



PDP Cajamarca

Project Competitive Development of
Local Suppliers in Cajamarca



"Systematization of support in policy making on the
development of local suppliers among large purchases"



Oscar Manuel Mendoza Vargas



PDP Cajamarca

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Cajamarca, October 2007

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Prologue

Greater investment and increased exports are producing a growth in local demand for goods and services in different regions of Peru; this demand may be met by qualifying and extending competitive local supply in a sustainable manner.

"Systematization of support in policy making on the development of local suppliers among large purchases" is a document prepared by the "Competitive Development of Local Suppliers in Cajamarca" project, a pioneering initiative begun in 2002. It is a joint effort by different institutions financed by FONDOEMPLEO, the International Finance Corporation and Asociación Los Andes de Cajamarca, with the Commerce and Production Chamber of Cajamarca as strategic partner; it is being implemented by Swisscontact - Recursos SAC.

Mining is driving the development of the Peruvian economy and is one of the industries responsible for the 7% growth in Peru's GDP in 2006 and in the last decade. It is estimated that 11 of the world's 20 largest mining companies are working in Peru, which is possibly the country with the greatest mining potential, comparable only to Russia¹. 21,900 million dollars was invested in the sector between 1992 and 2006. 90% of this investment is decentralized away from Lima and a large proportion was invested in the Peruvian highlands². In 2006 mining companies paid 45% of Peruvian government income tax revenue.

However, there are also other sectors, smaller than the mining sector, whose growth has been important to the country's regions. For example there is the agricultural exporting sector, which in 2006 was responsible for exports valued at around US\$ 1800 million, mostly concentrated in regions such as Ica, La Libertad and Arequipa. Although this was only 7.5% of Peru's total exports, it

¹ Pedro Alcantara, executive secretary of the Argentine Mining Geology Service at Proexplo 2007, talking to the BBC in London. Quoted by Mundo Minero. September 2007.

² Isaac Cruz, President of the National Mining Society, 2007.

was an increase of 25% compared with the previous year and 177% compared with 2000.

Furthermore, many regions of the country have large companies which, though not necessarily part of a nationally important sector, are highly competitive and significant in their local areas because of the trade they generate or could generate. Sectors such as brewing, dairy produce and certain items of the textile business are some of these.

As we know, the widening and sustainability of the domestic market through the development of local suppliers requires an approach that concentrates on intermediate multi-sector consumption. For example, in the input-output chart of Peru for 1994³, as far as mineral extraction was concerned, there were three sectors which accounted for 45.5% of total intermediate consumption: transport and communications 19.5%; services rendered to companies 18.5% and electricity and water 7.5%. Nevertheless, the development of these sectors encompasses different activities; their consolidation benefits the economy as a whole and not just the mining sector. In addition there are more than 30 other sectors or subsectors making up intermediate consumption in the minerals industry.

It was precisely an understanding of this dynamic that drove the “Competitive Development of Local Suppliers in Cajamarca” project to devise a strategy aimed at intensifying transactions between some of the large or medium-sized companies in the region and local small and medium-sized enterprises (SMEs).

The systematization shown below was the method developed for that purpose. It contains various elements for extending local procurement policies, that were applied to large companies (and their suppliers) in three sectors: mining, transport and milk production.

³ The last year in which measurements were made of 45 sectors producing goods and services.

In addition to the development of specific mechanisms and instruments, strategic aspects are fundamental. Experience has shown that at least two elements must be present for an explicit policy of local procurement to be viable: firstly a clear commitment by larger companies to the economic development of their areas; and furthermore the view that the local market offers purchases advantageous conditions and the ability to maintain its level of competitiveness. In other words, if local procurement leads to losses, this is a bad policy.

Therefore the implementation of this strategy assumes that local suppliers exist or can be created to meet the purchase's needs at the required quality, quantity and opportunity. The existence of a programme that helps to develop this capacity is a key element.

But large purchases should also be willing to adjust their policies to take greater account of local suppliers and support local development. A review of these policies and purchasing mechanisms in accordance with this model does not imply questioning or disqualifying the existing model, but analyzing whether any of the rules constitute barriers to the incorporation of local suppliers, which are generally smaller-scale companies, and sticking to the more successful practices. The fact that a company accepts this review and possible adjustments is proof of commitment. The presence of an external programme to accompany the process is also an important catalyst.

In summary, the proposed model implies a positive result for purchases, sellers and local development. The encounter between competitive suppliers and large and medium-sized purchases is also an opportunity to encourage innovation, technology transfer development given that the goods and services offered must pass through different quality controls and the business management of each company. Commitment to "joint development" ensures local development.

This proposal will be extremely useful to different agents. Firstly, the project's target audience: local businesses encouraging local business competitiveness and businesses with innovative projects to improve

technology; but also large companies, without which support these new opportunities cannot be created. It will also be useful to private and public entities involved in analogous programme, as well as to business organizations and individual companies; in particular those agents seeking to fine-tune processes and learning to ensure that local businesses can enter a process of continual improvement, competitiveness and technological innovation.

Finally, the way to increase the competitiveness of local companies assumes a much wider approach in which the development of local suppliers is one more tool to generate local and regional development. This approach encompasses continual improvement to open innovation, to establish virtuous networks of "think tanks", networks of companies of different sizes, groups of people, universities and institutes interested in technological change in the region, in the recovery and greater use of "rebel technologies"⁴ and in the search for sustainable regional competitiveness.

We are convinced that this publication will establish new bridges with the academic and educational sector in order to take measurements, reach conclusions and include subjects in the syllabuses and in research, as well as in improving the local concept of corporate social responsibility.

Cajamarca, 12th October 2007

Ramón Ponce.
Recursos S.A.C.

Cecilia Rivera Del Piélago
Swisscontact

⁴ Alvin Toffler speaks of "rebel technologies" in his book "The Third Wave". The term refers to technologies that have been displaced and may now be applied again in a new environment. For example, some sectors displaced during the industrial revolution as they were incapable of industrialization or were not subject to concentration and standardization, and which have reemerged today and been integrated into new processes, such as handicrafts, herbal medicine, rainwater harvesting, dirigibles, etc.

Acknowledgements

This publication, which originated as a working paper, has been developed by contributions from many people since the first draft, and so acknowledgements are due to each one of them.

Firstly the institutions that have provided financing: FONDOEMPLEO, International Finance Corporation and Asociación Los Andes de Cajamarca, for their confidence in Recursos SAC and Swisscontact carrying out the Local Suppliers Development Project, as well as the Commerce and Production Chamber of Cajamarca for its support.

The large purchases operating in Cajamarca, regardless of the progress they have made, the learning experience has been most rewarding for all participants.

The different members of the network of institutions created around PDP Cajamarca for their important contributions. Ramón Ponce and Cecilia Rivera, responsible for the project strategy; Bradford Roberts and Violeta Vigo, who came up with the original idea of systematizing; Jorge Luis Puerta, my predecessor as project director; Lily Villar, Eduardo Vargas, Junetd Arteaga, Alex Alva, Jhon Tito, Milagros Castañeda, Wilson Calua, Maira Vergara, Paul Jiménez and Mariela del Carpio, who are marvellous to work with; Eduardo Burga and Alfredo Stecher for their important contributions; Frank Moritz, Luis Cornejo, Guillermo Herrera, Juan Tamayo, Carlos Combe, Miguel Tagle, Edgard Inga, Roberto Vega, José Manuel Vargas, José Vigo, Lelio Saéñz, Wilson Pesantes and Lisi Vásquez, representatives of the large purchases, with whom we have had many dealings.

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well as Luis Céspedes Ortiz, General Manager and Bernado Reyna, former general manager.

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Introduction

The “Competitive Development of Local Suppliers in Cajamarca” project - known by its initials PDP Cajamarca - is based on the conviction that investment and the presence of large modern companies in areas where there has been little economic and social progress, can mean greater opportunities for local sustainable development, in terms of wider markets, stable employment and wealth generation, if all actors build a policy which creates confidence, innovation and technology and social transfer to enable the different public and private agents to act in a sustainable manner.

The PDP Cajamarca is a project that attempts to continue earlier experiences of strengthening the business base begun in 2002⁵, capitalize the lessons learned from those experiences through the systemic treatment of the subjects mentioned and with a view to linking other large purchases to local suppliers in both urban and rural areas, in a process that will create greater dynamism in the local market.

For the above reasons the aims of PDP Cajamarca are not just to improve the productivity and quality of local suppliers and to diversify markets in order to reduce dependence on large purchases, they also include the implementation of good practices such as transparent commercial relationships and procedures between large companies and their suppliers and the implementation of strategies for their development.

In this context, during the first 18 months of the PDP Cajamarca project, commitments were obtained from five local companies: Aramark Peru SAC in the services sector, which provides meals for direct and indirect personnel,

⁵ Earlier experiences relate to the "Strengthening of Local Suppliers", "Access to the Financial System of SMEs" and "Strengthening Community Enterprises" projects, as well as the activities proposed by the SME Linkage Programme. These experiences took place in the period 2002 – 2005.

Gloria SA and Nestle Peru SA in the dairy products industry, Transportes Línea SA, which provides transport services for people and cargo; Minera Yanacocha SRL, a mining company; and Cajamarca Provincial Council, working on different aspects of the policy towards suppliers.

The critical path for assisting large purchases to develop supplier policies and plans, arising from the logical framework of the PDP Cajamarca, established the following guidelines:

- The formation of working groups in companies and institutions that are large purchases.
- The drafting of strategic guidelines for the development of suppliers.
- Formulation of development policies for local suppliers.
- The creation of strategies to raise local suppliers' awareness of the development policies.

Consequently, the aim of this document is to systematize the process of assisting large purchases to draft development policies for local suppliers, providing a methodological guide to the work, creating examples of application and identifying the lessons learned during the process.

In order to achieve this aim, the document has been structured in the following manner:

- Methodology for supporting the formulation of supplier development plans and policies.
- Policy, publication and monitoring documents.
- Subjects relevant to large purchases in formulating and implementing supplier development policies.
- The impact of the policies on local suppliers.
- Lessons learned while supporting large purchases.

Methodology for supporting the formulation of suppliers' development plans and policies

The working methodology used to support the formulation of suppliers' development plans and policies starts from an acceptance of two fundamental aspects:

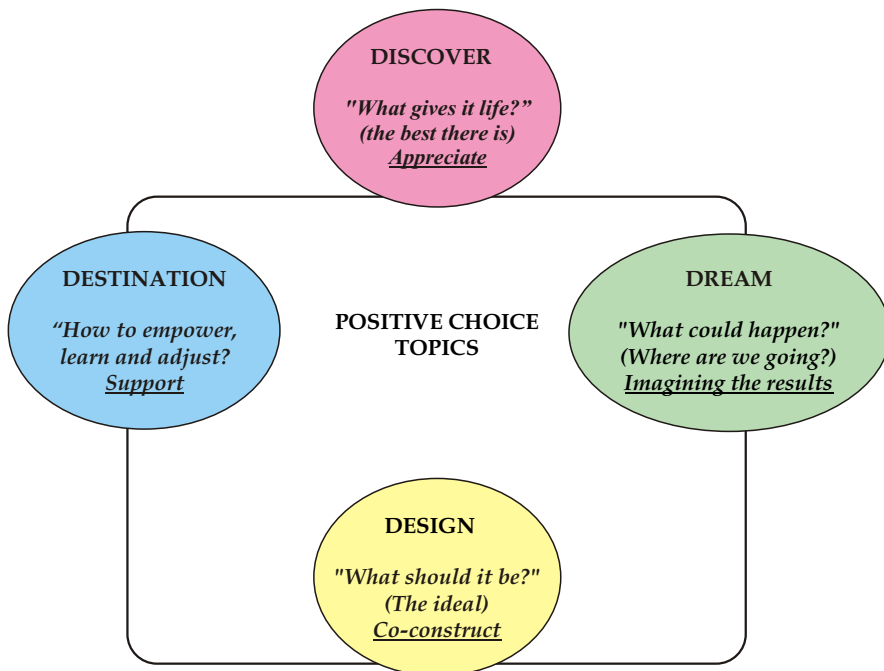
- The existence of a set of processes and rules governing the relationship between large companies and their suppliers. Some work well, others not so well and yet others generate resistance and disagreement.
- A large part of the existing procedures and rules are obligatory for large companies as they are imposed from higher up in the corporate structure, beyond the merely local, therefore any change implies a long chain of instances to obtain approval.

Thus the methodology applied was aimed at identifying the potentials of the processes and rules that represent good practice for the large company – local supplier relationship, which can be replicated at different levels and which, at the same time, form the foundation for creating management abilities within large companies and encouraging the development of local suppliers.

The conceptual framework for the methodology used was based on the theory of appreciative inquiry, which is based on a positive valuation of the interlocutors, operating processes and rules aiming, via the interlocutors in working groups with large companies, at discovering the best. This in turn serves as the starting point for deciphering possible scenarios for improved relationships and mechanisms for promoting and implementing joint action and plans to encourage local suppliers to achieve higher levels of

development. Graph N° 1 gives a methodological outline of Appreciative Inquiry proposed by David L. Cooperrider and Diana Whitney⁶.

Graph No. 1
Appreciative inquiry cycle⁷



⁶ Cooperrider, David L. and Whitney, Diane, "A positive revolution in change: Appreciative inquiry" in Appreciative Inquiry: Rethinking human organization toward a positive theory of change, D.L. Cooperrider, P.F. Sorensen Jr., D Whitney, T.F. Yaeger Editors, 2000.

⁷ Translated from David L. Cooperrider and Diana Whitney, Op. Cit.

The methodology of Appreciative Inquiry⁸ has scientific and theoretical foundations as it seeks socio-rational knowledge based on the identification of "what best makes organizations work"; it is metaphysical in that it seeks to value the knowledge of the "miracles" of each organization based on a logical vision that enable ideals of "what could happen" to be built; it is regulatory, because it seeks practical knowledge that facilitates dialogue and participation, generating a consensus about "what should be"; finally, it is pragmatic insofar as it promotes action based on knowledge, creating suitable conditions for participatory experiment in solutions that facilitate the sustainability of the processes of "empowerment, learning and adjustment."⁹

Taking Graph N^o 1 as a reference, the topic for positive choice proposed to the five large purchases committed to PDP Cajamarca has the same common aim: the **"development of a network of local suppliers"**, around which the stages of the cycle will revolve:

1.1. Discovery

The principal task in the discovery stage is to reveal the set of positive aspects that operate in the large company – local supplier relationship; for which the starting point for the work of support is the interest that representatives of large companies may have in the positive choice topic: development of the network of local suppliers.

⁸ From its inception, Recursos SAC has used a positive organizational approach and method of development, based on constructivism and explicitly expressed in its programme for training consultants and its 'Gestiona' software, which seeks to specialize the work of the consultant in recognizing and implementing the strengths and opportunities of companies and institutions. In 2004 it started to adapt the methodology of appreciative inquiry, designing products based upon this methodology, such as "Personal Motivation and Effective Communications" and "Organizational Development".

⁹ Cooperrider, David L. and Srivastva, Suresh, "Appreciative inquiry in organizational life" in *Appreciative Inquiry: Rethinking human organization toward a positive theory of change*, D.L. Cooperrider, P.F. Sorensen Jr., D Whitney, T.F. Yaeger Editors, 2000.

The aspects considered were:

The presentation meeting

In general all the large companies to which positive choice was proposed showed a certain degree of interest, so the first task at this stage is to stimulate this interest until it is sufficient to facilitate joint working, for which it is important that the steps prior to the presentation meeting be thought of as key aspects.

The depth of the review of secondary information depends on the size of the large company that we are trying to interest in developing local suppliers. For example: In the case of Minera Yanacocha SRL, a subsidiary of Newmont Mining Corporation, the review not only included documentation on the Peruvian subsidiary, but also the corporate mandates operating throughout the world and certain outstanding experiences from other operations; something similar took place with Nestlé. In contrast, the reference information for a smaller-scale large purchase such as Transportes Línea, was based on the company's website and certain publications in other media.

Steps prior to the presentation meeting

The first meeting with representatives of the large purchases is vital; clarity of purpose and adequate identification of points of interest are very important aspects for obtaining a commitment.

For that reason the following steps should be taken into account in preparing for the presentation meeting:

1. Review of secondary information held by large companies on the large company – local supplier relationship:
 - a. Start with the company's website, which generally contains up to date information on programmes, projects and documents
 - b. Annual reports or social responsibility reports
 - c. Social responsibility policy and documents if available
 - d. Historical summary of the corporation
 - e. Vision, mission, principles and corporate values
 - f. Adherence to international agreements or documents
2. Systematization of information on the large company – local supplier relationship, seeking to identify points of agreement on the subject of supplier development.
3. Preparation of a presentation containing five powerful ideas:
 - a. Clarify the positive choice topic on what "developing local suppliers" means for the purchase.
 - b. Explain how to achieve the positive choice topic "development of local suppliers"
 - c. Underline the importance of starting with a commitment by the large purchase, starting with a demand-based approach.
 - d. Demonstrate the results that the large purchase has obtained to date, based on systematization of the information compiled.
 - e. Propose a scenario in which the large purchase can identify the benefits of joint work in terms of measurable results based on the points of agreement identified for systematization.

Furthermore, development of the five ideas that made up the presentation was the critical point of this first part of the process, given that they outline the systematization and synthesis effort of the large purchase as well as its ability to interpret interests and trends in the subject. For reference, the interests identified a priori in the companies committed to PDP Cajamarca were as follows:

- Aramark Perú SAC: Attention to suppliers of critical goods and services; transmitting corporate standards on safety, health, the environment and community relations; as well as promotion of these standards.
- Gloria SA: consolidation of the experience of developing the Group's suppliers, compliance with supply targets, development and promotion of standards; and attention to critical processes that affect the quantity and quality of the raw materials.
- Nestlé Perú SA: complementing and consolidating prior experiences with the development of suppliers in Cajamarca, developing and promoting standards for a certain group of suppliers identified as important; and facilitating the development services necessary to strengthen the process with each group of suppliers.
- Cajamarca Provincial Municipality identifying quality criteria for evaluating building contractors and strengthening the abilities of suppliers to complete building work and meet the standards laid down by the State for contractors.
- Minera Yanacocha SRL consolidating growth in local acquisitions, development and the application of criteria for evaluating the performance of local suppliers; and reducing dependence by its suppliers on acquisitions by MYSRL.
- Transportes Línea SA: Systematization of experience in developing a network of local suppliers, standardizing subcontracting practices; and raising to a higher level the standards demanded of its suppliers.

Patience and perseverance in consolidating commitment by large purchases

No matter how good the preparation for the first meeting, unforeseen points usually arise that can work against the formalization of a commitment no matter how enthusiastic the large purchases may be. Some such cases are:

- From the beginning, Aramark Perú considered that internal documentation and training in basic services provided directly by its staff would be sufficient to generate a solid network of suppliers. For that reason, that company's commitment was not consolidated during that first contact. Nevertheless, this early work created the conditions in which, after a year, it asked for technical help from PDP Cajamarca to develop plans and policies to guide the large purchase – supplier relationship as well as short and advanced services to consolidate the first stage.
- Where government is concerned (Cajamarca Provincial Municipality and the Regional Government of Cajamarca), in spite of interest shown by officials responsible for state acquisitions, the political will and the fact of an election year work against any form of agreement. Another subject that generated resistance to reaching an agreement was the rigorous nature of the State Acquisitions Act and mechanisms for exerting pressure through the Office of the General Comptroller of the Republic.
- Although Ferreyros SA at first sent a letter expressing interest as part of the file submitted for approval of PDP Cajamarca by the financing entities, no real points of interest were identified on the part of that company that would lead to any form of agreement.

Furthermore, it is important to highlight that the commitment by Minera Yanacocha SRL arose from a political decision to promote the Strengthening of Local Suppliers Project which was started in 2002.

The results of this project motivated more officials to address subjects relating to the company's suppliers in a more proactive manner.

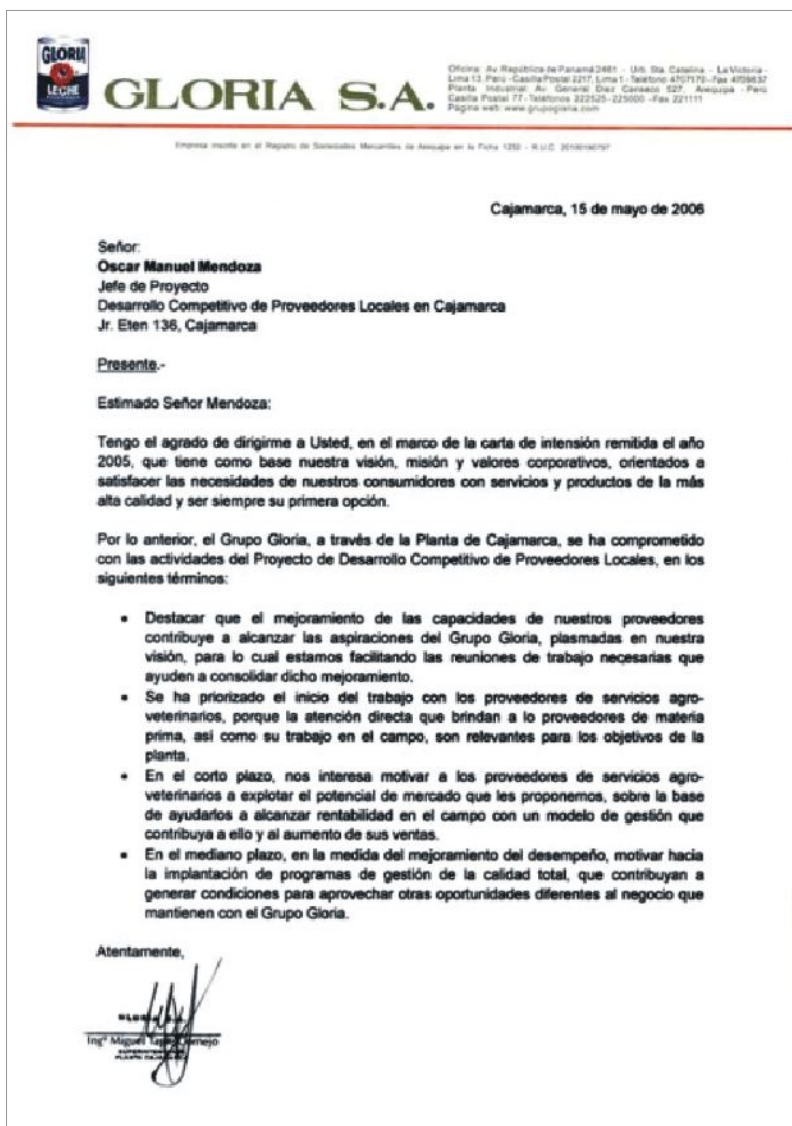
Letters of intent

The presentation meeting is generally used to lay the foundations for formalisation of the working group to address the priorities concerning local suppliers which, as we have already described, vary as a function of the interests of each large purchase; it is therefore appropriate to document these agreements through an aide memoir for all those present; but at the same time through a letter of intent which:

- defines the subjects that will be addressed by the internal working group,
- identifies the representatives or counterparts for the development of the agreed subjects

Figure N° 1 shows two of the five letters of intent sent by companies committed to PDP Cajamarca.

Figure N° 1
Letters of intent from large purchases to PDP Cajamarca



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Cajamarca, 29 de Marzo de 2007

Señores
Swisscontact
Fundación Suiza de Cooperación para el Desarrollo Técnico
Presente.-

Atención.
Sr. Oscar Manuel Mendoza
Coordinador del Proyecto Desarrollo Competitivo
De Proveedores Locales en Cajamarca


De nuestra mayor consideración:

Por medio de la presente me es grato dirigirme a ustedes para saludarlos y a la vez comunicarle que, Aramark Perú S.A.C. como parte del Programa Corporativo de Intervención Comunitaria, está asumiendo el compromiso con el Proyecto de Desarrollo Competitivo de Proveedores Locales, para lo cual estamos auspiciando la ejecución de los Programas de Calidad Total y Mejorando su Negocio, en los siguientes términos:

- Aramark ha designado al área de Relaciones Comunitarias – Contrato Yanacocha para ser el facilitador de las actividades que se programen durante la ejecución total de estos programas.
- Aramark ha agrupado para tal fin a 10 de sus proveedores locales a efectos que los programas de capacitación estén orientados a sus necesidades, empezando así una mejora continua camino a la satisfacción total del cliente; esta organización de grupos de proveedores ha sido de su conocimiento.
- Aramark, tiene un compromiso corporativo por adquirir la mayor cantidad de insumos y materias primas en Cajamarca, para tal fin se requiere de proveedores fortalecidos; para lo cual ve en el Proyecto de Desarrollo Competitivo de Proveedores Locales un aliado estratégico.
- A través del Área de Relaciones Comunitarias – Contrato Yanacocha se proporcionará toda la información respecto de los proveedores involucrados.
- Finalmente queremos expresar que este trabajo de mejora continua de los proveedores, hará que éstos nos acompañen en los contratos que vamos ganando en la Región de Cajamarca y por que no en el Perú.

Esperamos que este esfuerzo conjunto contribuya a la obtención de las metas trazadas y la satisfacción total de todos los involucrados.

Atentamente.



Claudio Williams
Gerente General

cc. V. Vique, C. Bisiak, R. Morés, J. Castillo, E. Inga, Archivo

Av. Camino Real 390
Edificio Terra Central Pto 10 09, 1001 B
San Isidro, Lima - Perú
Central Toll: (51) 422 8411 + 422 8412 + 422 8413
Fax: (51) 422 8456

Agreements between institutions, beyond the letters of intent

One of the aspects upon which PDP Cajamarca has always insisted is related to the incorporation of the State, as a large purchase, into the work of formulating development policies for local suppliers. Experience shows that political interest is fundamental for the following steps to be carried out. During 2006 it became clear that policy did not prioritize work with suppliers, and therefore progress was minimal.

Nevertheless, as far as the Cajamarca Provincial Municipality was concerned, even though political support from the authorities was obtained in January 2007, changing the regulatory structure and the bureaucratic status quo has been difficult, which restricted conditions for the work to be carried out.

In order to address this resistance, with a view to creating new conditions, it was thought appropriate to incorporate new agents that would act as a counterweight, but at the same time make further demands; given that the institutional letter of intent did not constitute a mandate within local government. Thus the agreement between institutions represented an alternative leading to greater commitment and pressure for compliance.

Despite the advantages of agreements between institutions in overcoming internal local government barriers, they require a certain amount of time to mature and, above all, to produce concrete agreements on what each institution is to contribute, as well as on the appointment of representatives, as in the formation of the working group.

It is important to recognize that the involvement of the Cajamarca Provincial Municipality with the project was principally the result of work done by the Chamber of Commerce and Production of Cajamarca, the

Confederation of Private Business Institutions - CONFIEP - and officials from the International Finance Corporation - IFC.

Discovery

The idea of discovery, developed during meetings of the working group or through interviews, consists of proposing questions aimed at opening spaces in which to compare experiences that will speed up identification of things that work well in order to create the conditions for a consensual dialogue leading to the next stage.

Meetings of the working groups and interviews open the door to information that is not always available openly, but is contained in the internal documentation and intranets of the large purchases, for example:

- Information in large companies about the large company - local supplier relationship, the value of purchases envisaged and carried out, processes, procedures and history.
- Reports from consultants, studies or improvement projects concerning local suppliers.
- Those who preserve the unwritten history of the large purchase - suppliers relationship, with whom further interviews are proposed.
- Good practices that worked as pilot schemes but were lost, for some reason, over time.
- Good practices that remain in use.
- Expectations and resistance concerning local suppliers in areas that make use of their services.

The work done earlier on building a history of each large purchase implies systematizing the most relevant findings so that they can be summarized and considered during meetings of the working group to facilitate transition to the next phase.

Graph N° 2
Flow chart of the discovery phase

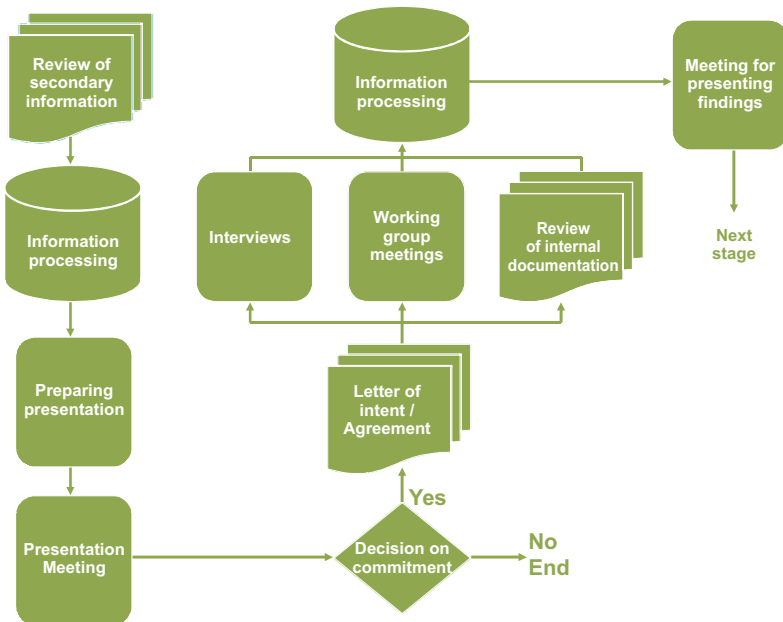


Table N° 1 shows the results of the discovery stage for each of the large purchases sponsoring PDP Cajamarca and Graph N° 2 shows the sequence of different activities in the discovery phase.

"Systematization of support in policy making on the development of local suppliers among large purchases"

Table N° 1
Results of the discovery stage

Activity	Aramark Perú SAC	Gloria SA	Nestlé Perú SA	Miñera Yanacocha S.R.L.	Transportes Linea SA	Municipalidad de Cajamarca
Review of secondary information	Website History of Aramark in Cajamarca Values and quality policies. Value of operations carried out	Website History of Gloria in Cajamarca Values and quality policies. Value of operations carried out	Website Review of consultants' reports. Feedback from Nestlé about services provided. Values and quality policies. Value of operations carried out	Website History of MY in Cajamarca. Consultants' reports. Feedback on consultants' reports. Reports on projects concerning local businesses. Values and policies: CSR, local work. IFC reports on Yanacocha. Value of operations carried out	Website Interviews with officials Earlier projects and consultations. History of Linea in Cajamarca. Values and policies: CSR, safety and the environment. Value of operations carried out	Website State Contracting Act Government policies Value of operations carried out
Formation of the working group	Includes Community Relations and Logistics Managers	Made up of Cajamarca Plant Superintendent, Administration Manager and Field Supervisors.	Made up of Cajamarca Plant Superintendent and Cajamarca Administration Manager.	Made up of Materials Department Manager, Purchasing Manager and Contracts and ALAC Manager. The External Affairs Department and certain user departments were included in the process.	Includes General Manager, Personnel Transport Manager and Cost Supervisors.	Includes the Municipal Manager, Assistant Manager for Operating and Construction Licenses and Economic Development Manager.
Identification of people involved	Members of the working group. Responsibilities of the warehouse Company responsible for institutional image	Members of the working group.	Members of the working group Suppliers of services Suppliers to the plant	Members of the working group, contract administrators, Contracts Administration Manager, External Affairs Manager Chamber of Commerce and local businessmen	Members of the working group Local services providers Local suppliers of vehicles Chamber of Commerce	Members of the working group CCPC CONFIEP IFC
Good practices identified	Policy on company standards. Social responsibility policy implemented Development of suppliers from the rural sector and incorporation into the supply chain Formalization and basic training for urban suppliers. Evolution of purchasing	Company policy and standards. Experience of developing suppliers in Peru. Replicating the supplier development experience in other group areas Evolution of purchasing	International experience of developing rural suppliers Experience in providing farm veterinary services to suppliers of raw materials Training for suppliers Evolution of purchasing	"SME Linkage" programme and its projects Programme for Strengthening Rural Contractors Project:suppliers committee Criteria for evaluating the performance of suppliers Validated local Supplier supervision procedure Programmes and proposals for improving the previous points Evolution of purchasing	Local Suppliers Development programme Training plans for local suppliers and performance reports Validated local contracting model Evolution of purchasing	State Contracting Act Evolution of purchasing

1.2. From discovery to dream

Drafting policy is an art and as such, the discovery process leads to "fine tuning the sense of vision" in order to sketch the potentials which would satisfy the common objective under different scenarios: "the development of local suppliers".

After the discovery phase, the first thing the working groups do is to prioritize the groups of local suppliers upon which emphasis is to be placed. Although it is desirable that the strategic guidelines for developing suppliers generates expectations among as many local companies as possible, large purchases have the ability to promote more than just a few groups, as a function of their operating plans.

Given the above, at the time of its formalization PDP Cajamarca made the effort to clarify the economic activities in which local companies would be involved, the demand governing the "discover to dream" transition facilitated a review of this prioritization; which resulted in the following:

- **Construction industry:** as a consequence of prior prioritization confirmed by the demands of Minera Yanacocha and Cajamarca Provincial Municipality.
- **On-site consultants:** Prioritized by Cajamarca Provincial Municipality, with a view to increasing the rate at which projects were being developed, at the different levels required by the National Public Investment System.
- **Transport:** the result of the first prioritization and ratified by Transportes Línea, Minera Yanacocha and Nestlé del Peru.
- **Metal workmanship,** which appeared as a result of the prioritization carried out by four of the companies committed to

the project and is also one of the sectors with the largest number of companies¹⁰ in Cajamarca.

- **Farm veterinary services**, as a result of prioritization by Gloria and Nestlé del Peru, as this is a critical service for milk suppliers.
- **Environmental services**, prioritized by Minera Yanacocha as part of its mine closure plan as well as the new approach to the group of suppliers of these services.
- **Services for the transport sector**, prioritized by Transportes Línea as key to the sustainability of quality and safety standards in this sector an in its business.
- **Suppliers of goods**, an extensive list that includes: timber, lime, containers, advertising materials, textiles and personal protection equipment, certain types of food, the result of prioritization by Minera Yanacocha¹¹ and Aramark Perú."

Thereafter, together with the working groups of each large purchase, we produced strategic guidelines for promoting interest groups of suppliers. Table N° 2 shows the results to date.

It should be mentioned that the process of reviewing the strategic guidelines in multinational companies such as Minera Yanacocha and Nestlé Peru is very rapid because of the speed of their planning processes, which is the result of adjusting global strategies to local circumstances.

¹⁰ PDP Cajamarca has identified 120 metal workmanship companies in the city of Cajamarca. The Regional Production Office has a database of 140 companies. This sector also has a high potential for the production of spare parts and other goods. For comparison purposes, the Infantas Industrial Park in Los Olivos had approximately the same number of companies in 1990 and now the best of those companies are exporting their production.

¹¹ Minera Yanacocha is especially interested in strengthening and developing suppliers of goods as the sole possibility for growth to increase their access to contracts. The following conditions have been established: that the goods be produced in Cajamarca, that the quality should be similar to that produced elsewhere and that price levels should be similar to those of goods made elsewhere.

For example, Minera Yanacocha identified three new groups of suppliers to be prioritized when the External Affairs Department was incorporated into the working group.

- Companies that provide goods and services for institutional events¹², with potential for consolidation at regional level.
- Companies known as rural contractors (until the change in policy), previously prioritized in the construction and environmental services sectors that deserve special treatment, which implied a second attempt at the policy drafting stage, resulting in a new policy.
- Companies of former employees, created after the downsizing programmed for fiscal year 2007 onwards.

Furthermore, in the case of Nestlé Peru, which initially prioritized the promotion of suppliers of plant, transport and farm veterinary services; senior management proposed, in line with best international practices, that the treatment and investigation into suppliers of raw materials should be given priority, as a result of which the treatment of other groups will be revised. However, after this change Nestlé Peru reconsidered its participation and this situation has not yet been resolved.

¹² Minera Yanacocha SRL holds approximately 360 events a year, which vary from meetings between two people through working meetings, seminars, book presentations, fairs and exhibitions among others.

"Systematization of support in policy making on the development of local suppliers among large purchases"

Table No 2
Strategic guidelines developed

Aramark Peru SAC	Gloria SA	Nestlé Perú SA	Transportes Línea S.A.	Minera Yanacocha S.R.L.	Municipality of Cajamarca
<ul style="list-style-type: none"> The promotion and implementation of quality management systems for strategic suppliers The promotion of business certification for those suppliers that have already implemented quality management programmes Creation of conditions for the basic regulation of a group of suppliers that have the potential to become strategic suppliers Incorporation of suppliers into other business operations as a function of improved standards and quality and harmlessness certification 	<ul style="list-style-type: none"> Improving the business skills of suppliers contributes to the Group Gloria's vision. Priority for work with suppliers of farm veterinary services. The short term aim is to encourage suppliers to identify potential in the existing market, achieve profitability and implement an efficient management model. A basic programme of business strengthening and regulation is incorporated as part of the requirements for contracting. The medium term aim is to improve the performance and implementation of quality assurance systems. 	<ul style="list-style-type: none"> Development of a study of the needs of suppliers of raw materials, which will be used to review the strategic guidelines prioritized for: <ul style="list-style-type: none"> Plant suppliers - because of the progress achieved, the aim is to implement quality assurance systems. Suppliers of transport - the aim is to implement efficient management systems that treat milk producers property. Suppliers of farm veterinary services - the aim is to develop a programme to strengthen milk producers. 	<ul style="list-style-type: none"> An improvement in the business skills of suppliers contributes to the aspirations of Transportes Línea Identification of the different levels of progress achieved by suppliers. Concentration on BDSs¹³ as tools applicable to each type of supplier. Prioritize two subjects for the first phase: 21 suppliers of services and spare parts and 32 suppliers of vehicles. Support for direct calls to suppliers that form part of its supply network. 	<ul style="list-style-type: none"> Improvements to the business skills of suppliers contribute to local development and growth. Priority for various groups of service providers, and inclusion of suppliers of goods. Establish PDP Cajamarca as the basis for strengthening and development of its suppliers. Establish a formal counterpart to the Materials Department. Identification of different levels of progress among suppliers and, therefore, differences in their treatment. Standardization of the requirements for qualification as a supplier, promoting validation of experience by certification, as well as guarantees of compliance with contractual obligations. 	<ul style="list-style-type: none"> Identification of quality criteria for consulting services. Standardization of quality criteria for consulting services. Strengthening the capabilities of local building contractors in order to meet the standards required by the State Contracting Act.

¹³ It is proposed to implement administrative simplification through the Trami Fácil project, an agreement between Cajamarca Provincial Municipality, the Chamber of Commerce and Manufacturing of Cajamarca, the Confederation of Private Business Institutions (CONFIEP) and the International Finance Corporation.

¹⁴ Business development services

1.3. Design

When the different positive strategic approaches have been described – proposed by large purchases based on a powerful aim: that Cajamarca should have well-developed suppliers that can meet their requirements and at the same time are less dependent upon large purchases because they have a presence in other markets or supply new clients, thus expanding the local market – then a better system can be designed to support the large company - local supplier relationship.

The basis for this design is the supplier development policy that each large company is to apply, given that this is an instrument for regulating matters, guiding strategic approaches and, at the same time assigns responsibilities for implementation and compliance.

Aspects to take into account in supplier development policy making

The following is a guide to the aspects that should be taken into account when formulating the supplier development policy as part of the support to large purchases carried out by PDP Cajamarca.

1. Review of current administrative procedures applicable to the large company - local supplier relationship.
2. Identification of critical points in the administrative procedures that could be made more flexible, as well as those at which barriers should be erected; in both cases in order to improve the large company - local supplier relationship.
3. Use the review of current procedures and identification of critical points to establish the new standards.
4. Determine the scope of the suppliers' policy.
5. The scope of the policy is used to classify local suppliers and at the same time coordinate with the different departments involved to identify the goods and services that they can supply.
6. Define key terms that help to create a language within the company by which to understand and interpret the new standard adequately.
7. Assign levels of responsibility within the large company in order to guide application of the policy and at the same time, monitor implementation and compliance.
8. Fine tune the strategy for addressing critical matters concerning local suppliers to complement the strategic guidelines already developed in the earlier phase and, in some cases, modify them after a more thorough review.
9. Determine the type of training for local suppliers in order to achieve the standard required by the policy.
10. Define mechanisms for disseminating the policy.

The process described in the box “Aspects to be taken into account in supplier development policy making” has been applied by Minera Yanacocha and Transportes Línea, although in different ways, as part of the application of new approaches and forms of treatment of local suppliers:

Minera Yanacocha SRL organized an internal working group, which initially involved the Materials and External Affairs Departments and took the steps described above; proposals were discussed and approved at *Senior management meetings*¹⁵.

The complexity and scope of application of the suppliers policy meant that consultants were hired for certain specific aspects, to provide the best quality information on which decisions could be taken; and sub-groups were formed for this purpose. In addition, representatives of other departments involved with local suppliers were incorporated into these sub-groups. By way of recapitulation, the following may be taken into account:

- The review of internal procedures and identification of critical points was first carried out by the working sub-group, whose conclusions were validated by the outside consultants and the company's legal advisors.
- The company made use of several departments after the consulting exercise to identify the demand for goods and services that could be met by local suppliers, and which additionally involved the ability to absorb both skilled and unskilled local labour.

¹⁵ It should be mentioned that during the first stage, which resulted in a first version of the Minera Yanacocha suppliers policy, the group was led by the Materials Department Manager; however, it was suggested that the External Affairs Department be incorporated, as this was the department that had contact with most sensitive group of suppliers. Thus it was that, after the events of Combayo in August 2006, the working group was made up of representatives from both departments.

That exercise provided accurate information on the limits affecting the promotion of local suppliers; and, therefore, the need to adjust expectations in line with real future scenarios.

- Taking this into account, new demands were developed, based on the casuistry of the company's contracting, as well as the requirements imposed by the Peruvian State on the contracting of suppliers.
- The development of the new standards and contractual requirements also required a validation of the outside consultants and law firm; firstly because of Peruvian legislation and respect for international agreements entered into by the company's parent company.

Furthermore, Transportes Línea SA, a much smaller company than Minera Yanacocha, approached PDP Cajamarca to provide a technical secretariat service, facilitating the documentation necessary for the review of administrative procedures and identification of critical points. This work facilitated discussion within the company and finally, a policy was promulgated by the General Management.

It is important to mention that within the framework of the previous process, Transportes Línea made the Personnel Transport Division into a corporate management department, given that growth in the company's operations was due to this division; thus contact was made with the principal local suppliers in the different operating areas through this division.

1.4. Destination

The approval of a policy leads any large company towards a destination, which is reached through publication, implementation and monitoring of the policy. This implies a need to link the efforts of the

people involved in the large company - local supplier relationship, the suppliers themselves and other stakeholders around this subject.

The destination phase is an invitation to action, based on the policy in question, by the different agents involved in order to implement the aim of developing suppliers into a *local cluster*¹⁶. that guarantees the sustained generation of added value beyond the presence of the large company.

The above means that policy making implies empowering the different sectors, both internal and external. This based on clear procedures and forms that are easy to fill in, which in turn provide indicators to evaluate compliance.

¹⁶ Local cluster generally refers to a number of companies in different sectors and subsectors, serving a given final market. For example, the footwear, metallurgy, timber and furniture, tourism, cotton and textile clusters, among others. In this case it is the territory that defines the cluster, given that this specific area encompasses the metal mining industry, the dairy products sector, services for companies and others and there are also sectors and subsectors that offer and provide goods and services to different sectors and subsectors.

Commerce and Production Chamber of Cajamarca: A key actor

During the process of building the destination, both Minera Yanacocha and Transportes Línea, which have completed the work cycle; and Aramark, Gloria and Cajamarca Provincial Municipality that have not yet reached this phase; identified the Commerce and Production Chamber of Cajamarca as a key actor with which they could relate for the following reasons:

1. The system of chambers of commerce is the business institution that for years has had the role of promoting business and facilitating understanding of the rules of the market.
2. In the rest of the world as in Peru, the system of chambers of commerce has facilitated proper treatment, such as the resolution of conflicts of interest through arbitration mechanisms which it is important to promote at local level.
3. The chamber is a meeting point for large purchases and local suppliers and should be seen as a focal point, facilitating information and promoting transparency in the commercial relations between its members.
4. Recognition through the chamber of commerce can create favorable conditions for investment through committee work that involves not just the large purchases, but also local suppliers.

Thus the policy proposes a new approach to local suppliers, which means more than just a change in the language¹⁷, rather it means concentrating principally on training, for which reason PDP Cajamarca has incorporated additional BDSs to those determined in the original logical framework for the project, in order to respond to these requirements¹⁸.

Furthermore, monitoring of the policy and the expectations of local suppliers thus generated, enable its success to be evaluated; and the cycle has to be restarted to adjust aspects not included in the approved version of the policy.

¹⁷ In the case of Minera Yanacocha this implied removing from the vocabulary references to "rural contractors" or "strategic company" when it became clear that different treatments were being meted out to different suppliers which, in turn, was creating resistance and practical differences in treatment. For that reason, the term suppliers was used for all, and this also facilitated the implementation of standards and new requirements.

¹⁸ PDP Cajamarca incorporated the ILO Business Game and Improve Your Business methodologies, the first being a basic awareness-raising service and the second specific technical aid to meet regulatory needs. It also included group financial assistance to enable the companies to carry out financial control.

Minera Yanacocha's monthly contractors meeting

The monthly contractors meeting was started by Minera Yanacocha in April 2005 and involves all suppliers with valid contracts, who are invited to clarify or discuss contract matters in depth; as well as to reflect and to place new subjects on the commercial agenda.

Minera Yanacocha's records of this meeting show that an average of 120 to 135 suppliers' representatives attend, which makes it one of the largest and most frequent business meetings in the region, and probably in Peru.

The general headings under which the subjects discussed are grouped are as follows:

1. Loss prevention and safety
2. Emergency response to different situations
3. Hiring procedures
4. Occupational health
5. Social responsibility
6. Current legislation on mining operations and procedures
7. Business certification
8. Quality standards required in contracts
9. Report on acquisitions
10. Contracting policy and contact with local suppliers
11. Voluntary work

The practice implemented by Minera Yanacocha has been followed by other large local purchases such as Transportes Línea, which also holds monthly meetings; and Gloria SA, which holds fortnightly coordination meetings with farm veterinary service suppliers.

The situation described above happened to Minera Yanacocha, after the first version of the policy was issued in April 2006 and as a function of external events the cycle was restarted in order to address specific aspects regarding the group of local suppliers referred to as "rural contractors"¹⁹. Thus, after completing the cycle for the second time, implementation is currently being monitored for review purposes.

Another instance of monitoring implementation of policies used by Minera Yanacocha²⁰, important because of the frequency with which it is used, consists of meetings with contractors to discuss aspects related to policy, and which also acts as a communications channel leading to an understanding of the different standards.

¹⁹ These were the efforts of the residents of rural areas influenced, either directly or indirectly, by a large mining company, which were formally incorporated as companies in order to take advantage of employment opportunities offered by the large company or as a result of imitating previous efforts.

²⁰ Aramark Perú, Gloria SA and Transportes Línea have also implemented coordination meetings with contractors, which are considered the starting point for publishing and monitoring implementation of these policies.

Policy documents, dissemination and follow-up

This section concentrates on three important aspects that complement the process of policy making on suppliers' development: the types and content of policy documents, their dissemination and follow-up.

2.1. Types and contents of policy documents


A large purchase is free to document a given policy as it sees fit, nevertheless, three types of documents are widely accepted for internal and external use because of the guidance they provide: the letter of intent, the policy guideline and the annual evaluation of the commitment.

The following gives the concept of each document, as well as a list of the contents of each one, so that the standard that they establish will facilitate the destination phase described above.

Letter of intent

The letter of intent is a public document issued by the large company, which sets out the relevant subjects that have given rise to a given policy, as well as aspects to guide its application that commit all levels of the organization to compliance.

Figure No. 2
Example of a letter of intent on a local supplier policy



**CARTA DE COMPROMISO CON EL FORTALECIMIENTO Y DESARROLLO DE
PROVEEDORES LOCALES**

Transportes LINEA S.A., conciente de su responsabilidad social, propicia relaciones de negocios con empresas proveedoras locales que se integren adecuadamente al cumplimiento de nuestros objetivos y contribuyan a sostener nuestro desarrollo empresarial en el ámbito regional.

En nuestra Empresa, la Alta Dirección y todos los trabajadores estamos comprometidos con el fortalecimiento y desarrollo de los negocios locales, como base de un sistema integral que toma en cuenta las necesidades de nuestros clientes.

ES NUESTRA POLÍTICA:

- Identificar, en las localidades de operación, las necesidades de Transportes Linea S.A. que puedan ser atendidas por empresas proveedoras locales en condiciones competitivas.
- Incentivar la incorporación de proveedores de vehículos locales que se ajusten a los estándares de mantenimiento de unidades y cumplimiento de obligaciones contractuales.
- Fomentar el pago de tarifas justas y pagos oportunos, que favorezca la capitalización de los proveedores locales.
- Facilitar el fortalecimiento empresarial de los proveedores locales, siendo soporte para la formalización tributaria, el ordenamiento que promueva la gestión empresarial saludable, desarrollo de canales de comunicación permanentes y a la consolidación como empresas en el mediano y largo plazo.
- El modelo de relacionamiento empresarial con proveedores locales se basa en: la promoción de altos estándares de seguridad y calidad de servicios, la sostenibilidad de la unidad de dirección y mando en el negocio, el respeto a la vecindad, la generación de alternativas reales de trabajo y la generación de ahorros presupuestales.
- Infundir la práctica de ORDEN y LIMPIEZA.
- Implementar un adecuado proceso de Supervisión para garantizar el cumplimiento de nuestras políticas de Prevención de Pérdidas y Gestión Ambiental.

Fernando Salaverry Mannucci
Director Gerente

The letter of intent should contain the following:

- Statement: Referring to the reasons for the company developing the policy.
- Policy: Sets out the guiding principles of the company's policy on the subject in question, in the form of statements and commitments.
- Businesses. Profiles the businesses it is intended to carry out with qualified local suppliers that have won the right to supply the company.
- Signature and position of the person responsible for approval: This should be the company's general manager.
- Date and person responsible for drafting: The name of the individual responsible within the company for drawing up the policy.
- Date and person responsible for revision: The name of the individual responsible within the company for reviewing the policy.
- Date and person responsible for approval: This is equally the competence of the general manager or president of the company, or both, if appropriate.

Figure N° 2 gives an example of a letter of intent by which a large company makes its policy known to the public.

Letters of intent are usually published in the media when launched, as well as in the company's offices. They are also mentioned in the annual report, given that the issue of such a letter requires that an account must be given of the commitments included in it.

Policy guideline

The policy guideline is an internal document used by large companies to inform the different levels of the organization of the standards it wishes to implement. In addition, it is a document for consultation by

officials managing the relationship with local suppliers, so that the decision-making criteria provided facilitate implementation.

The recommended contents of a policy guideline are as follows:

- Basic principle: Identifies the company's core business and its commitment to its clients and stakeholders.
- Purpose: defines the central goal it is hoped to reach with the issue and implementation of the policy.
- Scope: Determines the area of application of the policy, given that large companies work in different areas and with different types of suppliers, therefore it is appropriate to define the limits adequately.
- Standard: Defines the priorities and guarantees to be created by the issue and application of the policy inside the large company, which constitute a reference for defining the procedures to follow.
- Definition of key terms: These are related to the procedures and standards defined for the application of the policy.
- Responsibilities: Identifies the levels of intervention within the company, as well as defining functional responsibilities for issuing, implementing, monitoring and reviewing the policy.
- Strategy: In the first place, this defines the key matters that should be addressed by the policy, then establishes and develops the lines of action by which the key matters identified are dealt with.
- Publication: Establishes the mechanisms and responsibilities for publishing the policy.
- Compliance with the policy: Annual review of the commitment assumed.
- Annexes: These documents are an integral part of the policy, as they extend the definitions or address complementary aspects. The following annexes have been drawn up:
 - Table of goods and services available locally.
 - Definition and segmentation of local suppliers, using two

criteria: by sales (or contract) value and by number of employees.

- Procedure for identifying and contracting local suppliers.
- Form for acknowledging receipt of the policy within the company.
- Form for group training meeting on aspects relating to the policy.

2.2. Dissemination of the policy

One of the key aspects for the institutions providing funds for the PDP Cajamarca in supporting large companies to formulate supplier development policies is dissemination. At the same time, one of the concerns of the large companies committed to the PDP Cajamarca is centred on the best way to manage expectations that could be caused by inadequate dissemination, as this could cause greater social pressure.

Different dissemination mechanisms have been used to manage these aspects, which we have classified as internal and external:

Internal mechanisms

Two mechanisms were proposed for disseminating the policy inside the company, the purpose of which is to raise the awareness of those involved in the relationship with local suppliers, to facilitate interpretation of the different points included in the policy guideline:

- Policy memorandum: This is issued by the Senior management to all departments and units of the company, reporting on the policy and with all policy documents attached.

- Group meetings to explain the policy: Carried out at two levels: The first is a general meeting for all departments. The second is specific to departments and units responsible for implementation and follow-up.
- Refresher memorandum: This is issued by senior management, with a view to reinforcing general or specific aspects in order to comply with the policy or to facilitate interpretation of certain aspects related to it. The frequency and subjects of the memorandum are determined by Senior management.

External mechanisms

The mechanisms for disseminating the policy outside the company are aimed at clarifying different aspects of the policy to stakeholders, but above all, to local suppliers.


The following is a list of external mechanisms that can be used for this purpose:

- Letter of intent: Issued by the general management and published in all the company's public offices as well as in the media if appropriate. Also included in the company's annual reports.
- Communiqués distributed in the form of bulletins or published in the offices of stakeholders or in the media.
- Workshops with stakeholders: These should be organized to receive feedback on the new policy, with a view to systematizing opinions, identifying resistance, validating strategic guidelines and, as far as possible, adjusting or limiting resistance.
- Group meetings with suppliers: To be held by those responsible for commercial and/or technical relations with suppliers and aimed at clarifying poorly understood aspects but, above all, to raise awareness and encourage compliance with standards.

-
- Training for suppliers on the standards required in the policy: Carried out by departments or units defined by the company, or by outsourcing or agreement with specialist entities.

Figure N° 3 shows an example of a communiqué that was used to disseminate important aspects of Minera Yanacocha's new policy.

Figure N° 3
Example of the comunicqué as a mechanism for external dissemination



Marzo 2007

COMUNICADO
YANACOA ANUNCIA NUEVO
SISTEMA PARA CONTRATACIONES
DE EMPRESAS LOCALES

A partir de este año, Yanacocha tendrá un nuevo sistema de contratación para empresas locales en el objetivo de garantizar la participación de empresas responsables con la comunidad, con sus trabajadores y con el País. Por tal razón, empiezan a regir nuevos requisitos en nuestro proceso de contratación.

Yanacocha quiere trabajar con empresas que demuestren responsabilidad social y ambiental así como un adecuado desempeño comercial. Buscamos hacer parte del desarrollo de Cajamarca a entidades que garanticen solidez económica y organizacional. Estos son los prerrequisitos a ser cumplidos a fin de participar en un proceso de contratación con Yanacocha:

- Asegurar la contratación del 68% de trabajadores locales.
- Tener vigente su licencia municipal de funcionamiento.
- Definir una especialización o demostrar que se está en proceso de conseguirla.
- Contar con activos ad-hoc; es decir, tener maquinaria y equipos propios de la labor que realizan.
- Sólo se trabajará con las empresas inscritas en el registro de Yanacocha hasta el 31 de diciembre del 2006 o con las asociaciones que éstas hayan podido conformar posteriormente.
- Contar con certificación del Consucode o demostrar que se encuentra en proceso de obtenerla.
- Contar con RUC activo y capital de constitución igual o mayor a US \$ 50 000.
- Presentar una adecuada historia comercial o de gestión empresarial e individual en los registros de Infocorp y/o Certicom.
- Cumplir con los procedimientos internos previstos por Yanacocha para la contratación de empresas locales.
- El criterio para la contratación de empresas será estrictamente comercial.
- A partir de la fecha, se retira del registro a las personas y empresas contratistas que lleven a cabo acciones ilegales como aquellas que perturben la tranquilidad social.

Las empresas que cumplan con los requisitos antes mencionados deberán, a partir de la fecha, acercarse a la Cámara de Comercio y Producción de Cajamarca y adquirir el formulario de actualización de datos.

Cajamarca, 05 de marzo del 2007
 Oficina de Comunicaciones
 Yanacocha

2.3. Follow-up of the policy

Follow-up of the policy is a key subject, as it guarantees that the aims relating to the large company - local supplier relationship will be achieved. This therefore depends on an adequate definition of responsibilities, the system of indicators, the forms and reporting frequency and the operative nature of the internal working groups in carrying out the relevant adjustments.

As far as the delegation of responsibilities is concerned, the two companies that have already drawn up a policy chose the departments handling the contractual relationships²¹ with a supplier, which facilitates implementation of the standards required through commercial contracts with the suppliers. In addition, Minera Yanacocha also involves the External Affairs Department which is responsible for external dissemination among the stakeholders and the Asociación Los Andes de Cajamarca to develop business skills programmes that will help suppliers meet the goals proposed in the policy.

Furthermore, definition of responsible departments clarifies the boundaries of the different levels of coordination required to implement the policy. Information is important for the instances within the company, such as users of goods and services provided by local companies and those responsible for handling the company's external relationships.

PDP Cajamarca has seen a number of policy implementation indicators that function adequately:

²¹ In the case of Minera Yanacocha, this is the Materials Department; and for Transportes Línea, the Personnel Transport Division and the Administration and Logistics Departments.

"Systematization of support in policy making on the development of local suppliers among large purchases"

- The annual value of acquisitions from local suppliers of goods and services, compared with previous periods.
- Database of local suppliers that have supplied the large company, consolidated and updated annually, compared with previous periods.
- A list of goods and services provided by local suppliers, compared with previous periods.
- Database of potential suppliers drawn up annually by the large company.
- The incorporation of new items into the list of goods and services supplied by local suppliers.
- The number of local suppliers that have undergone the contractors' supervision procedure.
- Classification of non-compliance with the contractors' supervision procedure.
- The number of local suppliers making use of training to improve their management and reach the standard required by the company.
- The number of companies certified.
- Performance evaluation of each local supplier, which shows its record in terms of amounts, contract terms, compliance and intangibles achieved and in progress.

With a system of indicators in place the implementation or updating of forms is a simpler task. Reports are generally produced monthly, with quarterly and annual summaries.

One of the limitations identified in the assistance process is encouraging the working groups to specifically evaluate compliance with the policy, given that this requires data to be generated over an adequate period of time, as the impacts can only be appreciated in the medium term.

Furthermore, although the indicators described above will evaluate the impact of the policy, PDP Cajamarca considers it important to generate other indicators to provide an early warning system and enable those responsible for monitoring implementation of the policy to identify resistance early, such that adjustments will be preventive and not reactive, as happened with Minera Yanacocha given the events at Combayo.

In this sense a set of activities was proposed that would facilitate information for the early warning system, such as:

- Interviews to gather opinions on implementation of the policy, with representatives of business.
- Focus groups to collect the opinions of certain suppliers sensitive to policy implementation.
- Meetings to provide feedback on projects that form part of the channels of communication with clients.
- Information from the departments that process and deal with suppliers' complaints.

Finally, the working groups have outlined the importance of having a system to manage conflicts related to compliance with the required standards, as well as disputes arising from the implementation of the policy, which ensures all parties that the rules of the game will be upheld.

The working groups of the large companies agree that the arbitration instruments provided by the chambers of commerce guarantee impartiality and the application of market rules, based principally on good practice both globally and locally; for that reason priority has been given to creating an arbitration centre by the Commerce and Production Chamber of Cajamarca.

Subjects relevant to large purchases in the formulation and implementation of supplier development policies

The following is a discussion of matters relevant to large companies in the process of formulating and implementing supplier development policies that have not been specifically discussed, given that some limit the impact and others facilitate the desired results.

3.1. Sustainable costs of supervision

Implementation of supplier development policies implies that large companies should develop supervision procedures as a mean of verifying compliance with the required standards, in order to avoid conflicts with local suppliers that generate further costs.

PDP Cajamarca has chosen to support this process through training for local suppliers that had been prioritized by large companies. It is accepted that this effort will involve more than one institution, which also implies incurring additional costs that increase the amount of time dedicated by consultants to the companies, given that:

- For each incorporation not included in the initial offer of services defined in the logical framework of the PDP Cajamarca, instruments must be developed to train the companies in such aspects.
- It is very important that suppliers demonstrate their concern for an ability to reduce the cost of supervision, which they submit or seek to obtain the best economic supervision for the purchase and

develop competitive advantages in the cost of supervision for the purchase.

- An alternative for reducing the cost of supervision is to form associations, this means grouping supply by quality standards, the delivery of batches to satisfy the immediate needs of the purchases, development of software to control consumption by processors or at the final point of sale.
- Carrying out one or more examinations in the plant in order to ensure the transfer and adaptation of the procedures and documentation necessary to comply with the standards.
- Increase the time initially contemplated for the service.

Therefore, both the large companies and PDP Cajamarca have taken on an educational role aimed at creating a favourable climate for compliance, in which a positive impact will be obvious. Nevertheless, it is important to reflect upon the speed and quantity of changes that may be caused by policy revisions, as it is as difficult to process these with local suppliers as it is for those responsible for implementing the policy.

3.2. Balance between supervision and new markets

Similarly, the balance between supervision of compliance and the creation of new markets is something that has not yet been resolved by PDP Cajamarca. Experience shows that guaranteeing 100% compliance over time requires continual verification of the companies and, in addition, more time is required for planning, researching and facilitating access to the market in order to reduce dependence on large companies, and this time was not included in the calculations.

The different cases of permanent contracts indicate that it is no accident that companies that have achieved them are those that, by the nature of the contractual relationship with the large companies, have

more time to think about the market.

Thus PDP Cajamarca considers that encouraging company certification at different levels from the large companies, is a mechanism for reducing the cost of supervision, given that this cost is assumed by the suppliers themselves through accredited certifying companies. At the same time, obtaining certification gives companies a key to new markets.

This subject still requires additional work by the large companies, in that business certification implies a reduction in supervision costs, and therefore the process of selecting suppliers should include different point scores for companies based on the levels of certification they have achieved.

3.3. Minimum working capital

One of the problems facing local suppliers seeking contracts with large companies is providing the working capital necessary for operating such contracts.

Large companies have made an important effort to reduce payment periods and factoring is also available from the large companies or in parallel, which help to improve capital turnover in the short term. Nevertheless, it is considered important to encourage research by each large company as a function of the types of goods and services to be provided, to determine the percentages of working capital required by the supply contract in question or, at least, to incorporate these criteria into the contracting procedures.

There is a tendency to confuse working capital with the paid up capital

of a company, because of the origin of the funds, so it is important to specify the following:

- Working capital is part of the company's current assets, that is, short term investment in a given business, which is used to facilitate the funds necessary to meet current obligations until the chain of payments is regularized. In general, working capital is recovered at the end of a contract; for which reason the value of current investment varies with the contract value. From a technical point of view, working capital is the result of subtracting current liabilities from current assets. When a company expands very quickly its working capital is greatly stretched, so that a parallel process of expanding equity and paid up capital is necessary.
- Capital is part of the equity of a company, the funds that the shareholders contributed to form the company and which changes over time with the company's results (positive or negative). In other words, it is the company's own source of funds for financing its business.
- The diversity of forms of capital means that a company with little capital can make use of leverage if its guarantees are liquid or quasi-liquid. For example, a company may have as its equity real estate having a commercial value of US\$ 30,000 and a sale value of US\$ 23,000 dollars. If it wishes to obtain an advance from the client to perform a contract, this will be requested against a letter of guarantee. When the supplier asks the bank or finance company for such a letter, the guarantee will only cover 65% of the sale value, that is, the advance will be for up to US\$ 15,000. Another company with less equity, for example 20,000 dollars, but in liquid form – cash in other words – may obtain a letter of guarantee of up to 60,000 dollars. The guarantee of US\$ 15,000 obtained by the company in the first example could probably be obtained with 5,000 dollars in cash. There are also highly competitive companies whose working capital – and even paid up capital – is insufficient for new operations but whose good practices are such that other companies or

individuals provide it with the necessary guarantees. A company and its development are expressions of new institutionalizing, and this aspect should also be recognized.

- Consequently, working capital as the use or application of investment may be provided by the company itself from its paid up capital, either directly in cash or as a guarantee for loans, and also by third parties.
- Thus, a large purchase is covered by demanding a letter of guarantee and the amount of working capital and/or paid up capital may be set unilaterally; it is recommendable that the supplier provides the purchase with the guarantees necessary in each case.

Given the above, and that unilateral interpretations of working capital and paid up capital may create certain resistance from local suppliers, reviews of procedures in the policy formulation stage must include a review of the wider causal relationship, so as to define the working capital requirements that local suppliers should meet.

3.4. Identification of the starting point for local suppliers

The working groups of large companies find that local suppliers involved in the definition of strategic guidelines and in applying policies, have different levels of development, which should be taken into account in applying the policy, in the communications channels and language and also in creating skills using business development services.

PDP Cajamarca has identified three target groups as a result of feedback and practical implementation of the project and applies the following differences in treatment:

- The first group, the effective demand, is made up of companies

seeking to consolidate their market position that need to generate competitive advantages over time. The supply of services for this group requires advanced treatment that will generate those advantages, but at the same time will facilitate making use of market opportunities. This group is the best able to integrate social and technological innovation and, pooling its efforts in corporate social responsibility.

- The second group, latent demand, consists of companies that have been through the process of awareness raising, or need basic guidelines on finance, management or production aspects; thus the most suitable supply is made up of short development services aimed at facilitating these guidelines to produce quantifiable results in the short term.
- The third group, zero demand, consists of companies that have not been offered business development services and that may be resistant to them; it is therefore important to make them aware of the range of basic development services offered, which would enable them to obtain short term results and increase the likelihood of them contracting such services.

3.5. The input-output matrix

The input-output matrix is an instrument that measures intermediate consumption in a given sector or subsector of the economy of the contributions of that sector to the sector under study; this tool is very important for calculating gross domestic product, but also for studying, managing and evaluating a supplier development programme.

As the technology used in each sector changes continually, it is necessary to make this estimate continually. The operating techniques of each sector are considered to be valid for ten years. In Peru the most

recent input-output matrix is from 1994 and is now outdated.

Important technical changes have taken place in the mining industry:

- The intensive use of construction industry techniques in leaching processes, particularly earthmoving.
- Greater participation by the transport sector.
- New activities such as restoration of environmental liabilities.
- Environmental services arising from the decision that closing a mine should involve new sources of water and reforestation.

The correct application of the concept of production chains must not and should not ignore participation by different sectors and subsectors of the economy in multiple processes of intermediate consumption, expressed in the input-output matrix for each sector. The transport, construction, metallurgy, business services sectors and commerce in general must take part in this.

Recursos SAC takes this thinking into account in determining the best strategy for supplier development and it is probably important to carry out more accurate monitoring bearing in mind the changes that have taken place in the relevant matrix.

It is also important to cross reference the intermediate consumption of the large companies committed to PDP Cajamarca in order to encourage participation by certain sectors.

Impact of the policies on local suppliers

In the introduction to this document, it was suggested that compliance with the goals of PDP Cajamarca related to improving productivity and quality of local suppliers, as well as market diversification to reduce dependence on large purchases, are closely related to the development of good practices and the building of new institutional relationships. Thus as well as the assistance with policy discussed throughout this document, the means by which large purchases can encourage good practice and institutional behaviour have also been systematized.

Given the above, this part will provide evidence on the impact that policies drawn up by large purchases have had on local suppliers – there are two sources for this evidence: first the project's records of sales, investment, equity increase and employment. Secondly, the conclusions of the focus group involving some of the companies supported by PDP Cajamarca last May²².

It is the duty of PDP Cajamarca to point out that although the indicators given show a favourable impact on local suppliers, it was never intended to suggest that the project was responsible for all of these results; on the contrary, we know that other conditions have been identified and these, combined with our intervention, explain the impact.

²² In March 2007, the managing board of PDP Cajamarca, after submitting a preliminary version of this document, suggested that a focus group be created from suppliers from the project, in order to evaluate the impact of the policies on the performance of these companies. On the 31st of May 2007 this focus group met, consisting of 15 representatives of suppliers and 2 representatives of the large purchases.

4.1. Annual survey of companies' performance

One of the mechanisms used by PDP Cajamarca to measure the final impact of the intervention in local suppliers is the annual survey of companies involved. This survey is carried out after the end of the respective fiscal years, during the first month of each year.

To date, PDP Cajamarca has carried out one annual survey of company performance, the technical details of which are as follows:

- Aims:
 - To obtain information on the results of companies assisted by the "Competitive Development of Local Suppliers in Cajamarca" – PDP Cajamarca project during 2005 and 2006.
 - Development of an evolutionary line for companies assisted by PDP Cajamarca in order to produce aggregate results and comparisons.
- Source: Accounting information from companies provided with short-term and advanced business development products:
 - Number of companies served: 71.
 - Companies provided with short-term and advanced products: 38.
 - Percentage information compiled: 53.7% of all companies assisted²³.

The baseline, with which the performance of the companies was compared, was calculated in the following manner:

- The financial information that the companies provided for the business diagnosis was used as a reference.

²³ The information came only from companies provided with short-term and advanced products.

- The fiscal year in question ran from the 1st of January to the 31st of December.
- The information used was that submitted to Peru's tax authority for calculating company income tax.

Furthermore, information for fiscal year 2006 was acquired as follows:

- A survey of businessmen was carried out in December 2006.
- The survey was sent by e-mail to each company involved.
- The information was compiled between the 1st and 5th of December.
- The information provided initially was adjusted in March 2007, when the financial statements were officially submitted to the tax authority.
- The purpose of the survey was to determine the performance of the companies during 2007, compared with the aggregate results of the fiscal year.

Impact on net sales

Table N° 3 shows different indicators related to the sales of local suppliers during the first year of PDP Cajamarca's intervention (2006) compared with the baseline (performance in 2005.)

The most important indicator to point out is the high rate of growth of the companies' sales, which averaged 51.4%, a figure that has a number of explanations:

- A more favourable environment resulting from the new conditions created by the suppliers policy, principally that of Minera Yanacocha.
- A favourable macroeconomic environment for company growth, especially that experienced in Cajamarca Region over the last 14 years.

- Better conditions created by the suppliers themselves as competitive advantages, by internal reorganization, attention to quality and certification, which have enabled them to take advantage of new market opportunities.
- More resources from the Mining Levy, made available to local companies through state acquisitions.
- It should be pointed out that the 38 companies covered by the information obtained represent approximately 18.7% of total local purchases by Minera Yanacocha; nevertheless, this amount includes operations outside the region and those with other local purchases.

Furthermore, the average sales margin obtained by companies assisted by PDP Cajamarca is high compared with the national average, which varies between 6% and 8%, according to the Companies and Securities Regulatory Commission. Nevertheless, it should be said that this margin depends on the size of the business: The larger the company the higher the margin, and vice versa. So there is a reasonable explanation for the percentages shown in Table N° 3, given that the project works with small and medium-sized companies.

Table N° 3
Change in net sales of companies assisted by PDP Cajamarca

Indicator	2005	2006
Total net sales US \$	13'867,413	20'999,689
Average net sales US\$	577,808	874,987
Annual growth rate of sales	N.D.	51.4%
Number of companies with increased sales.	N.D.	21
Number of companies with decreased sales.	N.D.	3
Average profitability of sales	12.0%	13.9%
Growth rate in number of new clients.	N. D.	14.6%

Taking the above into account; what is noticeable is that this margin has increased as the intervention of PDP Cajamarca in the form of training and technical aid was aimed at improving this indicator, increasing productivity and cost savings, aspects that explain this variation.

Impact on total assets

The total assets of a given company are understood to be the total investment required for the business to operate, therefore for PDP Cajamarca the indicators of this investment are very important as it is through them that we can understand how capital is created in a company to meet demand, although this is also related to the companies' medium-term growth.

Table N° 4
Change in total assets of companies assisted by PDP Cajamarca

Indicator	2005	2006
Value of total net assets US \$	6'397,684	8'714,386
Average net assets US\$	266,570	363,099
Annual growth rate of assets	N.D.	36.2%
Number of companies whose assets increased	N.D.	21
Number of companies whose assets decreased	N.D.	3
New investment in improvements in companies or projects	1'509,867	1'967,390
Annual growth rate in new investments	N. D.	30.3%

Two indicators from Table N° 4 should be highlighted for their importance:

- The high rate of growth in total assets, at 36.2%, is higher than the growth rate in investment in Peru's economy, estimated by the Central Reserve Bank of Peru at 12.9% for the same period; which reflects the need for capital to meet the demand from large purchases, but also the State and purchases in other regions.
- The increase in investment in improvements in companies or projects measures the direct impact of training and technical aid, given that such investment is related to the need to improve processes or to take advantage of commercial opportunities identified by the businesses thanks to the project's intervention.

Impact on companies' net equity

The importance of analyzing changes in net equity is that equity is a company's source of finance contributed by its owners, so that the indicators in Table N° 5 reveal the following:

- The important process of equity building, represented by an annual growth rate of 41%, implies that of the total growth in investment required to finance operations during 2006, most came from companies' own resources. This suggests a higher degree of maturity among local businessmen compared with the 2002 study carried out by Recursos SAC for Minera Yanacocha.
- Furthermore, the increase in the rate of return on capital, which in 2006 was 30%, reveals better management of own resources invested, which reflects the impact of training and technical aid deriving from better conditions facilitated by the policies drawn up by the large purchases.

Table N° 5
Changes in the equity of companies assisted by PDP Cajamarca

Indicator	2005	2006
Total net equity US \$	3'185,588	4'492,067
Average net equity US\$	132,733	187,169
Annual growth rate in net equity	N.D.	41.0%
Number of companies whose equity increased	N.D.	24
Number of companies whose equity decreased	N.D.	0
Average return on equity	21.4%	30.0%

Furthermore, it is important to point out that the high rates of return on equity seen in companies assisted by PDP Cajamarca, create new opportunities for the companies themselves to attract investment through investment angels or *joint ventures* and this, for the project, represents a new level of development for the local financial market; as well as facilitating new and accessible financial products.

Impact on employment

One of the objectives of PDP Cajamarca is a contribution to the sustainability of employment in the companies assisted, rather than the creation of new jobs, through training and technical aid. Nevertheless, it is important to note that the indicators in Table N° 6 show that the need to meet new demands from large purchases and other market agents has also energized the labor market as there was an increase of 53.3% in new jobs generated by companies benefiting from the project.

Table N° 6
Change in employment in companies assisted by PDP Cajamarca

Indicator	2005	2006
Total jobs in the companies	1,179	1,807
Average jobs per company	49	75
New jobs created	N.D.	628
Annual growth rate in employment	N.D.	53.3%
Number of companies that created jobs	N.D.	20
Number of companies that reduce or maintained employment	N.D.	5
Persons trained by PDP Cajamarca with short-term and advanced services	-	359

It is important to emphasize that because of the characteristics of the market in which the companies assisted by PDP Cajamarca participate, just as demand can increase, it can also contract and with it employment²⁴.

4.2. Conclusions from the suppliers focus group

A focus group was held on the 31st of May 2007 consisting of fifteen representatives of the companies assisted by the project and two from the large companies; it discussed the impact of the policies drawn up by the large purchases on company performance.

The following conclusions were reached during the discussion:

- There is evidence that the policies drawn up by the large purchases have benefited their suppliers in terms of sales growth, adherence to the required standards, which in some cases meant adapting to international and domestic standards and certification; and finally, in terms of jobs created to meet the industrial demand.
- The contribution of the Minera Yanacocha meeting of contractors to business culture has been substantially recognized, as has the change over time that has allowed increased participation by suppliers.
- Although the policies have helped to reduce a set of barriers to access, or in other cases have developed certain standards for regulating access to subcontractor networks; there is a risk that a

²⁴ Minera Yanacocha SRL and Transportes Línea have announced a reduction in their operations in 2007 and it is clear that this will have an impact on the jobs created by these companies. Nevertheless, faced with these conditions an important group of suppliers is seeking opportunities in markets outside the region to minimise the impact of a contraction in local industrial demand.

policy to benefit suppliers does not take into account the quality criteria required by more developed markets, and will simply be aimed at buying more from local suppliers, and this would generate price competition that would limit the competitive development of the market that has been achieved over the last five years.

- Finally, it has been accepted that despite large purchases demanding higher quality standards, they still do not include in their selection processes awarding more points to companies that obtain certification, whether domestic or international, so there is no correspondence between the demand and the tender or selection process.

The last two conclusions reached at the focus group are new challenges for PDP Cajamarca in working with large purchases to formulate policies and plans for supplier development.

Coherence in applying the policies.

Characterization of the policies themselves.

Loyalty levels in the purchase - supplier relationship.

Lessons learned during the work with large purchases

The process developed by PDP Cajamarca when supporting large companies in formulating supplier policies over eighteen months, has been extremely valuable for both parties. Here we highlight the relevant aspects of this process as contribution to regional sustainable development:

- The presence of large investment in zones of scant economic development certainly generates many opportunities for local suppliers: primarily in terms of the market, because of the demand created which facilitates business opportunities for the acquisition of goods and services from local companies. Secondly, in terms of efficiency and effectiveness, given that a commercial relationship with large companies implies better service and having to meet the standards demanded, which means significant local reinvestment to facilitate improvements. Thirdly, the creation of competitive advantages through improvement, which implies a move to a new level of business development to supply large companies with new products and also the ability to take advantage of other market opportunities to diversify the client portfolio and to increase the supply of new products in the region. Fourthly, the new level of development leads to the need for accreditation or business certification as the key to the market that generates confidence in local companies on the part of new clients. Once again significant reinvestment is required to reach this level. Finally, certification at international level can be expected to internationalize the most advanced companies and achieve the highest level of economic development for a region that has suffered many disadvantages.
- The above suggests that the support to large companies in formulating policies for developing their suppliers is a mechanism for accelerating the process of local business development, in

which the main benefits are measured in terms of the evolution of local businesses rather than in terms of any benefits obtained by the large companies, as this approach concentrates on the level of strategic corporate social responsibility, which leverages abilities to different levels in order to generate a competitive environment, transforming the activities of the supply chain to the benefit of society through the creation of business opportunities and sustainable employment.

- The work of formulating supplier development policies has created opportunities for changing the business model of the five large companies with which we have been working in the following manner:
 - Generation of systemic social changes through scaling up and replication of best practices, as well as shared training produced by the working groups.
 - Supply of business development services aimed at providing simple and practical solutions that cost less than the alternatives existing in the market; or providing alternatives that do not exist in certain markets.
 - Generation of cooperation resources or intellectual capital, providing business development services to local suppliers.
- Generating confidence among the parties involved both within the large companies and in PDP Cajamarca, stakeholders and local suppliers is the foundation for this collective process of construction although it is certainly not easy to build confidence; nevertheless, the identification of common aims was found to be an essential start. From this results can be established over different timeframes, achievement of which strengthens the participants and increases their levels of confidence.
- The identification of suitable interlocutors is another important aspect of the process, since they are necessary for a discussion on the development of local suppliers to begin. They facilitate the

information necessary for the discovery phase, direct the discussion towards strategic guidelines, are committed to the formulation process and maintain the relationship with senior management leading to approval of the policy. Thus they are of strategic importance for implementation and follow-up. It is therefore important to identify *a priori* the levels of activity of the interlocutors so as to choose the best – and not necessarily one, but several.

- Support from senior management is central to the process. Without this approval nothing can be either drawn up or implemented; this occurs when the policy is aligned with the vision, mission and objectives of the large companies and when a constructive dialogue facilitates and clarifies the results it is expected to obtain with the policy.
- The process is not thought of as a sequence of steps, but as a cycle; in other words, as compliance with a series of stages that, for some companies is a sequence but for others are implemented in parallel. In addition, as it is a cycle, it can be repeated as many times as may be necessary. It is not a complete process, but a way to proceed.
- The process described in this document is valid for the two companies that have drawn up a supplier development policy, but PDP Cajamarca recognizes that a different approach may be valid for other large local purchases, depending on the dynamism of the interlocutors and support from senior management.
- The monthly meetings between large purchases and their suppliers are an expression of an emerging institutional tendency (Minera Yanacocha stands out having held such meetings for 25 months) and valuable processes should be developed in the future:
 - In the purchase - supplier relationship the stimulation and development of different processes of certification and the creation of associations to encourage innovation, research and

the generation and transfer of technology, as it is certain that this relationship will only be sustainable if the actors persevere with technological improvement and innovation.

- Each supplier should have a clear view of the technologies it should adopt to develop as a supplier, as well as the alliances it needs to do this. Clarity of purpose in this aspect provides this relationship with greater potential.
- Local suppliers must understand that strategic alliances sought by large purchases with their suppliers are aimed at joint responsibility and investment in innovation and the creation of new technologies. The history of successful strategic alliances that have survived over time is of companies and institutions with clear views of the future that share the development of parallel or simultaneous processes.
- This can benefit from a direct relationship with the National Innovation System to use and promote the Science and Technology Fund. This system will be based on proactive participation by companies, since innovation requires continual and incremental investment which, evidently, also requires public investment, but this is neither the time nor the place for that discussion.
- Without changing the normal operation of the purchase - supplier relationship, a link should be created to stimulate technological institutes, universities, consultants and other institutions interested in coming together to develop technology projects, business projects and new investment in companies.
- This relationship only serves as a meeting point; initiatives arise from the companies themselves, whether purchases or suppliers, as well as the alliances they may want to form between them or with the other actors mentioned.
- These relationships acting as stated will be emulated by other companies and organizations.

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- Obviously, these relationships are still in their infancy and more work must be done on how the participants enter and leave them. For example, it is normal for some suppliers to cease to be suppliers of this or that large company, though this does not necessarily mean that they are no longer part of the relationship. Could there be a way to manage the entry to and exit from such relationships? Defining this is probably one of the PDP's next tasks.

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"Systematization of support in policy making on the development of local suppliers among large purchases"

Oscar Manuel Mendoza Vargas

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Jr. Apurímac Nº 279
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