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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 extracting revenues from mining changes or impacts key relationships, in particular relations between the state and citizens and investors.

The political and institutional aspects are examined through a case study of the municipality of Rancho Grande in northern Nicaragua, where social conflicts are arising as a result of new investments in the mining sector. The case study was chosen to illustrate state-citizen and state-investors relationships which inform processes of contestation around new mining investments, with important implications for social development.

The main thesis 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 as reflected in the fiscal regime; both in terms of who participated in negotiation processes and also in the outcomes of the negotiations. At the local level, this is reflected in the way mining concessions and mining permits are granted.

The structure of the paper is as follows: the first part of the study gives a historical overview of the mining sector in Nicaragua from the 1970s to the present in order to highlight how present issues relating to mining have historical precedent. The second part analyses the fiscal mining regime and evaluates the economic impacts of mining. The third part looks at the social aspects of resource mobilization from the mining industry using the case study of Rancho Grande. The last section concludes and formulates policy lessons.

Conceptual framework

The potential impact of mining on resource mobilization for social development in Nicaragua will be analysed using two entry points: a) economic benefits of mining and b) political and institutional aspects.

Outcome aspects

The economic benefits or *outcome aspects*, refer to the amount of resources that the state is mobilizing from the mining industry in terms of taxes and levies (in Hirschman's terminology the fiscal linkage), and other economic outcomes such as employment, wages and the contribution of mining to growth and GDP.

In addition, the study uses the concepts of *backward and forward linkages* to describe the extent to which the mining sector contributes to the development of the national economy.

The concept of *backward linkages* describes the extent to which the mining sector purchases its products and supplies (inputs) from other local sectors in Nicaragua. *Forward linkages* describe the extent to which the products from the mining industry serve as goods, products or supplies to other industries in the local economy. In theory, an industry with strong backward and/or forward linkages contributes more to the development of the local economy (Hirschman 1958).

Political and institutional aspects

Contestation and bargaining

Recognizing that development is a political process that involves contestation, struggles for representation and recognition, and bargaining over competing interests, this study examines the political economy of the mining regime in Nicaragua.

Examining processes of contestation and bargaining highlights dimensions that are significant for social development as for example those concerning the distribution of power between actors and groups. The balance of power impacts social development by influencing policy and by determining whose voices are included or excluded in the process of advancing new mining investments. We will analyse the trade-offs between policies aimed to attract foreign direct investment (FDI) in the mining sector and the objective to maximize public revenues for social spending and environmental protection.

In this context, the concept of Corporate Social Responsibility (CSR) is used to explain how enterprise-community relations are managed at the local level. Corporate Social

Responsibility is “a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders” on a voluntary basis (UNIDO 2015). Although this concept is not used extensively in this study, CSR policies are responsible for some of the resources that are injected to the local economy by mining companies and that can have an impact on the power balance between actors.

Changes in key relationships

The second theme guiding the analysis seeks to understand how the process of extracting revenues from the mining sector changes or impacts key relationships in Nicaragua. This is one element of long term processes of social change and a key component of social development (where we have defined changing social relations moving towards greater respect, dignity, cohesion, trust and political representation as a positive social development outcome). The types of relationships that will be examined are the following:

- State-citizen relations: As explained by UNRISD (2012a), “the history of resource extraction in many poor countries is associated with coercion and authoritarian rule. However, calls for generation of more revenues and social expenditure have coincided with greater openness of political systems and rights of independent organization and contestation” (UNRISD 2012a: 9). The key issue is whether citizen contestation around mining redefines state-citizen relations by encouraging governments to opt for more consensual styles of policy-making. To what extent does contestation around mining lead to a redefinition of state-citizen relations in Nicaragua?
- State-investors relations: How do state-investors relations impact improvements in domestic resource mobilization from the mining industry? How does the domestic scene around mining in Nicaragua affect state-investors relations?

Methodology

This study was conducted in the context of the UNRISD project on “Politics of Domestic Resource Mobilization for Social Development” (UNRISD 2012a, 2012b) and applies its conceptual framework as described in the previous section. It is based on nine in-depth interviews and two focus group meetings with government officials, civil society, social movements and representatives of the mining sector which were conducted during the second half of 2014 in Nicaragua.[1] The study also analysed relevant literature and newspapers articles. For the study, field visits were made to the municipality of Rancho Grande to interview key actors. Rancho Grande was selected as a case study because the grass-roots coalition against mining in Rancho Grande is unique in the country bringing together a wide range of actors around a common agenda.

The case study method helped us examine how political and institutional aspects play out at the local level through the way mining concessions and mining permits are granted. Rancho Grande as a case study illustrates the types of tensions that arise when mining projects are introduced by the state in places where agriculture is the main economic activity. Here, environmental risks are perceived as a threat to longer term livelihood sustainability by farmers.

[1] See list of interviews in the annex.

Limitations of the study

The analysis of the mining sector in Nicaragua and its developmental implications is not straightforward. While the economic benefits of mining can be quantified the social and environmental costs are more difficult to measure. Despite this limitation, the environmental and social risks of mining in Nicaragua need to be considered closely when weighing the potential economic benefits of mining. Further research is needed to evaluate the capacity of the state to effectively regulate and monitor the mining industry.

Historical Overview of the Mining Sector from 1972- 2015

This section seeks to discuss social relations, institutional arrangements and political processes related to mining in Nicaragua in historical context, in order to understand the development of the mining regime and how it is related to the role of important actors. It will do so by looking at three main periods that mark the more recent history of the mining sector in Nicaragua: the Nicaraguan dictatorship (1930s to 1970s), the Nicaraguan Revolution period (1979-1990), and the neo-liberal era (1990 to the present). As will be shown, with the exception of the Revolutionary period, the state has tended to negotiate in the interest of its strategic alliance with the private sector rather than on behalf of Nicaraguan citizens. This has been a chronic problem in the history of Nicaragua in terms of fiscal revenues, and even today it continues to characterize the Nicaraguan state practices.

As explained by Julio Francisco Báez Cortes, lawyer and economist specializing in public finance and taxation, during the **Somoza dictatorship** the mining sector in Nicaragua was dominated by a handful of foreign companies from the United States and Canada, working in partnership with local authorities and with the tacit approval of the Somoza regime. A cozy relationship between the government and mining companies characterized the country's mining activities. The companies that were operating in Nicaragua at the time were the American Smelting and Refining Co., and the Rosario Mining Co. who created a joint venture called Neptune Mining Company from the United States. Mining concessions were made in the Mining Triangle, which comprised the municipalities of Siuna, Rosita and Bonanza, in the North Atlantic Autonomous Region of Nicaragua. This period was characterized by fiscal evasion and local bribes, human exploitation, and ecological depredation by the mining sector. Consequently, mining did not contribute to increase government revenue and the fiscal mining regime at the time was disadvantageous in terms of social development for the reasons mentioned above (Interview with Julio Francisco Báez Cortes, 17 September 2014).

The **Nicaraguan revolution led by the Sandinista National Liberation Front (FSLN)** marked the beginning of a period characterized by changing social relations, institutional development and political processes that included important changes for the mining sector. During this period, the mining sector was nationalized under Decree 137 of November 2nd, 1979.[2] The nationalization of the mining sector was propelled by two main concerns: 1) the degradation of mining communities was seen as the result of exploitive labour practices and human rights abuses by foreign companies; and 2) non-renewable natural resources were regarded as a national 'sacred' asset that had to be

[2] It is important to note the difference between confiscation and nationalization since these two concepts are often confused. Confiscation does not include any form of indemnification. Nationalization on the other hand includes compensation and is guided by a state vision regarding the handling of the nationalized assets, in this case non-renewable natural resources.

preserved and defended. During this time, the country's mines were administered initially by the Nicaraguan Corporation of Mines (CONDEMINA) and later by the Nicaraguan Institute of Mining (INMINE), an autonomous entity responsible for the development of mineral resources. As explained by Julio Francisco Báez Cortes, during this period reforms were not propelled by a desire to increase resource mobilization from the mining sector, but for the stated reasons of national ownership and protection of natural assets and workers' rights. This is for example reflected in the fact that the nationalization of the mining sector did not increase government revenue; one reason being that mining activity in Nicaragua was constrained during this period because mines were located in conflict zones (Interview with Julio Francisco Báez Cortes, 17 September 2014).

The nationalization of the mining sector was contested by international companies. On the one hand, Neptune Mining Company argued that the Nicaraguan State owed it US$10 million (Envío 1986). On the other hand, the Nicaraguan government argued that the company owed the Nicaraguan State a far greater sum since it had evaded taxes during the Somoza years. Both parties agreed to take the case to an International Tribunal mediated by the Venezuelan ex-president Carlos Andres Pérez, who organized a team of twenty internationally renowned jurists to decide the case (Envío 1986). Deciding in favour of the Nicaraguan State, the tribunal declared that Neptune Mining Company owed Nicaragua a great deal of money back in taxes.[3] Both parties accepted the tribunal's decision. This case is significant because it illustrates that fiscal evasion characterized the fiscal mining regime during the Somoza years (Interview with Julio Francisco Báez Cortes, 17 September 2014).

The end of the Nicaraguan Revolution period and the beginning of the **neo-liberal era** in 1990 marked another historical period for the mining sector in terms of political processes, institutional development, social relations and revenue generation. During this period the mining sector was privatized, a new legal framework for mining was developed in 2001[4] and the prospects for revenue generation from the mining sector increased due to technological innovation, international pricing and increased foreign investment.

During the neo-liberal area the relationship between the state and mining companies grew closer as the state was interested in attracting foreign investment and showing to the world that the Sandinista regime with its state-led and socialist development model was over. As explained by Julio Francisco Báez Cortes, this is illustrated for example by the overturning of the international ruling in favour of Nicaragua against Rosario Mining Company. Despite acceptance of the ruling, Rosario Mining Company came back during the 1990s to argue to the newly formed Nicaraguan government that its mines had been confiscated during the revolution (Interview with Julio Francisco Báez Cortes, 17 September 2014). In response, the Minister of Treasury at the time, Emilio Pereira, on behalf of the newly elected government of Violeta Chamorro, issued a $9 million dollar bond/certificate to Rosario Mining Company as indemnification (Núñez Salmerón 2010).

In 1998, during the government of Arnoldo Aleman, this US$9 million dollar bond was bought by the Nicaraguan Institute for Social Security (INSS) for US$7 million dollars from the Rosario Company (Núñez Salmerón 2010). The transaction was recommended

[3] Exact figure not available

[4] This refers to the implementation of the Special Law on Exploration and Mining (Law 387). This law is discussed in detail on section 3 of this paper.

and overseen by the ex-minister of Treasury under the Chamorro government, Emilio Pereira, who was now acting as advisor to the INSS. Until today, this investment represents a debt that the state has with INSS because the state has not paid the INSS for the bonds. As argued by Julio Francisco Báez Cortes, the paradox in this case is the fact that the Chamorro government deliberately incurred debt that had already been cancelled by law and instrumentalized social security institutions in that process, with adverse effects for the functioning of these institution (Interview with Julio Francisco Báez Cortez, 17 September 2014). In 2014, the state had a total debt to INSS amounting to U$500 million which it has agreed to pay in 50 years (Carranza 2014).

The Sandinista National Liberation Front (FSLN) won the elections and came back to power in 2006. In 2009, the FSLN passed a tax reform called Concertación Tributaria. As argued by the Instituto Centroamérica de Estudios Fiscales (2012) and Molina (2015), the negotiation process evidenced the strategic alliance that continues to exist between the Executive and the private sector. The tax reform did not involve consultation with a broad group of actors. In contrast, the negotiations were made almost exclusively between the Executive and the private sector resulting in a watered-down version of what the government had originally intended (Instituto Centroamericano de Estudios Fiscales 2012; Molina 2015). This will be discussed more in section 3.

The mining sector under the FSLN government has become one of the top exporting sectors of the economy. In 2013, it exported $448 million dollars in ore (Banco Central de Nicaragua 2013). The sector is run by companies mostly from the United States and Canada, which are also the main destinations for mining exports. The largest mining companies in production are B2Gold Corporation and its subsidiaries and HEMCO.
Foreign companies have been encouraged to invest in Nicaragua as can be seen by the number of concessions granted by Nicaragua to mining companies, which has been increasing rapidly—from 189 concessions in 2007 to 298 in 2014 (Ministry of Energy and Mines 2014). As of today, 12.37 per cent of Nicaragua's territory is under mining concessions whilst an additional 4.43 per cent of its territory is currently being solicited (Ministry of Energy and Mines 2014). Below is a list of the number of mining concessions in Nicaragua.

Table 1. Metallic Mining Concessions 2014

Mining Phase	Number of Concessions
Number of metallic mining concessions	
Exploitation	4
Exploration	35
Inactive	136
Total	175
Number of non-metallic mining concessions	
Exploitation	30
Exploration	2
Inactive	69
Total	114

Source: Ministry of Energy and Mines 2014.

The historical overview highlights *political and institutional* aspects related to the distribution of power and relationships between key actors that impact resource mobilization. With the exception of the Revolutionary period, the state has tended to negotiate in the interest of its strategic alliance with the private sector. This section also helps explain the current regulatory framework that governs the mining sector, which was created in 2001 with the passing of Act 387, the Special Law on Exploration and Mining and its Regulation Decree 11-2001, discussed in the next section. Indeed, this framework is very favourable to foreign direct investment (FDI), thus persevering the historical experience outlined above, particularly around the influence of the private sector over the state.

Evaluating the Economic Benefits of Mining: Bargaining and Outcomes

This section evaluates the economic benefits of mining in Nicaragua by looking into *outcome aspects* of social development related to the amount of resources that the state is mobilizing from the mining industry in terms of taxes and levies; employment and wages, gross domestic product; and backward and forward linkages to the rest of the economy. While institutional and political processes framed around the two themes (contestation and bargaining and key relationships) will be briefly touched upon, for example the bargaining processes between the state and private companies around tax law, we will deepen this analysis in the case study in section 4.

Nicaragua has several institutions governing the mining sector mostly in the form of laws, rules and regulations. This section looks into the institutions and policy framework applied to investors. The fiscal mining regime refers to the set of laws, regulations and agreements which influence the economic benefits derived from mining exploration and production. All activities related to exploration and exploitation of mining resources are regulated by the Tax Concentration Law (Law 822), the Temporary Admissions Law (Law 382), General Law on Exploitation of Our Natural Wealth (Act 316), the Special Law on Exploration and Mining (Law 387)[5] and its Regulation Decree 11-2001.

Taxes and royalties constitute revenues for the government and allow advancing specific fiscal policy objectives. Nicaragua has maintained that the best way to attract investment is by reducing taxes and levies on firms, a strategy based on the neo-liberal model for development which has informed Nicaraguan economic policy since the 1990s. This paradigm became very popular when international financial institutions (IFIs) like the World Bank and the International Monetary Fund advanced this policy advice as part of their structural adjustments plans (Heidrich 2013). The close relationship that exists between the state and the private sector in Nicaragua has contributed to the endurance of this strategy.

A closer look at the current legal framework reveals how the Nicaraguan government in partnership with the private sector has created a wide array of exonerations for the private sector which limit fiscal revenues. The current legal framework weakens the state's ability to mobilize resources for social development from the mining industry.

In 2012, the government passed a tax reform called Tax Concertation Law which provides numerous tax benefits in the form of exemptions and exonerations to exporters in order to promote the growth and development of the private sector[6] (Molina 2015).

[5] In 2005, Law 387 was reformed by Law 525. The reforms were mainly concerned with defining new deadlines, procedures and administrative requirements.

[6] It includes 0 per cent rate of Value Added Tax (IVA)[6] to exports of domestically produced goods or services provided to clients abroad. Exports of goods are taxed at 0 per cent of the Selective Consumption Tax (ISC). Companies can apply a tax credit to the advance payments or annual Income Tax with previous authorization of tax administration in an amount equal to 1.5 per cent of FOB value of exports. In addition, the mining sector can take

As argued by Instituto Centro Americano de Estudios Fiscales (ICEFI) (2012), fiscal regimes are shaped by power dynamics between actors in society. A concentration of power in the hands of a few can disproportionally influence fiscal policy. In Nicaragua, the private sector is a strong actor with the power to greatly influence fiscal policy, as evidenced by the bargaining process behind the passing of the Tax Concertation Law. The original proposal for the tax reform was coordinated by the Ministerio de Hacienda y Crédito Público (Ministry of Treasury) with support from the Dirección General de Ingresos (General Directorate of Revenues) or (DGI) for its acronym in Spanish. International Financial Institutions like the Inter-American Development Bank provided technical support. The above mentioned institutions presented a tax reform law that was comprehensive. It included reforms to expand fiscal revenues, improve the quality of the tax system and simplify tax payment mechanisms. Before this proposal reached the Legislature in 2009, it was withdrawn by the state after the private sector radically opposed the proposal. In 2012, a new proposal passed through the Legislative Branch; however the actual negotiations were held bilaterally between the Executive Branch, namely the President of Nicaragua, and the Private Sector, namely the President of the Council for Private Entreprises, Consejo Superior de la Empresa Privada (COSEP), for its acronyms in Spanish (Instituto Centroamericano de Estudios Fiscales 2012).

As explained by the ICEFI, fiscal policy is also shaped by the relationship between the Executive and the Legislative Branch in terms of the influence the former has over the latter to set the agenda, pass fiscal reforms and use veto power. The FSLN (party in office), has very strong alliances with other political parties in the Legislative Branch which made it easy for them to pass a watered-down version of the original Tax Concertation Law proposal (Instituto Centroamericano de Estudios Fiscales 2012). The tax reform that was eventually passed did not address the loopholes that exist to reduce Corporate Income Tax (see footnote 4) collected from companies.[7]

By influencing fiscal policy, the Nicaraguan private sector has been able to create for itself fiscal incentives in the name of making the country more attractive for foreign investments (Instituto Centroamericano de Estudios Fiscales 2012). For example, the **Temporary Admissions Law** (Law 382) provides additional fiscal incentives for companies. It allows the entry of goods into the national territory and the local purchase of goods or raw materials without payment of any duties and taxes, provided that the goods are re-exported after being subjected to transformation, processing, or repair among other processes. Companies that export at least 25 per cent of their total sales and more than US$ 50,000 are eligible for this scheme. The law also includes exemptions from taxes on the property of the company within the perimeter of the mining concession.

The **Special Law on Exploration and Mining** (Law 387) determines the fiscal revenues that the state collects from mining companies. It includes Surface Rights (land use tax) which is a progressive payment per hectare of concession along the length of the mining concession—US$0.25 per hectare during the first year up to a maximum of US$12 per hectare during the tenth year. It also includes Extraction Rights set at 3 per cent of the value of the extracted minerals, deductible from income tax. The law states that companies must pay 30 per cent Corporate Income Tax. However, as noted above,

advantage from the benefits that the Tax Concertation Law grants to the Forestry Sector though the Forestry Incentive Law (462), which states that companies of any line of business that invest in forest plantations may deduct, as an expense, 50 per cent of the amount invested for Income Tax purposes.

[7] A recent Amendment to Tax Concertation Law (Law 822) —Article 207 Matrícula Municipal— states that apart from the exonerations stipulated by the Special Law on Exploration and Mining (Law 387), the state and companies can negotiate additional exonerations on a case by case basis, thus further weakening the fiscal mining regime

there are a number of loopholes in the tax laws whereby corporations can save money to the detriment of generation of public revenue.

Table 2 illustrate the resources that the state collected from the mining industry. The increase in revenues from 2012 to 2013 is due to a) an 18 per cent increase in the volume of gold exports and b) an increase in gold exports value by 2 per cent (Nicaraguan Ministry of Energy and Mines 2014).

Table 2. Revenues to the Nicaraguan Treasury from Tax and Royalties (millions of USD)

Concept	2007	2012	2013
State's Total Tax Revenue	1115.8	1729.7	1781.4
Internal Taxes	7.1	30.7	42.1
Mining Surface Rights (land use tax)	1.6	2.9	2.9
Mining Extraction Rights[8]	1.8	12.1	12.1
Fines for Surface Rights and Right of Extraction	0.01	0.01	0.02
Total Mining Royalties and Taxes	10.6	45.7	57.1
As % of State Tax Revenue	0.95	2.64	3.21

Source: Author's calculations using data from the Ministerio de Hacienda y Crédito Público (Ministry of Finance)[9]

The efficacy of fiscal incentives in attracting foreign investment is a matter of debate. A study in 87 countries by the World Bank Group's Investment Climate Advisory Services in 2010 suggests that investment climate plays a bigger role than fiscal incentives in attracting foreign investment.[10]

It might therefore well be the case that countries with good investment climates—as is the case of Nicaragua, which was ranked 2nd only to Chile in terms of its appealing business climate for the mining sector by Dundee Capital Markets—are in fact subsidizing through fiscal incentives investments that would have occurred regardless (Perera 2012). As noted by Denis Lanzas, vice-president of the Nicaraguan Mining Chamber, the Dundee Capital Markets Ranking gave Nicaragua a score of 10 out of 14 when considering aspects that condition the business climate (Interview with Denis Lanzas, 19 September 2014; ProNicaragua 2014).

In addition, a problem with fiscal incentives such as automatic tax holidays in Nicaragua is that it is not uncommon for mining firms to close their operations after the

8 Deductible from income tax.

9 These calculations are based on yearly average conversion rates from the Nicaraguan Central Bank (2007, 2012, 2013 respectively)

10 Investment climate refers to good and clear regulations and procedures, easily accessible and reliable information, well-functioning institutions, economic and political stability, and respect for the rule of law (Investment Climate Advisory Services 2010). This is exemplified by statements made by investors themselves. For example, Denis Lanzas, vice-president of the Nicaraguan Mining Chamber, stated the top five favourable conditions that foreign investors are looking for in a country. His top priorities were: Clear rules of the game, legal security, investment climate, ease of doing business and gaining concessions (in Nicaragua, companies can get a concession in 30 days which is comparatively quick), and finally the country's safety and people (Interview with Denis Lanzas, 19 September 2014). This answer echoed observations made by the President of B2Gold Corp, which is one of the largest and most prominent mining companies in the country. Pablo Venturo said that the top favourable conditions were judicial and fiscal stability, public safety, infrastructural development such as access roads and telecommunications and openness of the state to mining as a development strategy (Interview with Pablo Venturo, 3 October 2014).

preferential period is exhausted and to reopen "new" ventures, thus making it possible for firms to reapply for tax exonerations.

In terms of distributional aspects of revenues, the mining regime establishes clear distributional guidelines for sharing mining revenues among the State Treasury, Municipalities, Mining Development Fund and Regional Councils.

The state revenues from mining concessions located in the Atlantic Autonomous Regions are distributed in the following way:

- 35 per cent goes directly the municipalities that have mining concessions.
- 20 per cent goes to the Regional Council in the Atlantic Autonomous Regions where concessions are located.
- 30 per cent goes to the National Treasury
- 15 per cent goes to the Mining Development Fund

In the rest of the country, the state revenues from mining concessions are distributed in the following way:

- 35 per cent goes directly to the municipalities where mining concessions are located
- 50 per cent goes to the National Treasury
- 15 per cent goes to the Mining Development Fund

Table 3 shows how state revenues from extraction and surface rights from mining concessions are distributed among Regional Councils, Municipalities, State Treasury and the Mining Development Fund. Due to the lack of information, it is not possible to know how much of these revenues are earmarked for social policy. However, we know that the Mining Development Fund, responsible for implementing activities relating to mining research and development, environmental protection in mining areas, and special programmes for mining inspections and monitoring, received US$2.2 million in 2013.

Table 3. Distribution of State Revenue from Mining Concessions (in millions of USD) (excluding income tax)

Year	Extraction Rights	Surface Rights	Total	Transfers to Regional Councils	Transfers to Municipalities	Transfers to State Treasury	Transfer to Mining Development Fund
2007	1.8	1.5	3.4	0.3	1.2	1.4	0.5
2012	12.1	2.8	14.9	0.8	5.2	6.6	2.2
2013	11.9	2.8	14.7	0.9	5.2	6.5	2.2

Source: Author, based on calculations using unpublished data from the Ministry of Energy and Mines provided to the author[11]

To conclude, the current fiscal mining regime is the result of the distribution of power that exists between different actors. We have discussed the prominent role of the private sector in shaping fiscal policy, resulting from the strategic political alliance between the Executive and the private sector. We have also discussed the influence that the Executive had over the Legislative Branch which enabled the passing of a watered-down version of a recent tax reform. In terms of impact on revenue, figures indicate that despite the fact that mining is an important sector in terms of export and investment, at

[11] These calculations are based on yearly average conversion rates from the Nicaraguan Central Bank.

its highest contribution, it represented 3.2 per cent of state tax revenue in 2013. This indicates that the Nicaraguan fiscal regime (in general) places limitation on the amount of revenues that the state can collect from its strongest economic sectors. It is nevertheless notable that municipalities which host mining concessions receive 35 per cent of related revenues, which is likely to be an important revenue source at the local level.

Further research is needed to determine the extent to which the objective of the government to expand mining activity in the country has been accompanied by efforts to strengthen the capacity of the state to regulate and monitor the mining industry. So far we know that in terms of revenues, the institution responsible for implementing activities relating to mining research and development, environmental protection in mining areas, and special programmes for mining inspections and monitoring received US$2.2 million in 2013.[12]

The following sections continue to look into outcome aspects of social development related to the amount of resources that the state is mobilizing from the mining industry in terms of employment and wages, gross domestic product; and backward and forward linkages to the rest of the economy.

Employment and wages

Each stage in a mine life-cycle requires different skills and employs varying numbers of people. In 2013, the mining sector in Nicaragua had 4,703 formal employees representing 0.7 per cent of the national formal workforce, according to data from the Nicaraguan Central Bank's Jobs and Employment Statistic. During the same year, average nominal wages in the mining industry were 106 per cent higher than the nominal average wage for employees contributing to social security, which is used here as a proxy for formal employees. The table below shows the official data for formal employment and wages from the mining industry in Nicaragua.

As noted by Julio Francisco Baez, wages in the mining industry have the national minimum wage as a base for its own wage percentage increments; which are determined unilaterally by the Mining Chamber (CAMINIC) for its Spanish acronyms. These wage increments are then agreed to by unions. There has not been a case thus far in the mining sector in Nicaragua where unions have been able to alter wage increment proposals advanced by CAMINIC (Julio Francisco Baez, e-mail to author, 2nd March 2015).

Table 4. Comparing Job Creation in the Formal Employment Data

Employment Data (thousands of people)			
Concept	**2007**	**2012**	**2013**
Social Security Members	458,965	623,458	673,466
Mining and Quarrying Social Security Members	2,262	4,428	4,703
As % of total Social Security Members	0.5	0.7	0.7

Source: Banco Central de Nicaragua 2013.

12 Based on own calculations using unpublished data from the Ministry of Energy and Mines for the year 2012 provided to the author.

Table 5. Comparing Wages in the Formal Sector in Nicaragua

	Wage Data per month (USD)		
Concept	**2007**	**2012**	**2013**
Nominal Average Wage Social Security Members	248	305	312
Mining and Quarrying Average Nominal Wage	348	582	643

Source: Author, based on data from Banco Central de Nicaragua 2013.

These wage and employment figures are used by the state and companies to show the economic benefits to local communities. One can infer that higher wages are used as a bargaining strategy to promote the industry. However, as noted by Weber-Fahre et al. (2001) from the World Bank, employment in the mining industry is temporary whereas the social impacts are long-lasting; especially in cases where mining activity disrupts the social and economic composition of local society (as will be discussed in section 4).

Productive impact: Assessment of backward and forward linkages and GDP

The contribution of the mining industry to economic development can be measured through its integration into the national economy. Luis Manuel Padilla, researcher at the Nicaraguan Central Bank, led a study entitled "Impact Multipliers in the Nicaraguan Economy: An Input-Output Approach" in 2014 which categorized the different sectors of the Nicaraguan economy according to their backward and forward linkages (multiplying effects on other parts of the economy). The idea is that not all economic activities have the same capacity to induce positive spill-overs on the rest of the economy (Hirschman 1958). According to the degree of the different linkage indicators, all sectors of an economy can be grouped into four categories, namely: key, promoter, strategic and independent[13] (Padilla 2014).

As noted in the conceptual framework, the concept of backward linkages describes the extent to which the mining sector purchases its products and supplies (inputs) from other local sectors in Nicaragua. Forward linkages describe the extent to which the products from the mining industry serve as goods, products or supplies to other industries in the local economy.

There are two types of mining in Nicaragua: metallic and non-metallic. Metallic mining occurs with the extraction of gold and silver whereas non-metallic mining comprises sand extraction, cement, stone, gypsum, pumice stone, salt, and calcium carbonate production. Non-metallic mining is geared towards the domestic market and metallic-mining is entirely geared towards the international market.

For the study, Luis Manuel Padilla created a matrix using data from 2008 with an approximation of all *national* inputs and outputs for each economic sector in order to

[13] If the values of both backward and forward linkages of a sector are all above the corresponding average (greater than 1) then the sector is called a key sector. If only the backward linkages of a sector are greater than the average (only the value of backward linkages is greater than 1), then the sector is termed as a strong backward linkage sector or promoter sector. Likewise, if only the forward linkages of a sector are greater than the average, the sector is called a strong forward linkage sector or strategic sector. The fourth group refers to the weak linkages categories where a sector has backward and forward linkages that are less than the averages. These sectors are called independent sectors (Banco Central de Nicaragua 2013).

categorize them. The results of the study for the mining sector indicate that the backward linkages multiplying effect is 1.1147, which means that for every 1 Córdoba increase of final mining products, the national economy increases its production by 1.1147 Córdobas. In decreasing order from 1 to 39— 1 being the economic sector with the most backward linkages and 39 having the least backward linkages— the mining sector is ranked at 34 (Padilla 2014). The study shows that the mining industry purchases products from three national economic sectors—petroleum products, business services to the mining industry, and machinery and transport equipment—thereby creating backward linkages with those sectors. In theory, this means that when the mining industry grows, these sectors also grow (Interview with Luis Manuel Padilla, 3 September 2014). Aside from these three sectors, Padilla's findings indicate that the metallic-mining sector has little demand for other domestic products and services.

Similarly, the multiplying effects regarding forward linkages of the Nicaraguan mining sector is 1.1692. Regarding forward linkages the study ranks the mining sector at 26 out of 39, again in decreasing order of impact (Padilla 2014) Most of the forward linkages come from the non-metallic mining sector which generates input materials to other sector of the economy, like the construction and the manufacturing sector (Interview with Luis Manuel Padilla, 3 September 2014).[14]

Based on the results, the study therefore categorized the mining sector in Nicaragua as an *Independent Sector* which means that its backward and forward linkages are less than the average (Interview with Luis Manuel Padilla, 3 September 2014).

Below in Table 6 we present figures that indicate the contribution of the mining industry to the national economy in terms of GDP.

Table 6. Mining and Quarrying Contribution to GDP (in billions of USD) (various years)

Concept	2007	2012	2013
Gross Domestic Product (GDP)	7.46	10.6	11.26
Mining and Quarrying	0.069	0.324	0.316
As % of GDP	0.9	3.0	2.8

Source: Banco Central de Nicaragua 2013.

These findings are important because they place the mining industry within the broader national economic context. While time series data over longer periods still have to provide the evidence on the longer term growth of the sector and its contribution to GDP, the 3 years reported above already illustrate a growing contribution of the sector to the national economy, while remaining still at a relatively low level of under 5 per cent of GDP. In this regard, Nicaragua is still to be considered an economy which is not mineral-dependent.

In the next section, we look into the trade-offs of the economic benefits of mining by examining the social (process) aspects of resource mobilization from the mining industry through the case study of Rancho Grande.

[14] These findings are part of the study "Impact Multipliers in the Nicaraguan Economy: An Input-Output Approach" published by the Nicaraguan Central Bank in 2014. However, these particular findings about the mining industry were not included in the publication. These findings were provided by Luis Manuel Padilla during an interview for this paper.

Social Aspects of Resource Mobilization from Mining: The Case Study of Rancho Grande

This section on Rancho Grande looks into how *political and institutional aspects* play out at the local level through the way mining concessions and mining permits are granted. In particular, this case study will help us understand how the process of extracting revenues from mining is related to contestation and bargaining processes and impacts on key relationships. The types of relationships that will be examined are the ones described in our conceptual framework:

- State-citizen relations: The key issue is whether citizen contestation around mining redefines state-citizen relations by encouraging governments to opt for more consensual styles of policy-making. To what extent does contestation around mining lead to a redefinition of state-citizen relations in Nicaragua?
- State-investors relations: How does the domestic scene around mining in Nicaragua affect state-investors relations?

Regarding the selection of the case study, we hold that Rancho Grande is interesting because there has been significant contestation around mining in the community. Since 2003, the local population, made up mostly of small farmers, has been organizing against mining; while the mining company has been trying to win the hearts and minds of the local community as it prepares to get state approval for the extraction phase.

Rancho Grande is located in the Northern part of Nicaragua in the department of Matagalpa. It has a population of around 49,730 people, distributed in 39 communities, 90 per cent of which are rural. In 2004, the government of Nicaragua granted a mining concession to the Canadian company MINESA, however, without seeking community participation and support. In 2010, the transnational corporation B2Gold bought up this mining concession and began its exploration project, called “El Pavón” which is currently active.

Contestation and bargaining processes

Rancho Grande illustrates the types of tensions that arise when mining projects are introduced by the state without the support of the community in places where agriculture is the main economic activity. Mining projects come into conflict with community values of environmental stewardship, sustainability and food self-sufficiency. The grass-roots coalition against mining in Rancho Grande is unique in the country; it has led to a wide range of actors with seemly opposing interests to converge around a common agenda. Efforts are being made to vindicate the importance of putting the environment—water resources, soil, forests, biodiversity— at the center of decisions about the future of Rancho Grande. This section lays out the breadth of relevant actors and the issues that occupy the process of contestation and bargaining at the local level.

Rancho Grande’s economy has been based on small-scale agricultural production—mainly coffee, cocoa, maize, beans, rice, vegetables, and honey. For the past 12 years, a non-governmental organization, the Association for Agricultural Diversification and Community Development (ADDAC), has been working to promote sustainable agricultural practices as a key to poverty reduction, focusing on the generation of new sources of income through crop diversification. It has advanced sustainable agricultural practices using agroforestry and silvopastoral systems.[15]

[15] The idea behind agroforestry systems is the promotion of an agricultural economy that enables families to be self-sustaining by producing what they need for their subsistence along with cash crops (such as cacao and coffee) that can be commercialized. Agroforestry integrates trees and shrubs into crop cultivation systems. This type of

This self-sustaining economic strategy encourages communities to be conscientious and effective stewards of their economies and the environment. Moreover, the agricultural know-how and farming techniques can be passed on from generation to generation thus ensuring the long-term sustainability of this strategy. As expressed by Felicia Lanuza from ADDAC: "People become agents of their own development strategy" (Interview with Felicia Lanuza, 26 September 2014, Translation from Spanish by author).

Community members are concerned that if this model is discontinued and mining prevails, Rancho Grande could become another example of natural exploitation and dependent development. The interviews conducted for this study reveal that people of Rancho Grande do not want the local economy to be determined by external economic and political forces. Mining is seen as threatening their livelihood by competing for land and water resources with particularly high environmental costs. As stated by Felicia Lanuza from ADDAC:

> We are concerned with what is left to communities after these mega-mining projects close. If we really want to help these communities, why not look for alternatives that are environmentally viable? Our job as an organization has been to inform local communities about the environmental consequences of mining because we believe that only informed people can make good decisions (Interview with Felicia Lanuza, 26 September 2014, Translation from Spanish by author).

Fears about the expansion of mining activities are coupled with anxieties that the government would advance mining company interests to the detriment of local community concerns. In the case of Rancho Grande, events indicate that companies have had more leverage with the state than the community: Mining concessions were granted without public participation; there has been an increased militarization of the area to protect the property of the mining company and the Ministry of Energy and Mines have made public statements that reveal a sense of duty to protect the interest of the mining company. This will be discussed more in the section on changing key relationships.

The mining debate in Rancho Grande has provided an opportunity to create common ground among different sectors, communities and religious groups by inadvertently highlighting the environmental interests which they share. The threat of becoming a mining municipality has sparked the emergence of an activist coalition led by the Catholic Church and a group called Guardians of Yaoska.[16]

As explained by Pablo Espinoza, pastor of Rancho Grande, in 2003, when the government granted the first mining concession, Teodoro Custer, then pastor of the Catholic Church in Rancho Grande, was the first to alert the communities and the local government about the potential environmental impacts that mining would bring to Rancho Grande. Since then, there have been four different pastors in Rancho Grande, and all of them have continued to raise awareness about the impacts that mining could bring to the community (Interview with Pablo Espinoza, 27 August 2014).

economy can help communities achieve food security, generate income, and protect the environment. Silvopastoral systems combine forestry and grazing of domesticated animals in a mutually beneficial way that forestalls deforestation.

[16] Yaoska is the name of a river in Rancho Grande.

The group Guardians of Yaoska is a seven-member committee that functions as the organizing wing of the local coalition against mining. Each community has a local directive made up of leaders from the Catholic Church. Using this grass-roots structure, Guardians of Yaoska has mobilized thousands of people against mining in Rancho Grande. This grass-roots organization is meant to counteract the state's close relationship with the mining company by showing widespread opposition to mining (Interview with Representative of Guardians of Yaoska, 23 September 2014). In the words of a representative from the Guardian of Yaoska:

> We are living a very complicated situation. This is a power struggle. Mining is being imposed by the state against our will" (Interview with Representative of the Guardians of Yoaska, 23 September 2014, Translation from Spanish by author).

The interviews suggest that the Guardians of Yaoska are pushing for the survival of agricultural diversification and environmental sustainability in Rancho Grande. They are concerned with adapting to climate change, protecting their water resources, the fertility of their soils and maintaining their forest. As explained by the group:

> We feel happy with our municipality. We produce all we need. We are rich in agricultural production and we have plenty of water. With mining we are going to have bread for today and hunger for tomorrow. We don't need mining because we have cacao, coffee, livestock, basic grains, fruits. All we need we have. We also have our precious rivers (Interview with Representative of Guardians of Yoaska, 23 September 2014, Translation from Spanish by author).
>
> Rancho Grande is a very productive municipality. We have mountains, high quality water and good soil. We don't need mining companies to give us crumps and take away our richness and leave environmental destruction (Interview with Representative of Guardians of Yoaska, 23 September 2014, Translation from Spanish by author)

On the other hand, enterprise-community relations are managed through Corporate Social Responsibility (CSR) programme. B2Gold has portrayed the company as socially responsible and mining as environmentally sustainable. This strengthens its bargaining power with the community and the state.

As explained by Pablo Venturo, President of B2Gold in Nicaragua, the company has 22 employees in Nicaragua working on Corporate Social Responsibility (CSR) programme. When entering a new mining project, the first thing the company does is send a group of trained staff from their CSR programme to talk to the community about the benefits of mining (Interview with Pablo Venturo, 3 October 2014). When asked how the company deals with social tensions at the community level when there is local opposition to mining, the President of B2Gold stated: "We are not afraid of conflicts with the community. We have developed the capacity to deal with conflict and transform the situation" (Interview with Pablo Venturo, 3 October 2014, Translated from Spanish by author).

According to Thomas Lee, B2Gold's Public Relations and Communications Manager, the company spent a total of US$ 5,707,086 in Corporate Social Responsibility (CSR) programme in 2013 and US$ 5,233,059 in 2014 (Thomas Lee, e-mail to author, 20 October 2014). As explained by Pedro Francisco López, head of B2Gold's nursery, in the case of Rancho Grande, B2Gold has built a plant nursery with over 36,000 plants (cacao plants, fruit plants, and forest-trees among others) to give to the community and to use to reforest the areas affected by the mining exploration phase (Interview with Pedro Francisco López, 27 August 2014). According to Carlos Javier Escorcia, community leader in Rancho Grande, the company has a revolving loan fund in 12 communities. The company has also invested in promoting small enterprises and has repainted the local school (Interview with Carlos Javier Escorcia, 27 August 2014). In addition, as explained by the local pastor, bribes have been offered in return for support (Interview with Pablo Espinoza, 27 August 2014).

As noted in Section 3 (see footnote 5), all companies can take advantage of the benefits that the Tax Concertation Law grants to the Forestry Sector though the Forestry Incentive Law (462), which states that companies of any line of business that invest in forest plantations may deduct, as an expense, 50 per cent of the amount invested for Income Tax purposes. As explained by Julio Francisco Baez Cortes, lawyer and economist specializing in public finance and taxation, forestry related Corporate Social Responsibility (CSR) programme from the mining sector in Nicaragua are less the result of social bargains with mining populations than they are a response to tax incentives (Interview with Julio Francisco Báez Cortes, 17 September 2014). Furthermore, it can be argued that CSR programmes are being used by the company to win hearts and minds of the local population as it prepares to get State approval for the extraction phase.

The bargaining and contestation processes mentioned above are linked to changes in key relationships. This will be explored in the following section.

Changes in key relationships

Changes in key relationships are leading to social conflicts in Rancho Grande. This is a product of: a) irregularities regarding participation processes to consult community members on the granting of mining permits and b) the cultivation of close rather than cautious relationships between state actors and the mining company which in turn creates an uneasy relationship between the community and the State. The types of relationships that will be examined are the ones described in our conceptual framework:

- State-citizen relations
- State-investors relations

As explained by Alfredo Zamora, former mayor of Rancho Grande, the mining concession in Rancho Grande was granted in 2004 without public participation. This is an irregular proceeding since the law mandates that the state shall solicit and take into account the views of local governments prior to the approval of contracts for the exploitation of natural resources.[17] The mayor at that time did not conduct a public consultation on the grounds that it was an election year. In 2005, when Alfredo Zamora was elected mayor, one of his first acts was an attempted revocation of the mining permit for exploration. However, the Ministry of Environment and Natural Resources (MARENA), in charge of granting these permits, applied an administrative silence clause[18] and upheld the mining permit. This launched a dispute between the municipality of Rancho Grande and the state (Interview with Alfredo Zamora, 27 August 2014).

[17] Special Law on Exploration and Mining (Law 387), Chapter IV. Mining Concessions, Article 36-38.
[18] An administrative silence is applied when the municipality does not come forth in support or in opposition to a given permit within the time frame established by the law.

The lack of public participation has been exacerbated by a power struggle between political parties within the Municipal Council of Rancho Grande. The law[19]establishes that mining concessions need to be approved by local Municipal Councils. However, as noted by Alfredo Zamora, since the municipal elections at the end of 2011, the Municipal Council has not been called into session; and 12 members of the Liberal Party—all of whom oppose mining in Rancho Grande—have renounced their elected positions in the Municipal Council in protest of the irregularities that have occurred (Interview with Alfredo Zamora, 27 August 2014).

Irregular proceedings are coupled with increased militarization of the area protecting the mining campsite. This has created tensions between the community and the state. The collusion between the state and the company was confirmed by a police officer in Rancho Grande who stated in an interview that the Police Special Forces from Matagalpa were guarding the private property of the mining company in Rancho Grande (police officer, interview, 27 August 2014). As explained by Alfredo Zamora, the state has intervened on occasions when the community has tried to speak out against mining. For example, in August of 2013, community members were blocked on their way to the capital to stage a peaceful protest in front of the First Mining Congress by police and military forces (Interview with Alfredo Zamora, 27 August 2014).

Statements made by the vice-minister of the Ministry of Energy and Mines suggest a level of duty to protect the interest of the company even amidst wide local opposition. For instance, at a local meeting on August 2014 in Rancho Grande, he said:

> No company will come to a country to invest a lot of money, more than 10 or 15 million dollars, on a mining exploration project and suddenly not have the right to extract. So in a sense, we have to ensure that if they find gold they can extract it to recover the investment they have made in the country. We need to secure their investment (Nicaraguan Centre for Human Rights, conference on mining, 30 September 2014, Translation from Spanish by author).

In response, the Guardians of Yaoska have collected 7,000 signatures against mining which they have presented to the President's Office in Managua and the Mayor's Office in Rancho Grande, with no response to date. Since then, Rancho Grande is witnessing a battle for the collection of signatures in support or against the mining company. As explained by Guardian of Yaoska, community members have expressed their concern that the state is organizing non-mining related events to collect signatures that are then used in support of the mining project without the consent of the participants (Interview with Representative of Guardians of Yaoksa, 23 September 2014).

> The state and the mining company are getting signatures using manipulation. They use every event, even school enrolment, to get people's signature and identity number and then say that these people are in favour of mining in Rancho Grande (Interview with Representative of the Guardians of Yoaska, 23 September 2014, Translation from Spanish by author)

State-investor relations are also shaped by the capacity of the state to effectively monitor the mining industry. B2 Gold has been promoting that mining can be environmentally responsible through technological innovations. Pablo Venturo, President of B2Gold stated:

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[19] Special Law on Exploration and Mining (Law 387) Chapter IV. Article 36-38

> We have environmental impacts that can be controlled. Before entering a project, we assess all the environmental impacts, we measure them, we quantify them and we develop a mitigation and compensation plan (Interview with Pablo Venturo, 3 October 2014).

One of the biggest worries of the community is the contamination of water resources.[20]According to Pablo Venturo, President of B2Gold in Nicaragua:

> We take our samples to laboratories outside of the country that can perform the Acid Base Accounting (ABA) test.[21] In all our camp sites we are low on acid generating sulphide minerals. All our records indicate that we are below the permissible limits (Interview with Pablo Venturo, 3 October 2014, Translation from Spanish by author).
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> One of the problems that I see in Nicaragua is that people give opinions about mining without having knowledge. We work with certified laboratories that are non-existent in Nicaragua. When we speak we do so with a foundation (Interview with Pablo Venturo, 3 October 2014, Translation from Spanish by author).

This raises questions with regard to the capacity of the Nicaraguan public institutions to test the information provided by mining companies or to run tests for itself to prevent mining companies from self-regulating and self-monitoring. Nicaragua does not have the technical expertise within its regulating agencies to match the expertise brought by the companies. This shapes the state-investors relationship, as the capacity of the state to monitor the Mining Industry effectively is limited. This in turn creates power unbalances in state-investors relations in ways that weaken and taut state-citizen relations. It also increases the environmental and social risks related to mining. The risks of mining in Nicaragua—a country with little experience controlling and managing the hazards of this heavily intrusive industry—need to be considered closely when weighing the potential economic benefits of mining.

In sum, this section has highlighted how policy around resource mobilization from the mining sector has negatively impacted social relations, specifically state-citizen relations in potential mining communities where livelihoods depend on natural resources such as agriculture, forests and water. The successful implementation of mining project in the community has required a top-down approach and denied some groups voice in the decision-making. This was evidenced by the lack of public participation when the mining permit was granted in 2004. State-citizen relations have also been strained by the cultivation of close relationship between the state and the mining company. This close relationship is evidenced by a) the militarization of the area protecting the mining campsite, b) police and military interventions on occasions when the community has tried to speak out against mining and c) collection of signatures in support of the mining project by the municipality.

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[20] This occurs for example through acid rock drainage (ARD) and metals leaching. ARD occurs when potentially acid-generating materials (like sulphide minerals found in rocks) are exposed to air and water; the resulting chemical reaction produces sulphuric acid, which then may infiltrate surface or groundwater and impair the water quality.

[21] One of the main preliminary tests that mining companies use to assess the acid potential is called Acid Base Accounting (ABA). This process measures in a lab the bulk amounts of acid-generating materials in samples drawn from key areas of the mine site.

Conclusions

This study examined the ways in which resource mobilization from the mining industry impacts on social development in Nicaragua, broadly understood to comprise economic, social and democratic development as well as respect and protection for the natural environment. The study looked into the economic and social dimensions of mobilizing resources from the mining industry. It examined *outcome aspects* related to the amount of resources that the state is mobilizing from the mining industry in terms of employment and wages; gross domestic product, taxes and levies; and backward and forward linkages with the rest of the economy. It also examined *political and institutional aspects* using two overarching themes: a) processes of contestation and bargaining around mining and b) how the process of extracting revenues from mining changes or impacts key relationships. Process aspects were analysed through a case study of the municipality of Rancho Grande in northern Nicaragua, where social conflicts are arising with the advancement of mining.

The main thesis of this study has been that *political and institutional aspects* weaken the state's ability to mobilize resources for social development from the mining industry. The results of the study indicate that the mining industry in Nicaragua provides some benefits related to developmental outcomes of mining. However, these benefits have been overshadowed by setbacks related to *social and environmental impacts*; specifically, the participation of civil society in decision-making.

The findings suggest that the distribution of power among actors is impeding substantial transformation in resource mobilization as reflected by the current fiscal regime. Both in terms of who participated in the negotiation process and also in the outcomes of the negotiations. The private sector has disproportionally more influence with the state than citizens when it comes to defining fiscal policy. By influencing fiscal policy, the Nicaraguan private sector has been able to create for itself fiscal incentives in the name of making the country more attractive to foreign investments. At the present moment, there are no citizen groups strong enough to pressure the state to raise the level of taxes paid by mining companies. 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.

Trade liberalization in Nicaragua has meant that mining companies do not pay trade taxes. For example, The Concertation Law establishes that companies pay 0 per cent rate of Value Added Tax (IVA)[1] to exports of domestically produced goods or services. In addition, exports of goods are taxed at 0 per cent of the Selective Consumption Tax (ISC). Furthermore, the Temporary Admissions Law (Law 382) allows the entry of goods into the national territory and the local purchase of goods or raw materials without payment of any duties and taxes, provided that the goods are re-exported. This has forced the government to rely mostly on consumption tax for financing expenditures and public goods, which affects a large number of the population. The revenues that the state collects from the mining industry come from Surface Rights (land use tax) and Extraction Rights Royalties as well as fines for Surface Rights and Extraction Rights. Companies are also subject to non-trade related taxes including 30 per cent of Corporate Income Tax. However, there are a number of loopholes in the tax laws whereby corporations can save money.

At the local level, *political and institutional challenges* are reflected in the way mining concessions and mining permits are granted without local participation. The successful implementation of mining projects in communities have required a top-down approach, thus denying the voice of civil society in the decision-making. This has negatively impacted social relations, specifically state-citizen relations. These changes in key relations are creating social conflicts around mining as evidenced by the case study of Rancho Grande. Citizen contestation over mining projects at the local level has not encouraged the government to opt for a more consensual style of policy making or resort to less use of coercion as an instrument of state policy around mining thus far.

While the economic benefits of mining can be quantified, the social and environmental costs cannot in the same way. An assessment of the overall developmental impact of the mining sector is thus not straightforward. As argued by Zarsky and Stanley (2013), while the economic benefits of mining can be measured and distributed amongst companies, local government and the state, environmental and social costs are borne almost entirely by local communities. The study indicates that there are unequal power relations between communities and mining investors in Nicaragua which undermines and weakens the political balance needed for an effective state engagement with citizens. Unequal power relations between communities and mining investors are increased by Corporate Social Responsibility Programmes (CSR) which strengthen the bargaining power of companies with the state and vis-à-vis communities.

This study can provide four main policy recommendations:

1) The government's fiscal regime must be restructured to mobilize resources from the economy's strongest sector[22] and close existing loopholes that reduce the amount of money the state collects from Corporate Income Tax. This would require a strengthening of bargaining power of social actors. The formation of strong coalition groups, like the Guardians of Yaoska, are needed to create space for civil society participation in the fiscal policy making process.

2) Nicaragua could benefit from focusing on developing a better business climate to become more competitive—regulations and procedures, access to information, respect for the rule of law. As mentioned earlier, companies value stability and consistency more than they do fiscal incentives. This could serve to generate more revenue. Policies should instead be infused with an attitude of responsible stewardship—of both social welfare and natural resources.

3) The government should provide a level playing field between actors and a thorough process to consult community members on the granting of mining permits. Strong community organizing, coalition building and information sharing by community leaders are needed to pressure the government to be inclusive in its decision-making processes.

Nicaragua needs to develop a sound infrastructure and institutional capacity that will promote robust state monitoring of the industry. Failure to undertake such steps may result in substantial environmental harm.

[22] The strongest economic sectors from exports are meat, mining, coffee, sugar, diary, peanuts and beans (Nicaraguan Ministry of Energy and Mines 2014)

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