

Distribution of Mineral Wealth in Latin America: Case Studies in the Andes



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Agenda

- Explore how Mining countries have contributed to economic growth both at the Macroeconomic level as well as at the local level
- Emphasis in social impacts at the local/community level and social alleviation measures



Macro Level: Benefits

- Mining has been usually welcomed by the Central Government because
 - Source of foreign exchange in countries with balance of payment's current account deficits
 - Source of fiscal revenues
 - Infrastructure development in isolated areas: decentralization



Macro Level: Problems

- Instability of metals international price is a source of vulnerability for the country's balance of payment and fiscal revenues that could generate fiscal deficit with inflationary repercussions
- Example: Chilean Copper Stabilization Fund to neutralize fiscal revenues instability



Macro Level Problems

- Dutch Disease type of Problems:
 - Real Exchange Rate appreciation with weak financial markets
 - Unemployment in other tradable sectors
- Example: Peru gold boom
 - Exports jumped from 13T (US\$150') in 1991 to 131T (US\$1.1 billion) in 2000. Gold now accounts for 16% of Peruvian Exports (4% in 1991)
 - Newmont's Yanacocha and American Barrick's Pierina produced more than 80tons of gold during 2000. Pierina cash cost < US\$ 60/ounce



Study: Large Mines and the Community (IDRC/WB)

- Bolivia
 - Puquio Norte
 - Inti Raymi
- Chile
 - La Escondida
 - Candelaria
 - Fachinal
- Peru
 - Yanacocha
 - Antamina



Local Level: Base Line

- Mines are usually located in isolated, remote areas with little or non-existent State presence
- Severe infrastructure deficits (health, education, roads, etc)
- Local inhabitants are poor and the local resources can barely sustain them
- Different cultural patterns and values



Local Level: Traditional Perception

- The record of mining in LA is not very good. Mining is regarded as a heavily pollutant industry that operates as an enclave isolated from the local economy
- Mining is a capital intensive activity that provides relatively little employment
- Local costs (environmental, cultural, etc) are higher than benefits. Company should compensate providing social services
- Population unaware recent developments and its impacts (Leaching and SX-EW)



Local Level: Impacts (-)

- Competition for resources: land and water
 - Purchasing land
 - Resettlements
 - Quality and quantity of water
- Mismatch between Company needs and local capabilities: Influx Labor migrants (bars, prostitution, discos, etc.) and “out” goods
- Cultural clash between migrants and locals
- Pressure on local resources: housing, food, services. Price increases



Local Level: Impacts (+)

- Better infrastructure: roads, electric power, telecommunications
- Better communications (bus and airplane frequencies) and access to information
- Access to improved health/educational services



Macro/Local: Sharing Benefits

- Private/Public infrastructure development
- Direct Transfer of resources
 - Example: Peruvian law splits total taxes between central and local governments: “canon minero”. In practice Central Government delays transfers to local governments when there are fiscal problems.
 - Risks of inadequate use of resources by locals: corruption or non sustainable investments



Corporate Responses

- Charities
 - Yanacocha's ADAMINYA
- Passive responses and Paternalism
- Alliance NGOs/The Foundation Model
 - Bolivia: Inti Raimy (Kori Kollo) foundation to promote the social and economic development of local communities within its area of influence
- Partnership Local Development
 - Productive Development Corporation Antofagasta



Challenges

- Communication and information (NGOs)
- Clear split of responsibilities: Involve the central government at the local level
- Generate Local development strategy and define the role of the Mine within it
- Building local sustainable capacities: (NGOs)
 - Employment
 - Suppliers
- Local Sustainable investment of mineral wealth: from gold to forests? (NGOs/Univ)