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Mining and Resource Mobilization for Social Development: The Case of Nicaragua

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Introduction to Working Papers on The Politics of Domestic Resource Mobilization for Social Development

This paper is part of a series of outputs from the research project on The Politics of Domestic Resource Mobilization for Social Development.

The project seeks to contribute to global debates on the political and institutional contexts that enable poor countries to mobilize domestic resources for social development. It examines the processes and mechanisms that connect the politics of resource mobilization and demands for social provision; changes in state-citizen and donor-recipient relations associated with resource mobilization and allocation; and governance reforms that can lead to improved and sustainable revenue yields and services. For further information on the project visit www.unrisd.org/pdrm.

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Acronyms

CSR	Corporate Social Responsibility
COSEP	Consejo Superior de la Empresa Privada
DGI	Dirección General de Ingresos
FDI	Foreign Direct Investment
CONDEMINA	Nicaraguan Corporation of Mines
MARENA	Ministry of Environment and Natural Resources
INSS	Nicaraguan Institute for Social Security
INMINE	Nicaraguan Institute of Mining
UNRISD	United Nations Research Institute for Social Development
ADDAC	Association for Agricultural Diversification and Community Development

Summary

This paper seeks to contribute to the global debate on the political and institutional contexts that enable impoverished countries to mobilize domestic resources for social development. More specifically, the paper aims to contribute knowledge and policy analysis about how to improve understanding of the politics of domestic revenue mobilization from the mining industry and resource bargains in developing countries.

The potential impact of mining on resource mobilization for social development in Nicaragua will be analysed using two entry points: Firstly, economic benefits of mining and, secondly, political and institutional aspects. The main hypothesis of this study is that current *political and institutional aspects* weaken the state's ability to mobilize resources for social development from the mining industry. These *political and institutional aspects* refer to the distribution of power and relationships between key actors; both in terms of who participate in negotiation processes and also in the outcomes of negotiations. At the local level, this is reflected in the way mining concessions and mining permits are granted.

In the case of Nicaragua, resource bargains are being negotiated with mining companies. However, at present there are no citizen groups strong enough to pressure the state to raise the level of taxes paid by mining companies or improve environmental monitoring. This is evidenced by the fact that despite the boom in commodity prices in the mining industry, the fiscal regime has remained the same since its establishment in 2001.

The results of the study indicate that the mining industry in Nicaragua provides some economic benefits. However, these benefits have been overshadowed by setbacks related to *social and environmental impacts*; specifically, the participation of civil society in decision-making.

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Introduction: Mining and Resource Mobilization for Social Development

Nicaragua's history with mining dates back to the Colonial times when the Spaniards came to the new world seeking to enrich the coffers of Spain. However, it was not until the recent mining boom starting in 2007 that Nicaragua began to promote itself as a mining country. To this end, the Nicaraguan Chamber of Mines hosted the First International Mining Congress in the country in August 2014, aimed at promoting Nicaragua as a mining investment country. These efforts are seemingly paying off, as the mining sector today has become one of the top exporting sectors of the economy. In 2013, it exported US\$448 million according to the Nicaraguan Central Bank. Metal mining in the country has increased from the year 2000 to the present, rising from 118,067 ounces to 276,871 ounces per year (Nicaraguan Ministry of Energy and Mines 2014).

Yet, before Nicaragua continues to expand its mining sector, also with the view to resource mobilization and expansion of fiscal revenues, it is important to examine the extent to which extractive industries contribute to broader social development. Social development is defined by the United Nations Research Institute for Social Development as relating to “processes of change that lead to improvements in human well-being, social relations and social institutions, and that are equitable, sustainable, and compatible with principles of democratic governance and social justice” (United Nations Research Institute for Social Development 2011:2). Social development comprises aspects of material well-being like access to health and education as well as aspects related to processes like social, cultural and political achievements that result in social and cultural recognition and political representation (United Nations Research Institute for Social Development 2011).

From this perspective, this paper assesses the impact of resource mobilization from the mining sector on social development in Nicaragua. It will examine *outcome aspects* which refers to the amount of resources that the state is mobilizing from the mining industry in terms of taxes and levies, and other economic outcomes such as employment and wages; the contribution of mining to growth and GDP; and backward and forward linkages which the mining sector develops with the rest of the economy. Our analysis will also examine *political and institutional aspects* using two overarching themes as suggested by the conceptual framework of the PDRM project (UNRISD 2012b): a) processes of contestation and bargaining around mining and b) how the process of

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