are a faithful representation of the revenues received by the state?"

Note

In order to limit the size of the Validation Report
the corresponding Annexes are presented in a separate file



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