The subnational effects of the natural resource curse: Three-session panels

Panel organizer: Juan David Gutiérrez-Rodríguez, PhD candidate in public policy, University of Oxford.

Abstract: More than thirty national governments share a significant amount of mineral and hydrocarbons revenues to their subnational governments. In Latin America, subnational governments in resource-rich areas from Argentina, Brazil, Chile, Colombia and Peru have access to substantial resource revenues. The partial decentralization of resource revenue management allows these governments to finance ambitious investment projects and policy programs. However, despite of their fiscal wealth, resource-rich subnational governments are not necessarily performing better than their resource-poor counterparts.

The emerging literature on the subnational resource curse argues that local and regional governments face similar difficulties and risks than national governments when dealing with abundance of fuel and non-fuel mineral revenues: rent-seeking incentives for public and private actors; pressures to spend without sufficient planning; increased corruption and non-programmatic distributive politics; fiscal laziness (neglecting local taxation); increased localized violence; and, the appropriation of rents by non-state armed groups. However, the research on the existence and the causal mechanisms of a subnational resource has presented mixed results and it is less conclusive than the literature on the national resource curse (Aragón, Chuhan-Pole et al. 2015, Cust, Poelhekke 2015, Cust, Viale 2016, Fleming, Measham 2013, Paler 2011).

Additionally, policy recommendations aimed to address the alleged subnational paradox of plenty have multiplied in the last decade. From revenue management tools (e.g. transparency strategies, savings and stabilization funds) to corporate responsibility and social conflicts resolution initiatives, diverse innovative solutions have been implemented at the local and regional level. Furthermore, researchers have begun to assess some of the policies implemented in Latin America to improve the management of natural resources (Arellano-Yanguas, Mejía Acosta 2014, González Espinosa 2013).

The objective of the proposed panel is to review and discuss empirical research (quantitative and qualitative) on the natural resource curse with an emphasis on the political economy of oil, gas and mineral revenues at the subnational level. Hence, the panel explores the evidence on the political, economic and social effects of the abundance and/or dependence of resource revenues as well as the mechanisms that may explain such effects.
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PANEL A – The subnational resource curse: links of oil and mineral wealth with conflict and criminality

Panel discussant: Javier Arellano Yanguas, PhD in Development Studies, Director of the Centre for Applied Ethics Aplicada at Universidad de Deusto.

Chair: Lucas González, UNSAM/UCA-CONICET

Panel Abstract: Subnational governments in oil and mineral-rich regions from Argentina, Brazil, Chile, Colombia and Peru have access to significant resource revenues. The emerging literature on the subnational resource curse argues that local and regional governments face similar difficulties and risks than national governments when dealing with abundance of fuel and non-fuel mineral wealth: rent-seeking incentives; increased corruption and non-programmatic distributive politics; severe localized violence; and, the appropriation of rents by non-state armed groups. Nevertheless, the research on the existence and the causal mechanisms of a subnational resource has presented mixed results and it is less conclusive than the literature on the national resource curse. The objective of this panel is to review and discuss empirical evidence (qualitative and quantitative) on the association between oil and mineral wealth with violence, armed conflict, and criminality activity. The papers of the panel address the interaction between resource wealth, violence and criminal activities, as well as the political processes that unfold in oil and gold-rich regions located in Colombia and Peru.

Paper No. 1

Title: Same resource, different conflicts: The relationship between gold and conflict in six Colombian gold mining regions

Juan Felipe Ortiz-Riomalo (University of Osnabrück)

Abstract: Since 2001, a new enacted national mining legislation and skyrocketing international gold prices have triggered the expansion of gold mining in Colombia. Since then, in both traditional and new gold mining regions, mining operators of various scales, nationalities and levels of formality; local and regional communities; local and regional authorities; environmental organizations; and representatives of the farming sectors, have been entangled in tensions

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1 Co-authored with Angelika Rettberg (Universidad de los Andes) and Juan Camilo Cárdenas (Universidad de los Andes).
revolving on the way to extract gold, capture its rents, and avoid and manage its impacts on the environment and other economic activities. Furthermore, non-state armed actors have found in gold mining a profitable source of income to either complement or substitute their traditional sources of funding, i.e. kidnapping and, primarily, drugs production and trafficking. Under this general national trend where gold mining intertwines with (armed and socio-environmental) conflict, a closer look at the subnational level exposes various dynamics wherein the activity is kept from or interact with several types of conflicts. It is this the purpose of this paper to study these dynamics and their underpinning mechanisms by comparing the historical trajectories of six of the largest gold mining regions in Colombia. The paper takes into account the features of the production and commercialization processes, as well as the institutional (i.e. working rules), political (i.e. sub-national dynamics of the armed conflict), sociocultural (i.e. attributes of the concerned actors), and biophysical context (i.e. type of deposit exploited), to identify the possible set of factors configuring different patterns of interaction between gold mining and conflict. Upon this analysis, the article draws insights to guide and enhance the design and implementation of policies and strategies aimed at both disentangling gold mining from conflict, as well as at embedding it in responsible decisions and cooperative patterns of interactions.

Paper No. 2

Title: A Bonanza for Bad Politicians: Criminal Candidates and Informal Mining in Peru

Antonella Bandiera, New York University

Abstract: How do natural resource windfalls affect the quality of political candidates? Existing scholarship argues that non-tax public revenue has a negative effect on the characteristics of candidates because it impairs the capacity of voters to hold leaders accountable. This literature, however, has not considered other non-tax sources of revenue, namely, the rents derived from the informal and illegal exploitation of natural resources. In this paper, I analyze the effects of an increase of informal gold production in Peru. I find that in districts that have higher levels of informal gold mining, increases in prices worsens the quality of politicians. In particular, I use novel data on the criminal records of candidates to show that a spike in the price of gold attracts more criminal candidates to politics and leads elected politicians to be accused of committing a crime more often. Interestingly, I also find that candidates who have a criminal record are less likely to be elected. These results suggest that information on the trajectories of politicians is key to improve the quality of candidates that will be elected, and that the enforcement of natural resource regulation is crucial to eliminate the influence of rents on the behavior of politicians.

Paper No. 3
Title: Oil barrels, votes and guns: The links between oil wealth and organized violence at the local level in Colombia

Juan D. Gutiérrez-Rodríguez, University of Oxford.

Abstract: How does oil wealth affect local organised violence? Since oil is location specific, such effects should be observable at the local level. Most large-N studies have established that there is some causal connection between oil wealth and conflict. However, the literature is less conclusive about the processes that may link them. The main objective of this paper is to provide localised evidence that supports or disconfirms hypotheses about the causal mechanisms by which oil wealth affects armed conflict. Violence is studied in all three of the standard dimensions: onset, duration and intensity. The existing literature has explored a wealth of potential mechanisms that may explain how oil affects conflict. This paper reports evidence that makes plausible six of them. Five of the mechanisms tested by this thesis were previously identified by the literature. Additionally, a new variant of a mechanism termed by the literature state-as-target is also examined. The new variant consists on the opportunity for non-state armed groups to extract oil rents through the electoral capture of subnational governments (instead of overthrowing the national government or segregating an oil-rich region from the country). A small-N research design (comprising three municipalities) is used to examine how oil wealth may contribute to influence the onset, duration or intensity of conflict at the municipal level in Colombia. The period under study starts in the early 1960s, just before the current internal armed conflict began, and ends in 2015. Different sources of evidence collected during fieldwork (including interviews, archival work and direct observation) and datasets on oil and violence are triangulated to carry out a process-tracing analysis to carefully trace the steps that may lead to the causal association between the research variables.
PANEL B – The subnational resource curse: effects of oil and mineral wealth on development

Panel discussant: Osmel Manzano, PhD in Economics, Adjunct Professor at IESA.

Chair: Diego Díaz Rioseco, Universidad Católica de Chile

Panel Abstract: Subnational governments in oil and mineral-rich regions from Argentina, Brazil, Chile, Colombia and Peru have access to significant resource revenues. The partial decentralization of resource revenues allows these subnational governments to finance ambitious investment projects and policy programs. In addition to the fiscal links that oil and mineral assets generate at the subnational level, the extractive sector may offer opportunities to build forward and backward linkages with the local economy. However, despite of their natural wealth, resource-rich subnational governments are not necessarily performing better than their resource-poor counterparts. Additionally, the formation of enclave economies in resource-rich regions seems to be the rule rather than the exception. The emerging literature on the subnational resource curse argues that local and regional governments face similar difficulties and risks than national governments when dealing with abundance of fuel and non-fuel mineral resources. Nevertheless, the research on the existence and the causal mechanisms of a subnational resource has presented mixed results and it is less conclusive than the literature on the national resource curse. The objective of this panel is to review and discuss empirical evidence on the impact of oil and mineral wealth on developmental outcomes in Latin American countries at the subnational level. The panel explores, through a large-N approach, quantitative data from Peru and Argentina to assess the economic and social effects of the abundance and/or dependence of oil, gas and mineral resources at the subnational level.

Paper No. 1

Title: Natural Resources and Local Communities: Boom and Bust Evidence from a Peruvian Gold Mine, 1997-2016

José Carlos Orihuela (PUCP), César Huaroto (Universidad Nacional de la Plata), and Victor Gamarra (PUCP)

Abstract: This paper revisits Aragón and Rud (2013)'s assessment of the Yanococha case in Cajamarca, northern Peruvian Andes. Using annual household data from 1997 to 2016 (instead of to 2006 as the aforementioned study), we find no evidence of a positive effect of mining on local real income. Not only the boom effects disappear with the bust, but also the boom effects are not so rosy. Using complementary data analysis, our contention is that there is no clear evidence of
productive backward linkages from extractive industries to the local economies. Instead, we interpret the identified short-term benefits fundamentally as a fiscal linkage effect in the Cajamarca urban center that comes and leaves.

Paper No. 2

Title: The Impact of Oil Windfalls on Subnational Living Standards: Evidence from Argentina

Lucas González (UNSAM/UCA-CONICET) y German Lodola (UTDT-CONICET)

Abstract: This paper analyses the impact of oil and gas rents on subnational welfare indicators. One of the key questions in the literature on the socioeconomic effects of oil rents is how can we account for the variation in outcomes in cases as different as Norway or Canada from others such as Iran, Nigeria, or Venezuela. First, we contend that the geographic concentration of oil production and low generation of oil employment negatively affect welfare outputs because enclave-like economies do not promote linkages and spillovers to the rest of the economy. Second, we posit that subnational variation in welfare is related to the institutional framework that regulates the redistribution of oil rents from the oil producing districts to other non-producing regions. We test our argument using regression analysis and a difference-in-difference estimation in Argentina’s provinces that enjoy property rights over natural resources and determine their own systems of oil rent redistribution.

Paper No. 3

Title: Extractive Revenues and Local Resource Curse: Comparative Case Analysis in the Peruvian Andes

Sandra Carrillo Hoyos, (PUCP)

Abstract: The worst development outcomes, measured in poverty, inequality, and human development, are often found in those countries with the greatest natural resource endowments, which are currently key suppliers of required commodities to sustain the global economy. For this reason, an extensive debate has been dedicated to the resource curse theory as one of the most disseminated and controversial theories to explain development performance in resource rich countries. Nevertheless, fewer studies are focused on discussing the resource curse as a local phenomenon even though serious challenges for sustainable development are presented at this level, related with environmental impacts, extreme poverty, economic dependency, low economic
diversification, social conflicts, corruption, among others. Under the Sustainable Development Goals Framework, this proposal highlights the need for new and innovative public policies to address those challenges posed by resource-based territories.

This proposal is based on a research recently concluded aimed to critically discussing to what extent the allocation of extractive revenues has determined conditions for the applicability of the local resource curse hypothesis in Peru. This research focused on the comparative analysis of two Provinces (Huari in Ancash Region and Espinar in Cusco Region) based on the collection of qualitative data and the analysis of official quantitative information. The comparison was focused on the symptoms of the local resource curse, the contribution of public investment resulted from extractive revenues, and the factors inducing the allocation of funds in local governments. Findings have corroborated that a high level of revenue transfers to local governments without prior preparation and institutional capacities could be considered as a driver of local resource curse. This situation may be aggravated when the impact from public investment is not officially evaluated, there is a lack of citizen accountability, and overlapping roles between the private and public sector.
PANEL C – The subnational resource curse: oil and mineral revenues, politics and policies

Panel discussant: José Carlos Orihuela, PhD in Development, Associate Professor at Pontificia Universidad Católica del Perú (PUCP)

Chair: Sandra Carrillo Hoyos, (PUCP)

Panel Abstract: Subnational governments in oil and mineral-rich regions from Argentina, Brazil, Chile, Colombia and Peru have access to significant resource revenues. The partial decentralization of resource revenues allows these subnational governments to finance ambitious investment projects and policy programs. However, despite of their natural wealth, resource-rich subnational governments are not necessarily performing better than their resource-poor counterparts. The emerging literature on the subnational resource curse argues that local and regional governments face similar difficulties and risks than national governments when dealing with abundance of fuel and non-fuel mineral revenues: rent-seeking incentives for public and private actors; pressures to spend without sufficient planning; increased corruption and non-programmatic distributive politics; fiscal laziness (neglecting local taxation); increased localized violence; and, the appropriation of rents by non-state armed groups.. Nevertheless, the research on the existence and the causal mechanisms of a subnational resource has presented mixed results and it is less conclusive than the literature on the national resource curse. The objective of this panel is to review and discuss empirical evidence (quantitative and qualitative) on the interplay between oil and mineral wealth, politics and policies in Latin American countries at the subnational level. The panel includes papers about Peru, Brazil, Colombia and Argentina that assess the political economy of the abundance and/or dependence of oil, gas and mineral revenues.

Paper No. 1

Title: Extractive industries, fiscal transfers, and regional development: Lessons from the Peruvian unplanned experiment

Javier Arellano Yanguas, Universidad de Deusto

Abstract: The transfer of oil and mining revenues to the subnational governments of resource-rich jurisdictions is a fashionable policy aimed at promoting local development and reducing local opposition to extraction. In the early 2000s, the Peruvian government, in collaboration with mining companies, implemented a radical version of that policy. During the last commodity boom Peruvian mining regions received fiscal transfers many times greater than the national average.
The paper analyzes the results of the policy in terms of inequality between regions and impact on wellbeing indicators. The analysis reveals that the strategy has not worked. These transfers have not improved economic or welfare indicators in regions hosting mines and hydrocarbon fields. Instead, they have generated political incentives for local authorities to pursue short-term, clientelistic spending. These incentives are more important for explaining the poor results of the policy than a lack of technical capacity on the part of subnational governments.

Paper No. 2

Title: How Oil and Grants Shape Subnational Regimes: Evidence from Argentina and Brazil

Diego Díaz Rioseco, Universidad Católica de Chile

Abstract: In recent years, several works have extended resource curse theories to other sources of nontax income, that is, sizeable revenues that do not accrue from taxing citizens, arguing that intergovernmental grants should generate the same negative effects than oil. Consequently, subnational governments that rely heavily on oil rents or federal transfers are considered to be analytically equivalent. Contrary to these arguments, this paper compares different sources of nontax income and contends that they have different effects on the patterns of reproduction and durability of subnational political regimes. In particular, the paper focuses on how oil rents and intergovernmental grants determine subnational governments’ political autonomy, patterns of intergovernmental coalitions, and the mechanisms of political regime reproduction, as different economic structures economies shapes 1) governments’ ability to sustain large patronage machines over time and 2) the fiscal relations with the center. While oil rich provinces have an independent source of wealth from which to extract resources and accessible partners and lenders (i.e., provincial and/or private extractive companies; national and international banks granting oil-backed loans), those that depend on fiscal rents have serious problems to issue debt and lack the ability to extract income beyond that provided by the national level. As a result, oil-rich provinces are self reproduced because they are fiscally autonomous from central governments and have access to resources with which to pay for the inelastic patronage expenditures required to reproduce themselves. On the contrary, transfer-dependent provinces are reproduced from above, as they are unable to sustain large budgets for protracted periods unless they receive conditional resources from the national level in exchange of political support. The paper illustrates the argument with two subnational within-country comparisons in Brazil and Argentina.

Paper No. 3
Title: Nontax Revenue and Subnational Competition: Evidence from Colombian and Peruvian Municipalities

Jose Incio (University of Pittsburgh) and Ignacio Mamone (University of Pittsburgh)

Abstract: How does revenue from natural resource extraction affect local political competition within democracies? We study how subnational government revenue from natural resources shape politicians access to power through elections. In democratic countries, nontax revenue in resource-rich districts can become a source of advantage that local incumbents can dispose of to deliver public goods to their constituencies, increasing their share of votes and ultimately, their likelihood of reelection. At the same time, the large local budgets that incumbents control in resource-rich districts affect the incentives that potential challengers face. While opportunistic office-seekers would like to oust the incumbent to control the bounty of nontax revenue, its control by the mayor can deter them from entering the race if the chances of reelection seem too high. We address these counterbalancing forces of incumbency advantage and political fragmentation in two Latin American democracies rich in natural resources which have established fiscal institutions to distribute income among subnational districts. Drawing on data from municipal elections in Colombia and Peru, we estimate the existence and size of the incumbency advantage of mayors as well as the size of the pool of candidates across districts. We find that mayors in municipalities receiving more nontax income receive larger share of votes. Moreover, we find evidence of an indirect effect by which districts that receive more nontax revenue see the pool of candidates shrink. These findings suggest a new understanding of the subnational political landscape and the debate on regime juxtaposition and nondemocratic enclaves in these democracies.