

# IDS RESEARCH SUMMARY

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## A Thoroughly Modern Resource Curse? The New Natural Resource Policy Agenda and the Mining Revival in Peru

The 'resource curse' is well documented and persuasive. Evidence shows how countries heavily dependent on minerals and oil have tended to perform worse than countries without such assets. International institutions have sought to overcome this reality with the 'new natural resource policy agenda', including decentralisation of government, a greater role for direct citizen participation in the allocation of mining revenue and cooperation between state agencies and commercial organizations. However, this Research Summary of Working Paper 300 shows how Peru's experiences pose major questions about the effectiveness of this new policy agenda. It highlights conflicts around mining and inefficient spending as symptoms of this agenda's limitations. Additionally it makes recommendations to tackle the problems.

The paper highlights how the mineral price boom has increased mining revenues markedly over the last five years in Peru, but has had little impact on poverty. More importantly, local level conflicts around mining operations have increased, and appear to threaten political stability? even more. The paper, written by Javier Arellano-Yanguas, a DPhil researcher in the Governance Team at IDS, and published by the Development Research Centre for the Future State at IDS, draws on interviews with key political actors, company representatives, civil society activists and scholars. It begins by critically evaluating current knowledge of the resource curse, pointing out that recent research inadequately accounts for political dynamics at the sub-national level.

### **The Peruvian state**

Arellano-Yanguas provides a historical

overview of the importance of long-standing nature of mining in Peru. For example, for 300 years the Spanish crown's avarice for Peru's gold shaped the relationship between colony and crown. After independence, British firms in the nineteenth century and American firms in the twentieth century played a major role in exploiting Peru's mineral riches and shaped the nature and policies of the Peruvian state. The paper also highlights four state weaknesses – democratic deficit that generated instability, a geographically fractured state with power centralised in Lima, a weak bureaucratic apparatus and the state's ad hoc policies. These difficulties interact negatively with the mineral boom and trap local governments, mining companies and activist movements in an insoluble game of competing interests at the sub-national level.

### **Modern mining**

Over the past ten years, mining companies have tried to present a new and more attractive face to their business. Their reform agenda concentrates on ensuring greater operational transparency (collaborating with local authorities and civil society), environmental protection, observance of human rights and promotion of local development through corporate social responsibility. The growing importance of mining companies in local politics and development is matched by the emergence of regional and local governments and civil society organisations. However, the current relationship is so asymmetrical that discourses on collaboration and partnership are frequently merely rhetorical devices that disguise mining companies' substantial power over local government.

“ The most notorious symptom of this new form of resource curse is the growing incidence of conflicts related to mining operations ”

“ It is crucial for the state to gain legitimacy in the eyes of its citizens and regulate and defend their interests ”

The paper advances the argument that, in the context of weak state capacity, the allocation of public resources is distorted by the unregulated and unequal interaction between mining companies, local governments and civil society.

#### Conflicts and their consequences

The most notorious symptom of this new form of resource curse is the growing incidence of conflicts related to mining operations. The environmental face of these conflicts hides a more complex set of reasons and grievances that account for upsurges in violence that are related to (a) social unrest generated by the geographical coexistence of large mining operations with rampant poverty; (b) the state's limited ability to enforce mining regulation; and (c) the public perception of collusion between the government and the mining companies. However, conflicts do not stem from these factors alone. Once conflicts arise, they themselves become of the cause of further problems. Companies' attempts to mitigate conflicts and show the developmental potential of the mining industry lead them to interact with local actors in a dysfunctional way by: (a) fostering clientelism; (b) promoting quick spending that reduces the quality of public investment; and (c) trying to usurp the state. The result is a vicious circle in which

popular frustration generates conflicts that in turn reinforce the conditions for new conflicts.

#### Key lessons

The solutions to the modern resource curse are far from simple and involve national and sub-national action. At the national level, it is crucial for the state to gain legitimacy in the eyes of its citizens and regulate and defend their interests. In the environmental field, the creation of an independent environmental enforcement agency could legitimise the state in the eyes of its citizens and introduce more accurate regulatory instruments. At the sub-national level, strengthening public institutions would help to generate a political environment less prone to conflict and more efficient in managing public spending. Measures could include: strengthening the capability of local institutions, maintaining the private and limited social role of the mining companies. Finally, the paper recognises that the complexity of the dynamics that account for this resource curse merits further research.

#### Credits

Javier Arellano-Yanguas, 'A Thoroughly Modern Resource Curse? The New Natural Resource Policy Agenda and the Mining Revival in Peru', Research Summary of Working Paper 300, March 2008

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