



Mining for Development Conference 2013

Sydney, Australia

SESSION SUMMARY - CONCURRENT 1A Strengthening subnational governance

Professor David Brereton, Professor Carlos Casas Tragodara, Carlos Monge, Javier Aguilar

Subnational governance is a series of layers under the national government and provides an opportunity to empower citizens and make demands on their governments aid Professor David Brereton, Deputy Director - Research Integration, Sustainable Minerals Institute, The University of Queensland at today's Mining for Development Conference 2013.

"A subnational governance is especially critical for mining nations making it easier for the affairs of the land and the affairs of the people to be managed effectively," Professor Brereton continued.

The introduction of extractive industries into developed nations presents the opportunity for community capacity building. The strengthening of skills, competencies and abilities of people and communities in developing countries can help overcome conflict and exclusion and enable communities to take advantage of development opportunities.

Mr Carlos Monge, Latin America Regional Coordinator, Revenue Watch Institute continued stating there are many challenges for the extractive industry with subnational authorities.

"A subnational agenda has many concurrent priorities. Making management of a subnational governance very complex," said Mr Monge.

These challenges can include environmental and economic considerations, citizens participation, fiscal regimes and contracts, rent management instruments and capacities, transparency and accountability, subnational wellbeing and social conflicts.

"The boom in extractive industries is fuelling national debate and if it isn't handled correctly, it can be very destructive. Subnational authorities are selected to have a mandate, and this needs to be framed in the broader context of all the territories," continued MrMonge.

It is an emerging debate with a complex agenda. A lack of subnational good governance impacts on local legitimacy of the extractive industry and can contribute to a national political crisis.

Last year two prime ministers of Peru resigned last year because of extraction industry conflicts. Alejandro Toledo had expressed concerns about the militarisation of the government and Oscar Valdés's confrontational stance towards protestors against the Congo mining project also lead to his dismissal.

"A democratic governance is required that clarifies the roles of the national and subnational government, as well as the role of the citizens," said Mr Monge.

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The minerals boom in recent years, is finally coming to an end said Professor Carlos Casas Tragodara, Chair, Economics Department, Universidad del Pacifico.

The boom has enhanced the importance of the extractives industries in many countries. In Peru, for example, mining exports represent nearly 60 per cent of Peruvian exports.

Twelve years ago, mining contribution to tax revenues was five per cent, whereas today mining represents almost a quarter of tax revenues. Additionally it is one of the sectors with higher tax pressure, calculated at almost 55 per cent.

It is expected that during the next four years investment in new mining project will reach 50 billion dollars, which is almost a third of Peruvian GDP last year.

The Peruvian tax law states that half of income tax paid by mining companies goes directly to subnational governments as royalties. These are divided into:

- 75% to municipalities
- 20% for regional governments
- 5% for public universities located in the production area.

“But because mineral resources are not evenly distributed, it has created huge disparities of income among municipalities and regional governments. And in addition, some regions with enormous amounts of money lack the capabilities to spend effectively,” said Professor Casas.

The Pacifico University is working with local governments from Ayacucho (middle Sierra) and an EI company to develop capabilities for formulating investment projects. The goal is to guide subnational governments to execute public investment efficiently based on methodology by the International Financial Corporation (IFC).

“The whole process takes a year and begins with signed agreements in each of the municipalities involved and ends with developing a financing strategy to carry out the project.

“This kind of intervention has achieved good results but factors such as the high rotation of public servants, municipalities that are heavily dependent extractive industries and existing social conflicts can place the projects in jeopardy if not managed carefully,” said Professor Casas.

“It is important to consider how to leverage extractive industries for long term development,” said Mr Javier Aguilar, Deputy Program Manager, Extractive Industries Transparency Initiative Multi-Donor Trust Fund, World Bank.

“Experience is showing it is not enough to just produce resources for the nation, it needs to be considered and at a local level reaching the communities,” Mr Aguilar said.



By unlocking large investments in resource rich countries it can transform regions.

“Resources need to be transparent. With increased economic activity, there is more opportunity into markets, increased opportunity for wellbeing for local citizens. It can have an overall very positive impact on local communities.

There is a need for broader governance from the national and subnational level.

“Mining is located where resources are identified and local governments need to consider the impact on the local community. It needs to be address if the communities are found to be worse off than before the mining company was there and what needs to happen,” said Mr Aguilar.

There are many areas in the world, with a strong presence of mining, and the challenge is to build a more integrated approach with subnational governments.

“If social and environmental measures are managed well, there can be a shared prosperity in economic development amongst communities. Fiscal and non-fiscal benefits can be key in tackling social issues such as unemployment. With enhanced economic activity, made to be transparent and managed well, it can have a positive effective on the local community,” said Mr Aguilar.

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