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# Can Mining Promote Sustainable Development? Maybe, But Not Without State Muscle

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For decades, progressive economists have argued that, as a development strategy, mining is a "resource curse". The main reason is that capital-intensive mineral exploitation creates enclaves with few positive spillovers, i.e. linkages to the local economy, and many negative social and environmental spillovers. Moreover, the rents and returns generated by mining can be—and in case after case have been shown to be—captured by local elites and foreign shareholders rather than distributed to or invested in local communities. The upshot is that large-scale mineral-led development retards economic growth and innovation and promotes corruption and social conflict.

The World Bank takes an opposing view. According to the International Finance Corporation(IFC), the private sector arm of the Bank and a leader in global project financing, mining unequivocally promotes development, especially for the poorest countries, by providing jobs, government revenues, and other local economic benefits. But for benefits to outweigh negative impacts, mining projects need proper governance. The IFC has developed Environmental, Health and Safety Guidelines expressly for the mining sector, as well as a larger set of Social and Environmental Performance Standards for all borrowers. Together with the Equator Principles, the Performance Standards set a benchmark for global "best practice" for mining project lenders and global mining companies.

On the industry side, the International Council on Metals and Mining (ICMM), supports the IFC's view emphasizing the role of corporate governance. The ICMM has developed "10 Principles for sustainable development", including ethical business practice and sound corporate governance, respect for human rights, continual improvement in environmental, health and safety performance, and financial contributions to local communities. ICMM members, which include CEOs of the world's largest mining companies, have generally developed their own "corporate social responsibility" programs.

So who is right? Is good global and corporate governance enough, and is it working? The issue is far from academic. In the past ten years, a minerals boom, fuelled largely by demand from rapidly growing China and India, has pushed a global expansion of mineral exploration and exploitation. While plenty of mining takes place in developed countries, including Australia and Canada, the share in developing countries in Latin America, Africa and Asia is on the rise.

With the minerals boom has come a "conflict boom" pitting local, often indigenous communities against foreign mining companies. In one high profile controversy, the Inter-American Commission for Human Rights of the Organization of American States last May urged Guatemala to suspend operations at the Marlin gold and silver mine in the country's indigenous highlands. In October, the Commission heard complaints about human rights abuses in mining operations in the Andean countries of Bolivia, Peru and Colombia. Conflicts abound as well in Africa and Asia.

While specific grievances differ, the overall contours of the conflicts are alarmingly similar. Poor and/or indigenous communities living close to large open pit and underground mines are often not consulted or even informed before ground for the mine is broken—despite internationally recognized rights of indigenous peoples to "free, prior and informed consent". There are also deep environmental and health concerns, including long-term impacts of heavy metals contamination of land and water that could destroy or undermine agricultural livelihoods. Fears for the environment are fuelled by lack of local regulation and monitoring and little, if any, provision for contingent liabilities relating to mine legacy. Finally, there is an abiding sentiment that economic benefits are few and unequally distributed: the fight for mine jobs splits communities; company financial contributions to local schools, hospitals etc are meager; infrastructure investment from royalties is all but non-existent.

An October 26 call for an end to mining by Catholic bishops in the Philippines poignantly summed up the sentiment: "The people who had high hopes of being lifted from their sorry state of poverty were left to fend for themselves and grapple with the realities that there are no more fertile grounds to grow their food or natural river systems to catch the fishes for their day's meal,… What pervades has been the situation of unpeace and disharmony. People in the islands have been constantly threatened by another prospect of systematic destruction of the island they call home."

The gap in rhetoric between "corporate social responsibility" and "systematic destruction" is striking. Is the problem "bad behavior" by mining companies that have not yet fully embraced the IFC's Performance Standards or the ICMM's "10 Principles"? There is certainly a long way to go before "best practice" is the norm.

But there is a deeper problem: weak and often corrupt host states. No matter how "responsible" the company, it cannot take on crucial governance roles of the state. Only a host partner—a state with both institutional capacity and political accountability—can negotiate and impose royalty and tax rates; invest mining revenues in local development projects; and create and enforce a legal regulatory regime to protect the environment and ensure that human rights are articulated and protected. Without such a state, the sustainable development efforts of foreign mining companies—no matter how well-intentioned– will be marginal and primarily serve their own interests.

Given the high social and environmental costs and risks, mining companies and project lenders seeking to promote sustainable development should invest only in those states that meet a minimum standard on a "governance capacity index". Only with accountable, well-muscled states as partners can mining projects hope to avoid a "resource curse".