



Mineral Wealth in the Decentralization and Royalties Era:
Case study of La Guajira, Colombia (1990 – 2010)

A research paper presented by:

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in partial fulfilment of the requirements for obtaining the degree of
MASTERS OF ARTS IN DEVELOPMENT STUDIES

Specialization:

Public Policy and Management
(PPM)

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The Hague, The Netherlands
December 2012

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Acknowledgements

I am sincerely grateful to all the ISS staff; you made my life happy and my education exciting. Thanks to Ton and Trudy from the canteen, Iliad staff in the library, Jonh, Robin, and Paulina from facilities, Martin Block and Cynthia Carreon-Recto for their unconditional friendship. And Susan Spaa, Femke van der Vliet, and Sandra Nijhof for their warmth. I also extend my best wishes for my colleagues in the IC. I acknowledge the effort and commitment of the PPM staff with particular gratitude to my convenor Sylvia Berg. Thanks to my PPM classmates for our stimulating debates and your immense kindness and respect. Thanks to Georgina Gomez for her sharp guidance and hard work along this process, and to my second reader Sunil Tankha for his support.

This paper is dedicated to Carolina Franco to whom I ought my inspiration and strength.

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List of Acronyms

FDI	Foreign Direct Investment
UBN	Unsatisfied Basic Needs index
GRS	General Royalties System
GPS	General Participation System
NPD	National Planning Department
WB	World Bank
GDP	Growth Domestic Product

DANE	Departamento Nacional de Estadísticas / National Statistics Department
GINI	Coefficient of wealth distribution
CEPAL	Comisión Económica para América Latina /Latin American Economic Commission

Abstract

Should we be concerned or encouraged by the prevalence of the mining sector in developing countries? What policy measures has been taken to address the downturns from mining and turn them into opportunities? The answers to these questions are a complex matter and this paper addresses them directly.

This paper confirmed that the mining produces wealth indeed, and that its redistribution is hindered by weak institutional systems. This is of high concern since the channels to convert the mineral wealth into sustainable possibilities of development are based upon the right institutions and the right balance of power. In absence of which, mining in fact threaten the destruction of local livelihoods, despite the production of substantial wealth.

This paper argues that, these channels mentioned above lie down deep in the configuration of the decentralization arrangements and especially on the fiscal tools to translate resources into welfare, accompany with the political devolution of power to govern locally. In Colombia the body of norms of the decentralization of the past thirty years addressed simultaneous administrative, political and fiscal measures to bring the delivery of services closer to the people by more autonomous and capable local governments.

In the presence of the biggest mining enclave of the continent, La Guajira's fiscal situation is highly dependent on mining. While the political measures brought power back to the people to elect and retire governments, and the administrative measures strength the allocative role of the subnational government, the better services are still awaited.

This paper finds that a sophisticated network of rent seekers is washing away the larger wealth produced out of the mining enclave of La Guajira. Violence is exerted affecting the democratic transition towards more accountable local structures of government. Sometimes these two forces align themselves. Consequently, this paper confirmed a large gap between social strata, a political contest over the resources, and a 'resource curse' over its economy.

Decentralization regulations support legally and administratively this situation. Although, there are attempts of control from civil society and institutional systems, the equilibrium of powers between the national and the subnational governments hoist the greatest concerns about the coming future.

Keywords: Mining and development, decentralization, mining enclaves, royalties.

CHAPTER 1. RESEARCH DESIGN

INTRODUCTION:

The natural resources that a country is endowed with are a matter of pure luck. No country decided to have more oil instead of diamonds, or having more forests instead of having a big desert, or having or not natural water reservations for the uncertain future. However, this same country does have the possibility and power to decide whether to exploit them or not, and how to understand and value its resources in relation with the societies associated in the short and long term.

Having natural resources and especially using them as part of a national development model it's a matter of big debate. Generally speaking, some scholars consider the natural resources as a source of distortions for a long-term and sustainable development model; while for others, the natural resources can be treated in a way in which they represent a source of possibilities for enhancing the livelihoods of the host societies.

The evidence is fragmented and inconclusive and very often makes important differentiations between the experiences dealing with natural resources of developed and developing countries. Bottom line, although there is a pattern of international specialization or division of labor, every case must be treated as unique.

It is argued in this paper that the relationship between mining and development has to be explained not only as an economical phenomenon but also as a political phenomenon embedded in a host institutional system of government.

The industrial structure that the mining projects often take in developing countries, the enclaves, are important to understand this relationship. Due to a complex international process of economical specialization, the mining activities share a common pattern in the fact that they are carried on in remote areas, mainly by foreign capitals, with intensive in capital structures, and very limited production linkages with the host economy.

The enclaves represent dichotomies having opportunities at one extreme for the production of substantial wealth, and on the other threatening destruction of ecosystems and associated community life. Hence, the key factor bridging mining and development at a local jurisdiction lies on an equitable rent redistribution system embedded in a wider decentralization institutional framework as a mean to ensure that enable agents for sustainable livelihoods.

Important decentralization theories from a wide spectrum of thought were supposedly bringing elements on how to enable theses agents of sustainable development. For more than three decades reforms were performed based on these theories in the form of power devolution to subnational jurisdictions, power deconcentration to independent organs, fiscal and administrative control and tools, and larger democracy. Nevertheless the delivery of social service did not

improve and the political contests over the resources prospered.

This paper studies the relationship between mining and development, from the perspective of a Colombian Departmental government hosting one of the biggest coal mining enclaves in the continent, using theories from decentralization, royalties, and mining and development.

Chapter one presents the method through which this paper addresses its questions in a strictly academic manner. Chapter two set up the theoretical terms with which to analyse the phenomenon from an academic perspective. Following these theories, chapter three draw the critical institutions bridging mining and development in the context of La Guajira. Chapter four, inquire for the data to prove the extent to which this is a positive or a negative relation. In chapter five concluding remarks are presented, stressing the challenges against the theories used, and explores policy implications and further research areas to follow up in the future.

1.1. THE NATURE OF THE CURSE

For more than two decades La Guajira's economy has been dependant on the mining sector. There, a giant mining enclave ran by a transnational corporation from Australian, South African, and Swiss capitals, hold one of largest coal open mines in the world. The mine, that produces around half of total coal produced in Colombia, has few linkages with other indigenous resources, despite some incipient services are collaterally connected to its activity.

Having such an abundance of minerals, La Guajira is one of the major recipients of royalties. Royalties, according to Colombian legislation, have to be invested in a way that level out the downturns of the enclave structure.

In Colombia that has been traduced into the mandate to invest royalties unequivocally in social services that aim to achieve some human development goals: drinkable water, sewerage system, affiliation to the health system, places for education, and low infant mortality rates. This mandate, along with its body of institutional arrangements is an overarching mandate for the rest of the fiscal transfers from the national to the subnational governments.

For the past twenty years, La Guajira has witnessed an important and steady flow of resources from royalties, while it also has been showing one of the poorest Departmental performances in basic social services; 60% of its people suffer from unsatisfied basic needs, 48% lack of drinkable water, 61% lack of sewerage system, 32% lack of education, and holds a concerning infant mortality rate of 38 likelihood of decease under one year of every thousand born alive (Dane 2005). The situation hardly could be worse.



La Guajira is the second largest indigenous State in Colombia. Despite mining, other secondary economic activities are farming, sea salt exploitation, fishing, forestry, and extraction of gas for domestic use. Agriculture is relatively developed while there is not any prominent industrial activity. Smuggling is an activity favoured by the extent of the costs and the scarcity of the State (Dane 2010).

Its levels of corruption are rampant and a steady conflict thrives around its politics. At the same time there is a well-tuned group of rent seekers while the civil society strives to make their voice count. La Guajira has felt behind in the satisfaction of basic needs meanwhile billions have been spent fruitlessly.

The policy mix of directing FDI towards oil and mining industry has proven to be important for economic growth purposes and specifically for its contribution to GDP growth; however it is also highly contested for its doubtful contributions to local perspectives of development of producer regions, although these regions have actually enjoyed of important resources from royalties.

Many distortions of the political and economic institutions are associated with the royalties and its management systems. In fact despite the resources distributed among producer regions, these have not been particularly successful in tackling causes of poverty nor in developing indigenous sustainable development models.

After 18 years of functioning of the General Royalties System, in 2011 the Colombian State embarked in a whole new set of reforms affecting the system from its stakeholders to its institutional arrangements. New governance bodies, agencies, rules and regulations are on their dawn from the reform. These changes are likely to impact La Guajira seriously.

All these ingredients in a local context set the terms for the academic debate about the role of institutions and the interactions between different levels of government along the decentralization processes in a mining enclave situation, and its implications in terms of social development.

1.2. OBJECTIVE AND QUESTIONS

The objective of this investigation is to examine the role of the royalties in contributing to social development as part of a wider decentralization institutional framework in a changing regional context such as that of La Guajira.

Consequently, the principal question of this research is:

What explains the persistence and aggravation of poverty in La Guajira alongside its economic transformation towards mining?

Complementarily, these are other secondary questions that will help us to achieve our primarily objective:

- To what extent the policies of decentralization serve to level out the downturns from the mining enclave in the context of La Guajira?
- To what extent can be confirmed the positive relationship between deeper democracy and more efficient government in the context of La Guajira?
- Has the mining represented an opportunity for the production of substantial wealth?
- Are the royalties from mining related with improvements in the subnational governments' capacity to deliver social services?
- Has the mining represented a threat for the community livelihoods bearing the projects?

1.3. ANALYTICAL FRAMEWORK

First, theories from mining and development and enclaves will be used to assess and verify whether if the mining activity in Colombia is showing symptoms of a resource curse, and if La Guajira shows the typical characteristics of formation and functioning of an enclave. The assessment for the resource curse will be static considering the possible symptoms of today's Colombia. Whereas, the assessment for the case of La Guajira will have two moments: first it will start by looking at the initial conditions under which the exploration and deployment of the mining activity was set up; second the evolution of La Guajira's actual economic structure will be assessed to determine the way in which the enclave have influence its economic structure.

Second, theories from royalties and fiscal decentralization, and decentralization of natural resources will be used to analyse the role of the royalties in compensating the communities bearing the downturns from the mining activities. From a theoretical point of view the royalties, along with the other transfers from national to subnational governments, are vested with the promise of levelling the community welfare. Thus, it will be analysed the composition of the royalties' spending of the local governments.

Third, theories of decentralization, more specifically in the form of devolution, will be used to analyse the outcomes in terms of social services. From a theoretical perspective, these outcomes will be more fitted to the local needs and demands and the local governments will be granted with the political, administrative, and fiscal tools to deliver services that meet with such demands.

This analytical framework is incremental and interdisciplinary in the sense that every stage will be considering the findings of the previous one, and only by adding theories and findings from several theoretical approaches we will be able to fairly assess the gaps between theories and practice and provide hypotheses regarding the underlying reasons of it in this particular context.

1.4. METHODOLOGY

The methodology will be a case study of La Guajira based primarily on secondary data. Interviews via Skype were performed with members of the social and economic assessment division of the National Planning Department. Other information was consulted and assessed in terms of its contribution to this investigation coming from media, forums, documentaries, and testimonies from well-known experts. The study was conducted in three stages.

The first stage consisted on the contextualization of the institutional systems of decentralization gravitating around the administrative and political division of subnational governments in Colombia. Complementarily, the mining policies and regulations setting the terms for the use of the royalties, and the pivotal role of the foreign direct investment will be critically assessed.

Rather than a plain normative description, the aim here was to build a critical description of the institutions linking these policies in the timeframe from 1990 to 2010. The information used was mainly the legal and institutional frameworks. The objective was to understand the evolution of the mining industry in the context of La Guajira. Consequently, the study looked at discourses, arguments, policies, plans, statistics, values, descriptions, and previous analysis of:

- Macroeconomic policy.
- Foreign Direct Investment policy.
- Mining and royalty policy.
- Decentralization arrangements and institutions.
- Institutions and entities to look at in depth.
 - Economic sector.
 - The Mineral sector.
 - Governance of royalties.
 - Department of La Guajira and its 15 municipalities.
- National and local development plans, budgets, outputs and outcomes.

The second stage consisted on the analysis of the evolution of poverty, inequality and satisfaction of basic needs as proxies of the subnational government capacity to deliver social service in a decentralised fashion. For this purpose, the study built up not only La Guajira's figures but also the regional and national figures to compare its dynamics. Poverty and inequality was assessed according to its availability. Other multidimensional measures were brought to the analysis such as the unsatisfied basic needs index, water and sewerage systems coverage, health affiliation, school enrolment, and infant mortality outcomes; all these measures according to their availability along the period 1990 to 2010. Consequently, the study looked at statistics, values and series of:

- Poverty line, incidence and its regional and national dynamics.
- Gini coefficient of income and its regional and national dynamics.
- Unsatisfied basic needs index.
- Specific service delivery measures for the social sectors in which royalties must be spent.

Complementarily, in the third stage, we analysed the size, composition and utilization of royalties and La Guajira's economic structure, evolution and performance in the timeframe from 1990 and 2010. The objective was to test the contribution of the mining sector to the economic growth and of this to social development. Consequently, the study looked at statistics, values and series of:

- The composition and evolution of the GDP, and the per capita GDP.
- The composition and evolution of the royalties.

If mining proves to be good for growth, but other social objectives cannot be achieved simultaneously, then we can test the extent to which the policies of decentralization have been an answer to the downturns from the mining enclave in the context of La Guajira, and the extent to which the wealth brought by the mining

activity has been distributed or not.

Hence we will be able to address the relationship between deeper democracy and more efficient government. Then, we can draw and test some hypothesis of the underlying reasons of this behaviour.

If, on the other hand, mining proves to have relatively low or doubtful contributions to local economic growth, then we can test the extent to which the mining enclave is retarding the local economy development, the extent to which royalties from mining are related with improvements in the subnational governments' capacity to deliver social services, and test the extent to which the mining fever have triggered problems framed by the theories as curses. Then, we can draw and test some hypothesis about the role of the decentralisation institutional systems that are nesting these phenomenons.

CHAPTER 2. CAN MINING AND DEVELOPMENT COEXIST AND THRIVE? A THEORETICAL APPROACH

2.1. THE RELATIONSHIP BETWEEN NATURAL RESOURCES AND DEVELOPMENT

The body of theories claiming that natural resource abundance generates a series of economic and political distortions, which ultimately undermine the contributions of extractive industry to development in the long run, will be analysed first.

When a country faces a situation in which its development model is based on the exploitation of natural resources and this fact leads the country in the long run to poor economic performance is said to be experiencing a 'resource curse' (Auty (1993, 2001, 2006) Sachs and Warner (1995, 2001), Bebbington et al. 2008). At the centre of the resource curse thesis is the argument that mining is associated with poor economic growth in the long run.

One popular symptom of having a resource curse is the 'Dutch disease' in which 'mineral wealth leads to levels of consumption and investment during boom periods that cannot be sustained through subsequent downsizings. This brings exchange rate and wages effects that cripple the growth of non-mineral tradable sectors leading to an economic structure dominated by enclave economies' (Bebbington et al. 2008: 890). This 'enclave' configuration of mineral exploitation is of high relevance to our research and it will be analysed in depth.

Now, how does a resource curse works? According to Sachs and Warner (2001: 833) the resources abundance triggers a tendency to have temporary increases in prices and, perhaps as a consequence, a tendency for economies to miss-out in export-led growth sectors, by crowding-out other export-oriented activities and therefore failing to pursued an export-led growth.

Countries facing such a situation also will experience lower levels of innovation, lower entrepreneurial activity, poorer governance, higher opportunities for rent seeking and even violent attempts of appropriation over these rents (Gylfason et al. in Sachs and Warner 2001: 835). The contention is therefore that natural endowment abundance will retard economic development and hinder other relevant variables to growth.

It is important to note that these arguments are build upon macroeconomic observations, often aggregated by indices conducted by multilateral organizations such as the World Bank, the International Monetary Fund, United Nations, or regional development banks such as the Inter American Development Bank. Hence, comparisons are amongst countries and no data proves to be good enough to disentangle the different regional effects within those countries.

Secondly, are there any good arguments in favour of natural resource exploitation as the leading development sector? Answers are blurry. Even though there is

evidence of relative success in dealing with mining-led development models such as Botswana and to some extent Chile, in which mining have promoted economic development and simultaneously addressed poverty (Auty 2009: 39), there are always voices contesting the social and environmental prices paid for those relative successes.

Hinojosa et al. (2010: 16) writing for the United Nations Research Institute for Social Development, drawn three hypotheses about the connections between mineral wealth and social policy:

- * That mineral wealth encourages higher levels of social expenditure;
- * That mineral wealth produces fiscal space for social policy;
- * That mineral wealth influences the composition of social expenditure;
- * And that mineral wealth enables the initiation of new social policy initiatives.

In this case Hinojosa et al. (2010: 18) found a positive relationship contingent on 'the balance between the social forces' of every country. This former statement must be read it through the lenses of the decentralization arrangements, especially of the fiscal decentralization type along the lines of the political distribution of power of every specific case. Hence, the critical link this paper does between mining and decentralization institutions.

Connected to this contention, Bebbington (2008: 895) find the answer to whether a mineral expansion triggers a resource curse on the quality of the institutions hosting the mineral expansion. Even further, for Bebbington the resource curse is a political and not an economic phenomenon in which transparency, the fiscal social contract and the quality of government are the main conditionings, aggravated by the fact that the more dominant the mining sector is in an economy, the more urgent the challenges to built the right institutions is.

From these Hinojosa and Bebbington' positions is important to remark that politics is a decisive variable addressing the potential positive or negative faces of a mineral-led development model. Specifically the way in which mining influence the size, composition and institutional arrangements of social services and its government is a matter of especial attention.

From another shore of knowledge, a more multi-criteria analysis approach following Estevez (2008: 41) add to the debate that mining presents 'dichotomies', having opportunity at one extreme, for the production of substantial wealth, and on the other, threatening destruction of lands and its associated community life. From this perspective the common arguments regarding mining projects are that:

- * Economic benefits can maintain or enhance the well being of communities;
- * By providing employment opportunities;
- * Making use of local services;
- * Expanding markets for labour and goods;
- * And funding development regional projects (Eggert 2000, Dorian and

Humphreys 1994, in Esteves 2008: 41).

Again, Esteves (2008) remarks that most of the analysis of mining-led development has focused on the macro level variables. At a regional level some assessment have been carried on in terms of human development and quality of life indices showing very low human development indicators inconsistent with the economic growth in the regions.

Scholars from the WB's stream expose other approaches standing for the potential benefits from mineral projects. From the World Development Report in 1975 the then director of the economic analysis and projections department, Helen Hughes (1975: 815), classified the gains from mineral exploitation conventionally coming from:

- * The stream of economic income to local material and service inputs and factors of production;
- * From the local multiplier effects of indigenous and foreign income generated by a given project;
- * From a favourable, if achieved, net balance-of-payments effects;
- * And from the increase in government revenues through the collection of resources and monopoly rents and taxes.

Some associated costs were also drawn, considered principally 'negative aspects of the benefits' such as not adding skills to the host economy, but rather the mining projects draining away skills from social priority areas and concentrating them in the mining enclave. 'Capital resources and entrepreneurship may similarly be bid away' and even the scarce administrative capacity of the local government could be entirely absorbed by the mining industry (Hughes 1975: 816).

Note that, again along the downturns of the mining-led development, an enclave configuration was calling to our attention as the most possible configuration of the mining industry, especially when some local conditions were scarce, or not yet well developed. We will come back to this later.

Summarising this position, the exploitation of mineral resources was considered potentially beneficial for a local economy to develop and enhance its welfare. Additionally, the political and economic costs that could accompany the process could 'symmetrically diminish with the development process' itself (Hughes 1975: 817).

This development process mentioned above can be disentangled as those factors supporting a relatively well-developed institutional environment. Following Hughes's conditions these could be the role of actors towards the local communities and towards a sustainable approach, the institutional arrangements to manage the new revenues, the initial conditions of the host society, and the development of the absorptive capacity of the domestic economy.

For instance, the host economy could or could not benefit from improvements in

technology and skills in the long run, if the right policies were settled for this absorption to take place, and the right conditions were negotiated from the governmental side to create enough incentives for the companies to comply with a positive approach towards the sustainable development of the areas they were willing to operate in.

On the other hand, in a very backward economy, the bulk of tradable inputs would be imported directly, most of the service activities would be undertaken by the transnational corporation, and there would be unlikely local ownership, management, and participation.

Under this perspective the responsibility to set up the conditions for a host economy to realize the gains from the potentially beneficial mining industry, resides on the public policies' side of the host state, and very little in the approach from or under the responsibility of the industry itself.

2.2. MINING ENCLAVES: DICHOTOMIES AND CURSES

Before going deep into the theories explaining the mining enclaves, an annotation must be done regarding the nature of the enclaves in Latin America. The role and definition of enclaves in Latin America is usually understood as part of the configuration of the industrial society of the second half of the nineteenth century, when capitalist expansion, following a mainly monopolistic pattern, established an international division of labour in which the colonies and dependant areas were left with the role of producers of raw materials and consumers of the output of the industrial economies (Kruijt and Vellinga 1977: 97).

Following scholars from the dependency theory such as Cardoso and Faletto (1979), the enclave status is related to the way in which Latin American economies were incorporated into the world economy in the late nineteenth century (Conning and Robinson 2009: 361), in which the main export sectors were owned by foreign capitals.

More conventionally, when analysing a mining enclave some factors are usually exposed to explain its behaviour. For instance Emerson (1982: 563) representing the Australian tradition explains the factors lying behind the nature of an enclave as:

- * The fact that the large mining projects are capital intensive and technologically complex, meaning that they have to highly remunerate the capital;
- * Deposits are often located in remote areas;
- * Host domestic countries have small domestic capital markets and the industrial base is also very often narrow and fragmented, and;
- * Because of marketing opportunities lie mainly in industrialized countries.

The 'mining projects operate with unusually strong economies of scale, which dictate large investments that employ a small, skilled and well-paid workforce over finite periods of time, determined by the mineral reserves' (Auty 2006: 136). Hence, the revenue flows are also skewed towards capital.

Complementarily, following Auty (2006: 136) and Mansoob (2004), the linkages of a mining project with the host economy are weaker than most agriculture, manufacturing and service projects because of:

- * Return on capital, which largely accrues to foreign shareholders;
- * Taxation and revenues which effectiveness depends on the manner of the government to translate those into welfare;
- * Local purchase of mine inputs which due to its level of specialization and the scarcity on a local market are more efficiently imported;
- * Further processing of the mineral which mainly occur abroad, and;
- * Expenditure by workers in which there are a few well-paid workers that generate little local economic activity.

Accordingly, the main concerns expressed by this stream of literature are associated with the weaknesses of the local host institutions, first in dealing with transnational corporations and then in translating the potential benefits into conditions of welfare for its people.

Hence, when facing an enclave configuration the challenges begin with the possibility of those multinational corporations undermining the nation's sovereignty and directing the positive linkages overseas; then, the enclaves can dwarf the local economy 'if local governments are politically weak and the central government is negligent'; or it can negatively affect 'government incentives and the trajectory of the economy' since mining revenues are often difficult to manage because of its size relative to the rest of the host GDP and the volatility of international prices; and finally it can trigger political contest and pressure to rapidly channel resources to the local economy (Auty 2006: 138).

Drawing on this, Auty (2006: 138) express two general negative consequences of enclaves: they can feed patronage and corrode the quality of the government; and represent important hazards to the competitive diversification of the economy required to sustain a model of economic growth, and avoid to become locked into a trap of dependence.

Either way, we can agree that there are limited contributions from a mining enclave to a host economy. In Hirschman terminology, the 'production linkages effect': the effort to establish national input supplying and output using – being very weak, the money streams from revenues and taxes to the government gain enormous importance as well as the fiscal arrangement to distribute and spend them (Emerson 1982: 561).

2.3. THE NATURE OF TAXES AND ROYALTIES OVER MINING PROJECTS

The ownership of a nation's mineral resources is usually vested in the state. When a foreign or national investor seeks access to mineral resources, the state is in a position to require payment from the investor in exchange of granting access to a particular area endowed with minerals. If this is the case, and private national interests expected to be affected by a mining project, an additional responsibility is placed on the fiscal arrangement of the project to set off the incomes of nationals. This is the logic underlying the configuration of taxation schemes over mining projects (Emerson 1982: 561).

Now, the taxes and royalties over the mining activity are usually understood as a trade off between 'maximising revenues from taxation from the state side, and maximising profits for the investor's side' (Hinojosa et al. 2010: 15). In this sense the taxation systems can be framed as a negotiation in which both objectives must be fairly balanced. However drawing from the theories of enclaves exposed before, this is hardly a fair deal for the government side taking into account the asymmetries upon which the enclaves are settled.

The connection between enclaves, royalties, and the decentralization theories are very strong since 'the design and implementation of taxation systems 'requires an institutional setting that facilitates the design and implementation of fiscal regimes, which redirects the accountability of the state towards its citizens and produces a social contract' (Hinojosa et al. 2010: 15).

From a community perspective primarily what is at stake is that 'local communities receive and appropriate balance of benefits and costs associated with the negative impacts on livelihoods and socio-cultural and political problems'. While the local communities bear most of the environmental and social costs of mining, most profits or rents flows are realized elsewhere (Esteves 2008: 41).

Then, an equitable rent distribution system is needed as a mean to ensure that mining becomes an agent for sustainable livelihoods, which ideally could take the form of direct contributions, services and infrastructure.

2.4. THE RATIONALE UNDERLYING DECENTRALIZATION THEORIES

Decentralization has been promoted for academics, practitioners, and international development agencies as a mean to enhance government performance and to support economic development. Also it has been promoted, as an end on itself, because of its links to democratization and enhancing citizens' voice in shaping public resources allocation (Smoke 2006). It underlies a double way relationship widely studied for scholars between economic efficiency and democratic governance.

The debates about these links between decentralization and economic efficiency date back several decades (Tiebout 1956, Stigler 1957, Musgrave 1973). The

original argument from the classic economic theory, was that considering local services as markets goods, consumer-voters throughout their vote would reveal their preferences for any particular community that provided their most desired set of services (Tiebout 1956).

Consequently, 'decisions about public expenditure that are made by a level of government that is closer and more responsive to a local constituency are more likely to reflect the demand for local services than decisions made by a remote central government' (Litvack and Seddon 1998: 6).

Then, 'decentralization is expected to improve efficiency in resource use because residents in each subnational government can choose the mix of public services and revenues that best meets their preferences' (Cheema et al. 2007: 132). Thus many services delivery should be a subnational function.

Put it that way, the superiority of decentralized government rest on the heterogeneity of citizens preferences, the mobility of voter-consumer and the fact that local governments possess an informational advantage in ascertaining citizens preferences. In addition local participation is said to ensure smoother implementation, sustainability and better feedback and evaluation (Smoke et al. 2006: 259).

These links between better government performance and decentralization were designed under economic efficiency assumptions and considerations, but there are also important arguments coming from the public finances literature enriching the debate.

In such literature there were three main government responsibilities regarding public finances: allocation, distribution, and stabilization (Musgrave 1959, in Smoke 2006). These last two were best carried by the central government while allocation was most efficient when undertaken by the level of government where the benefits are enjoyed (Smoke 2006). Hence is common in public policy theory and practice that the bulk of public goods should be provided by local governments. This body of theories 'can contribute to assess organizational arrangements for service provision, socioeconomic and political conditions for policy implementation, and implementation and programme design' (Rondinelli et al. 1989: 63).

The trend toward decentralization pushed by the donor community during the 80s viewed it as one powerful theory to push all together political, economical and social reforms all under one broad package. Although, based on economic efficiency assumptions, many decentralization programs and reforms have been motivated by political concerns.

Under this perspective decentralization was promoted as an all-embracing reform: 'Local service and infrastructure not only contribute to social welfare but also enhance the productivity of labour, allow markets to work more effectively, and create opportunities for employment and entrepreneurship' (WB 1975, in

Rondinelli et al. 1989: 58). Furthermore 'in many developing countries local services and infrastructure [was] either provided by central government ineffectively and inefficiently, or by community organizations and private business only sporadically' (Rondinelli et al. 1989: 58)

In sum 'while a mix of factors and forces shape decentralisation theories, most decentralisation theories and policy makers argue that reforms are done for development reasons. They justify decentralization reforms on the grounds that the increased efficiency, equity and inclusion that should arise from decentralisation result in better and more sustainable management' (Ribot and Larson 2005: 2).

This is the reason why we focus a great deal of our attention in some proxy measures that allow us to test the extent to which the decentralization efforts have had results in greater provision of public services.

2.5. THE HISTORY OF EFFICIENCY AND DEMOCRACY: DECENTRALIZATION TALES

Decentralization is a broad, complex, and multidisciplinary construction, not only regarding its conceptualization that mainly express industrial western hopes and concepts, but also regarding its design and implementation that mainly express frustrations on non-western neither industrialized contexts (Smoke 2007). It embraces a variety of concepts, the feasibility of which must be carefully analysed in any particular context (Rondinelli et al. 1989: 58).

Decentralisation can be broadly defined as 'the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations or the private sector' (Litvack and Seddon 1998: 2).

From an administrative perspective it can be define as 'the transfer of responsibilities from planning, management, and the raising and allocation of resources from the central government and its agencies to field units of government agencies, subordinate units or levels of government, semi- and autonomous public authorities or corporations, and non-governmental and private organizations (Rondinelli et al. 1989: 59).

From a more neo classic perspective, decentralization can be understood as 'a situation in which public goods and services are provided primarily through the revealed preferences of individuals by market mechanisms' (Rondinelli et al. 1989: 59).

Three main types of decentralization can be conceptualized to start an interdisciplinary analysis of it: Political, administrative, and fiscal decentralization.

Political decentralization: in which citizens and their representatives are granted

with more power in public-decision making. The assumption underlying political decentralization is that greater public participation will better inform local decision-makers about the diversity of interests in society, and will allow citizens to better know their political representatives (Litvack and Seddon 1998).

Administrative decentralisation: in which authority, responsibility and financial resources are redistributed among different levels of government for the provision of public services. Administrative decentralization processes can take one or more from the following three forms:

- * Deconcentration, which happens along the lines of command of the central government and in which responsibilities are transferred from central to subnational government;
- * Delegation, in which central government transfer responsibility for decision making and administration to semi-autonomous organizations to perform specific sectorial tasks, however ultimately accountable to the central government commands.
- * Devolution, in which decision-making authority and financial capacity is transferred to elected subnational governments, shifting power from one level to another (Cheema et al. 2007, Smoke et al. 2006)

Potentially, devolution can increase participation, strengthen the ties between representatives and their constituents, and improve transparency. In fact the bridge between better governance and deeper democracy is the theoretical position of holding public officials more directly accountable for their actions and citizens becoming more engaged in local affairs (Cheema et al. 2007: 61).

Finally, fiscal decentralisation: in which emphasis is remarked in the financial responsibilities and levers that a local government must be accompany with for the effective fulfilment of decentralized functions.

Fiscal decentralisation theories debate ways to balance the responsibilities of local governments in service provision and promoting development –the expenditures - with the financial capacity to do it –revenues – under macroeconomic centrally driven frameworks and human capital and institutional capacity restriction.

2.6. WHY FISCAL DECENTRALIZATION IS A KEY FACTOR ASSESSING ENCLAVES

Fiscal decentralization is preceded by a long tradition of fiscal centralization. In Latin America, post-independent leaders were left with an institutional framework not truly consistent with its culture and needs. For practical reasons, they used local governments for administrative and control purposes rather than to promote self-determination, democratization and economic development (Smoke 2001).

Over time, this process moulds a highly centralised model in which managerial and technical skills were absent from many local governments, which were left in

hands of customary elites that feared the loss of power and wealth inherent in every meaningful attempt to decentralize (Smoke 2001).

The interest for fiscal decentralisation came from varied currents of thought and actors. The WB's world development report 1988/1989 'Public Finance in Development' focused on public finances, adjustments and changes in the context of economic crisis and fiscal deficits of developing countries, the efficiency of public service within this framework of restrictions, and the capacity of local governments to raise revenues and contribute more actively to the ultimate challenges of development policies (World Bank 1988).

Under this umbrella, the objectives usually attributed to intergovernmental transfers can be grouped into three: to help to cover fiscal imbalances or revenue inadequacy at the subnational level; while also serve for distributional objectives, reducing fiscal capacity differences and; encouraging expenditures on national priority services (Cheema et al. 2007: 132).

Conventional fiscal decentralization theory provides directions for sharing functions among different levels of government. Based on the standard Musgrave (1959, 1973) model fiscal responsibilities are stabilization, distribution, and allocation.

Stabilization is about macroeconomic stabilization and control over the fluctuations of capital flows assigned to the central government because of its control over the money supply and the fiscal policy. Also because of its capacity to better plan and coordinate against macroeconomic fluctuations that can affect subnational governments differently depending on their levels of dependence on external systems (Smoke 2001).

Distribution is the responsibility to redistribute from wealthier to poorer jurisdictions, which, according to theory, only the central government is in a position to perform. The distribution function, is argued, must remain under central government sphere since in practice local resources bases are often limited, as are the expenditure and administrative capacities of local authorities, and because 'some prominent local residents with substantial influence might undermine the development of significant local redistribution policies' (Smoke 2001: 5).

Allocation is the function through which the state decides what expenditure to make, based on a previously settled assessment of demands and needs. Here, 'the prescribed role of subnational levels of governments is substantial because demands for many public services are not likely to be uniform across space' and hence closer governments could choose the mix of public goods and taxes that best conform their preferences (Smoke 2001: 6).

The solution from this fiscal theory to establish the preferences in absence of market prices for the public goods and services is through voting. Hence, decentralization – of the devolution type – is desirable because it allows the process of preference differentiation to form orderly, and also because it allows

the expenditure decisions to be more closely tied to real resources cost in smaller jurisdictions (Smoke 2001).

The prominent role for local governments in the allocation function is based on the link between preferences and expenditure decisions, bridged by the voting process as a market mechanism.

Finally, fiscal decentralization must be understood from a multidisciplinary point of view and cannot be isolated from political, institutional, and its specific contexts (Cheema et al. 2007: 131).

2.7. DECENTRALISATION OF NATURAL RESOURCES

Natural resources are considered critical in a local context due to their contribution to livelihoods, revenues and opportunities. They have an important potential for increasing the legitimacy and power of local authorities and elites over local people and at the same time, they are the basis for significant wealth for governments and national elites (Ribot 2003, Ribot and Larson 2005).

For the last 30 years an important stream of ideas have evolved on how to govern natural resources in a democratic environment. These ideas range between the devolution of property rights over the resources to local individuals or communities, and the decentralization of the formal powers of government to subnational units (Andersson et al. 2004: 421).

The first stream of ideas remarks the importance of natural resources as leverage for democratic processes under local livelihoods. The extent of those democratic processes happening around the management of natural resources will either promote or undermine local actors. However, when these powers are allocated to non-democratic institutions, natural resources can play a counter productive role strengthen customary authorities reinforcing less-systematically accountable actors, and slowing democratic transitions (Ribot 1996, 1999).

On the other hand, the second stream of ideas remarks the importance of the financial leverages that the natural resources represent for local governments. Natural resources are revenue-generating sources as opposed to other important public services, such as infrastructure, health and education. Because of that, they have the potential to make local governments more independent and enhance its allocative power over lucrative opportunities and hence support the local government legitimacy (Ribot 2003). In this sense the relationship between natural resources and decentralization can have positive effects on democratic change.

The assumption is then, that 'the placement of natural resources management decisions with representative local government engages local people with local government, given the importance of these resources on their daily lives' (Ribot 2003: 55). A local government with discretionary powers over its natural

resources will also have the potential to gain legitimacy because of the enhanced possibilities to perform effectively.

A concluding remark must be done regarding these theories of decentralization of natural resources: they hardly make an explicit reference to natural resources of the mineral type. The frameworks are more related with forestry, fishery, watersheds, and others, but not specifically with natural resources of the mining type.

CHAPTER 3. INSTITUTIONS BRIDGING MINERAL WEALTH AND SOCIAL OUTCOMES

3.1. ADMINISTRATIVE CONFIGURATION AND FISCAL DECENTRALIZATION IN COLOMBIA

The most important milestone of the Colombian modern process of decentralisation is the Political Constitution of 1991. From then, a whole set of policies and political, administrative, and fiscal measures and tools has been integrally designed and gradually applied in pursue of a more decentralized intergovernmental relations.

The most important emphasis along this process was to promote the local political autonomy, and the fiscal and administrative strengthening of the local governments so they can deliver at least the minimum standards of social services that the Constitution embodied.

Other political and administrative milestones worth to mention are the 1986 boost in transfers and devolution of property and commercial activity taxes to the local governments; and the public popular election of mayors in 1988 and governors in 1992.

There are three government levels in Colombia's administrative configuration: the National government accountable for the macroeconomic management and the large-scale investments; the Department accountable for 'meso' planning processes and the promotion of economic and social development, there are 32 Departments; and the Municipality accountable for social service delivery, the implementation of the public works and the promotion of community participation, there are 1040 Municipalities in Colombia.

Theoretically there must be instruments of coordination between different layers of governments. In practice, the budget allocation and spending, the National Department and Municipal development plans, and the fiscal decentralization tools are the manifestation of that coordination. Nevertheless, regardless of any local development plan or objective, the national government determines different regional impacts accordingly to the capital budget allocation and the macroeconomic policy.

For instance, the macroeconomic measures to support the FDI policy of the past 20 years affected differently every Department and Municipality, depending on their economic specialization; similarly the allocation and implementation of the capital budget (also called investment budget) have direct implications over the development conditions of every region since these have a sectorial logic instead of a regional logic and is more the sum of projects than the outcome of a regional consensus (CEPAL 2000).

The Municipal and Department governments have the mandate and the legal capacity to promote their economic development. However, many of them lack in practical terms of the financial, administrative and technical capacity to do so. In practice, the policies of local economic development promotion remain concentrated in the central government and often they are streamed from external forces; meanwhile the social policies have been subject of the successive decentralisation attempts (Sideri and Jimenez 1985).

Now, what are the fiscal arrangements to cope with the responsibilities of each level of government? The two main decentralization systems supporting the interactions between different levels of government in Colombia are the General Participation System (GPS), and the General Royalties System (GRS). With the former the national government transfer the 'participations' or shares from the national incomes to the other two subnational levels; with the latter, the national government transfer the royalties to the other two levels of governments from the exploitation of the subsoil.

The GPS goes to finance all Departments and Municipalities, and is meant to cover the state's responsibilities in education, health, water, and sewerage. The criteria to distribute these resources from the national to the subnational governments are a complex mix of headcount measures, other local economical dynamics, own efforts in raising revenue sources, and levels of debt, amongst others variables. The general objective of the GPS is to support development and address poverty issues.

That is why, the criterion to subnational governments to spend these 'participations' is rather clear: these must be spent on unequivocal social services to achieve minimum standards in the mentioned basic social sectors. As such, these resources are considered the cornerstone of the decentralization process in Colombia.

On the other hand, the GRS goes in an 80% to those Departments and Municipalities producing or shipping oil and minerals. The criteria to determine the amount of royalties corresponding to every local government are a matter of technical formulas attached to the production, as it will be explained latter on. This is to remark that they have nothing to do with poverty measures, unsatisfied needs, or headcounts of any nature.

Nevertheless, and interestingly, these resources must been also spent complementarily in achieving the same social goals, plus that of infant mortality. Also, with the 20% share of these royalties a fund is created to assist other local governments to finance their development objectives with indirect royalties.

The royalties instead of been aggregated to finance macro projects with intended regional impacts, are split into hundreds of multiple initiatives with limited impact. This evidence will be presented in the next chapter.

It is embedded in these decentralization arrangements that the greater efficiency in the execution of public works is expected in the Municipal level of government

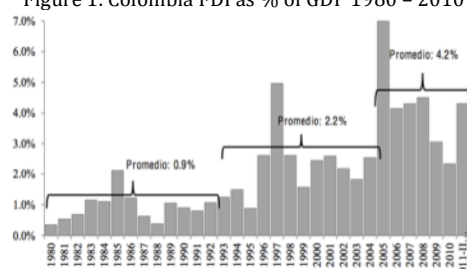
whose decisions must attend local preferences, and take into account the non uniform nature of the people's demands. Hence they embodied a double way relationship between economic efficiency and democratic governance (Smoke 2006).

Complementarily, the macroeconomic and stabilization sphere is reserved for the National government as the classical Musgrave's model stated (1959), while in turn, the systems of transfers were design to cover imbalances at the subnational level and promote local capacity to the extent to which these could cope with national priorities in terms of services provision (Cheema et al. 2007: 132).

Finally, the framing of the royalties shows the approach of being a payment from the investor in exchange of granting access to a particular area endowed with minerals (Emerson 1982: 561). And its restricted uses are based on the expectations that the local communities receive an appropriate balance of benefits associated with the negative impacts on livelihoods and political problems (Esteves 2008).

3.2. MARRIAGE OF CONVINIENCE: MINING AND FDI

Figure 1. Colombia FDI as % of GDP 1980 – 2010



Source: Central Bank

For the past 20 years the global demand for minerals has expanded and important international capital flows have relocated to suffice such demand. In 2010 developing and transition economies were the main recipients of those flows, and for the first time these have absorbed more than half of world FDI flows (Unctad 2010).

Also for the past 30 years the FDI in Colombia has showed a growing trend, turning into a determinant factor for the current and the capital accounts and hence an important financial source for the Colombian economy (Figure 1).

These capital inflows have been showing a special appetite for oil and mining industry, and secondarily for financial services, communication, and commerce. In fact, this steady consolidation of FDI in the mining sector is a direct outcome of internal favourable factors and policies such as military protection over facilities and investments, reforms to the taxes regime aiming at increase firm profitability, higher international prices and a favourable to-the-investor contractual structure (Garavito et al. 2012: 33).

Colombian policy approach in relation with foreign investment has been of two types: on one hand, those policies trying to adapt and strength its norms and institutions to get the 'fundamentals right' to manage this inflows successfully; while on the other hand, those policies allowing gradually the foreign capitals to enter and exit the country.

Complementarily, important efforts have been done to improve the associated infrastructure and a good, safe and stable business environment. All these measures embedded in the framework of international bi and multilateral treaties and agreements that Colombian is part of, and that very jealously tries to honour.

The policy mix described here, has proven to be important for economic growth purposes and specifically for its contribution to the national GDP (table 1); however is also highly contested for its doubtful contributions to the local perspectives of development of producer regions. As it will be debated, many distortions of the political and economic institutions are associated with the royalties and its management systems.

Hence, the more any particular region is endowed with resources to be exploited, the more dependent it will be on FDI policies and its determinants. Similarly, less manoeuvre they will have over its economy, considering the economic appetite of national political powers going after money flows to finance the capital account, and transnational powers going after oil and mineral resources at a bargain price: the royalties.

The influence of this FDI in local livelihoods is of high concern in the Colombian context. Deposits are located in remote areas, where the industrial bases are often narrow and fragmented. Domestic capital markets are insufficient for the size of intensity of capital needed to develop a mining project. Local governments dealing with transnational corporations are politically weak and haven't developed its capacity properly to host that size of mining revenues. And the national government is negligent to these issues since its mayor interest is set in macroeconomic objectives (stabilization and redistribution functions).

This process favour enclave configurations along with its negative impacts to local livelihoods and set the terms for a political contest over the resources (Emerson 2009, Auty 2006).

3.3. LEVELING THE DOWNTURNS FROM MINING: ROYALTIES ROLE AND POLICY FRAMEWORK

The royalties are defined in the Colombian constitution as an economic compensation in favour of the state for the exploitation of non-renewable natural resources. In turn the legal framework has tried to impress a strategic view over the royalties as instrument of fiscal decentralization as a fundamental financial stream for regional development purposes. Table 2 summarizes the body of norms that nest the subsequent developments of the way the royalties have been used until 2012.

Table 1. Colombia GDP % variation 1980 – 2010

Años	Variación %
1980	4,1
1982	0,9
1984	3,4
1986	5,8
1988	4,1
1990	4,3
1992	4,0
1994	5,8
1996	2,1
1998	0,6
2000	2,9
2002	2,5
2004	5,3
2006	6,7
2008	3,5
2010	4,0

Source: Author, Dane, Central Bank

The 1991 National Constitution of Colombia sets up the principles, destination and use of the royalties. Articles 360 and 361 defined the royalties as ‘an economical contractual obligation in favour of the state’ regardless of any other agreed upon compensation or consideration. It establishes also that royalties go mostly and firstly to those subnational governments producing and embarking the minerals and then to compensate other local governments with a share of the not appointed royalties.

One can interpret from the constitutional body of norms that the royalties should be directed to restore the value of the good being sold, and not to compensate the state from externalities derived from its exploitation (Hernández Gamarra 2010). Hence, the royalties becomes the price tag at which the state values its natural resources.

Also, following these norms is fair to affirm that the owner of the subsoil is the state and not particulars, primarily the Departments and Municipalities holding the oil and mining activities, and secondary the rest of subnational governments.

Developing this constitutional mandate, a national law -141 of 1994-, follows up on the institutional and normative progress and sets up: the National Royalties Fund to administer those not appointed shared resources; the National Royalties Commission to govern the whole system; and indicates the rules with which the royalties were going to be liquidated, distributed and utilized. Reforms in 2004 dissolved this commission and entitled the National Planning Departments with its mandates.

There are two types of royalties. In one hand, direct royalties designated to Departmental and Municipal governments producing or shipping the minerals; these royalties must be spent mainly in ‘achieving the minim standards of health, education, water, sewer, and infant mortality’ (table 3); as long as the Department governments don’t reach the minimum standards in these social sectors, they should keep on allocating at least 60% of them, and Municipalities 75%’ (Senate of Colombia 2010: 29). The fulfilment of these minimum standards was a desirable social objective on its own, as well as an incentive for those subnational governments to be autonomous in using its royalties after reaching the targets.

Table 2. Regulations over royalties

Chronology of royalties' regulations since 1991	
Political constitution of 1991	Ratifies the rights of the State over the natural resources and the royalties. Royalties are entitled mainly to subnational governments Establishes two categories of royalties: direct and indirect
Law 141 of 1994	Creates the National Royalties Fund as the ruling institution over the royalties Determines the unequivocal use of royalties for social services: education, health, drinkable water, and sewerage systems Dispose a different arrangement of royalties' distribution depending on the type of resource exploited (i.e coal, oil, etc)
Decree 1747 of 1995	Ratifies the destination of the royalties for the mentioned social services until the subnational governments achieve a set of minimum goals
Laws 617 of 2000 and 715 of 2001	Determines criteria for the fiscal health of the subnational governments Allocates competencies amongst subnational governments and fixes the distributional criteria for the General Participation System - GPS
Law 756 of 2002	Adjust the criteria to liquidate the royalties linking it with the levels of production
Law 819 of 2003	Determines other norms of fiscal responsibility for the subnational governments
Decree 416 of 2007	Updates the dispositions for the use of indirect royalties enhancing the possibilities of expending, and determines its technical control procedures
law 1151 of 1997 - National Development Plan	Establishes priority sectors for the destination of resources from the National Royalties Fund (indirect royalties) Authorises the subnational governments to spend royalties in their public hospitals' loan portfolios and pension debts Establishes the need for the subnational governments to include the minimum standards in health, education, water, and sewerage system according to those of the National Development Plan
Law 1283 of 2009	Determines a 1% of minimum investment in projects for nourishment and food security Establishes the need for the subnational governments to consider all expenses (capital and current expenses) when programming projects to be financed with royalties
Decree 851 of 2009	Establishes the need for subnational governments to contract technical audits for the projects financed with direct royalties with the mandate for the auditors to provide all the technical, administrative, financial and legal information in the conditions determined by the National Planning Department

Source: Author, from Gobierno en Línea.

Table 3.
Minimum standards 2010 for the use of Royalties

Social service	Target	Minimum standards	
		Auditing entity	Objective
Infant mortality	1,60%	Statistical National Department	Decrease mortality of children before one year of life
Health	100%	Ministry of Social Protection	Affiliation of 100% of the poor population to the subsidized health system
Education	100%	Ministry of Education	Guarantee access to all children to the education system
Water	93,50%	Superintendent's Office for Public Services	Guarantee to all urban and rural dwellings access to quality drinkable water
Sewerage	89,40%	Superintendent's Office for Public Services	Guarantee to all urban and rural dwellings the proper disposition of residual waters

Source: Author, Gobierno en Línea.

On the other hand, indirect royalties designated to finance other development projects from the remaining subnational governments not directly entitled with direct royalties; these indirect royalties can be used to finance investment in mining projects, environmental preservation, and other projects defined as priorities in the

subnational governments development plans.

The liquidation and distribution of the royalties were amended in the law 756 of 2002. As a general rule, the royalties to be liquidated were tied to the type of good (oil, gas, and minerals) and the volume sold. Accordingly, the monetary value of the royalties depended on the technology and volume of production, the cannon, the international export prices, the cost of transportation to the harbour and the exchange rates (Hernández Gamarra 2010: 21).

It is evident that the criteria to liquidate and distribute royalties, fail to recognise other fundamental criteria like inhabitants to benefit, households and people under poverty, basic needs shortages, environmental impacts, and administrative and financial capacity (Senate of Colombia 2010: 26). As a result the levels of concentration of the royalties are outstanding -80% of the resources are concentrated in 17% of the population (figure 2) (Senate of Colombia 2010: 27)- and its level of inefficiency are very high as this paper will proof in the coming chapter.

Figure 2. Most important beneficiary of direct royalties
% Royalties vs. % of people beneficiary



Source: DNP

3.4. ACCOUNTABILITY OVER ROYALTIES

The control institutional arrangements over royalties focus mainly on the adequacy of the execution of the resources rather than the fulfilment of the objectives. This is, more in the procedure than in the substance. The entities responsible and its focuses of control are presented in the table 4.

Generally speaking there are two broad categories of control actions. First, preventive measures with which the task is to avoid actions that entail an inadequate execution of resources and whose consequences can derive in the suspension of disbursements from the central government. Second, corrective measures with which the task is to correct actions that constitute a violation of the right procedures or utilization of royalties, and whose consequences can derive in the suspension of the disbursements and the execution of the resources by another

Table 4.
Institutional control schemes over Royalties

Institutional control over royalties		
Type of control	Responsible entity	Object of control
Administrative and financial monitoring and control	National Planning Department	Administrative and financial irregularities in the use of royalties
Fiscal control	General Comptroller of the Republic	Public officials and individuals' responsibilities against the public patrimony
Disciplinary control	General Ombudsman of the Nation (Procurador)	Disciplinary faults in the administration of the royalties
Criminal control	General Attorney of the Nation	Crimes against the public administration
Technical control	Technical auditors hired by the subnational governments	To promote an adequate technical and financial execution of the projects

Source: Author, Gobierno en Línea

subnational government or public entity. On both cases, and depending on the gravity of the preventive or corrective measures the fiscal, disciplinary and criminal control agencies will act either by own initiative or as result of the findings of the administrative and financial control in both the national and the subnational jurisdictions.

Complementarily there are two formal schemes of civil society participation and accountability over the management of the royalties. First the monitoring committees, which are autonomous and informal instances of participation between the civil society, the state and the private sector created to promote spaces of 'analysis and reflection' over the use of the investments financed with royalties and with the aim to influence its destination towards the basic social sectors. By the time of writing this investigation there were four monitoring committees functioning, and La Guajira is not part of them.

Second, the scheme promoted by the Presidential Program against corruption, called *visible audits*, that aim to involve the local communities in the monitoring and execution of the royalties under the principle of citizen co-responsibility. Under this scheme, key projects are selected with citizens and accompanied along the process with the main goal of preventing corruption and making possible the termination of the works and its relevance for the communities. In La Guajira there has been reported 7 projects under this scheme.

Despite the fact that the each of Colombian levels of government has a mandate to develop an institutional framework capable of translating these royalties into better living standards for its people, the assessment after nearly two decades of utilization of royalties is not good at all. Not a single one of the Departmental governments entitled with direct royalties has accomplished the minimum standards of the national development plan until 2010 (Senate of Colombia 2010: 29).

From the subnational governments perspective the underlying reasons of the mentioned failures are a matter of debate and degrees, however two are of general acceptance: the lack of capacity of the local governments to manage these resources oriented by results; and the deviation of resources to other ends different than those foreseen in the norms. Both will be analysed in the coming chapter.

Recently, the government of Colombia has attempted to reform the GRS. These reforms will be briefly contextualized taking into account that its effects will impact deep in La Guajira fiscal future, however there is no intention of assessing its extent, benefits or costs. It is rather another reason why this investigation comes in a relevant moment.

3.5. THREATS FROM THE ROYALTIES REFORMS

The Colombian government foresees a mid term expansion of the mining and oil sectors driven mainly by private investment. Hence it considers this a unique opportunity to strengthen the institutions around the resources from mining (Senate of Colombia 2010).

Part of the debate in conceptualizing and shaping the reforms was preceded by the challenges and lessons from the coffee boom and the subsequent social and macroeconomic crisis between 1977 and 1984, and the mining boom of the early nineties and the subsequent crisis experienced between 1997 and 2001 (Senate of Colombia 2010). Hence some undesirable past experiences generated by abundance of natural resources were acknowledged by the parties designing the reforms.

The reforms are going to affect the whole system and its stakeholders, from the constitutional articles exposed before to the laws and decrees setting up the rules for the management of the system, and the composition and incentives of its governance bodies.

Generally speaking, with the proposed normative the mandate is now: to distribute the resources among all local governments according to more poverty-reduction rules rather than to the production of the good itself; create three *new funds* for national and regional saving and stabilization, for science technology and innovation, and for regional compensation and development (figure 3); and creates new governance structures in which the participation of local authorities and agencies is greater than that of national agencies. All these, encompassed with the traditional governmental slogans of 'more' efficiency, equity, transparency and good governance.

Figure 3. New funds and resources % along the System 2012



Source: DNP 2012

With these new governance bodies new spaces are created for the joint action of the National, Departmental, and Municipal principals. In these new 'collegiate organs' ministers of diverse sectors, the planning agencies, authorities in mining, education, science and technology, Department governors, university rectors of both public and private institutions, and Municipal mayors are represented. These, as constituencies, elect representatives for the management of each of the new funds (The Congress of Colombia Law 1530 2012).

Nowadays the Departments getting 80% of the royalties sum up only 17% of the national population; with the reforms is expected that these same percentage of royalties will address 70% of the population. This will take place in a progressively manner in which within the next five years those subnational governments that are main recipient of royalties now, are going to progressively reduced its share. The progress in the change will go as follows (DNP 2012):

- In 2012: 50% of the royalties will go to local government producing or shipping the goods, while 50% will go for the new funds.
- In 2013: 35% to 65%.
- In 2014: 25% to 75%.
- And finally from 2015 onwards: 20% of the royalties will go to local government producing or shipping the goods, while 80% will go for the new funds.

The challenges for La Guajira are then to address its growing needs in a less favourable financial landscape.

CHAPTER 4. FINDINGS: ECONOMIC TRANSFORMATION, SOCIAL DETERIORATION, AND POLITICAL CONTESTS OVER ROYALTIES

The evidence presented here will reveal that poverty is persistent and in many senses even aggravating, however an important transformation of the local economy has taken place for the past twenty years. This has happened in a process hand in hand with efforts towards more fiscally and politically decentralized local governments.

These decentralization efforts have hardly serve to level out the downturns from the enclave condition, and in fact the royalties showed very weak effects in terms of its contributions to social service delivery improvements. Why? Interesting interconnections between mining, decentralization, economic growth, and social development, together help to explain such behaviour:

- Wealth is more concentrated and extreme poverty is more intense while the population has growth;
- The local capacity to deliver social service is uneven amongst subnational governments and overall deficient for addressing the citizens' needs;
- Democracy is still blurred by the power of local patrons and there is a steady political struggle for the resources and rent seeking patterns;
- Meanwhile there is a growing flow of resources in the form of foreign investment, national transfers, and royalties.

4.1. REDISTRIBUTION AND POVERTY REDUCTION

In 1985 the population of La Guajira was of 362.631 people. By 1995 the population growth to 454.810 and by 2005 it reached 681.575 people. Its average rate of exponential growth has been the highest of the country in the decade of 2000 (table 5).

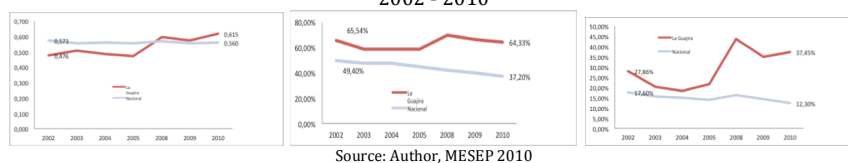
Meanwhile, La Guajira has showed a steady trend towards wealth concentration. In 2002 its Gini coefficient was of 0,475, deteriorating towards the 0,615 of 2010. This was by far the worse in the country in 2010. Certainly the concentration of wealth is perhaps the bigger challenge for the social policies and the political actors' debate, and in fact, little progresses are been achieved for the past ten years. In 2002 Colombia had a Gini coefficient of 0,572 compared with 0,559 of 2010 showing very little progress towards wealth distribution.

Table 5. Population growth. La Guajira vs. National
1985 - 2005

Period	Population		Period	Annual average growth rates	
	Guajira	National		Guajira	National
1985	362.631	30.794.425			
1990	408.175	34.124.535	1985-1990	2,37	2,05
1995	454.810	37.489.665	1990-1995	2,16	1,89
2000	548.617	40.282.217	1995-2000	3,75	1,44
2005	681.575	42.888.592	2000-2005	4,34	1,25

Source: Author, Dane 2010

Figure 4. Wealth concentration, extreme poverty, and poverty. La Guajira vs. National 2002 - 2010



Source: Author, MESEP 2010

Complementarily, other measures of poverty like the poverty and extreme poverty lines

were analysed. Through the lenses of these measurements, La Guajira faces a concerning scenario. In 2002 its poverty incidence showed a 65,54%, compared to 64,33% of 2010. In terms of the incidence of extreme poverty the situation is even of higher concern. When in 2002 there were 27,86% people under such conditions, by 2010 there were 37,45%, been once again, after Cauca, the steepest deterioration of the country (figure 4). La Guajira shows indeed the worse performance among the Atlantic region Departments and the second worse nationally.

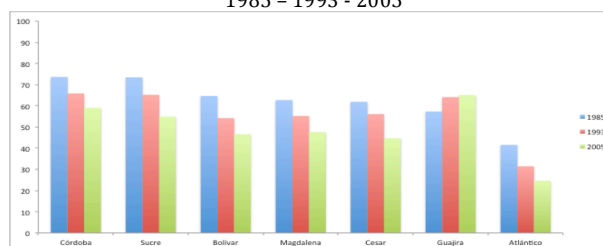
4.2. SOCIAL SERVICES DELIVERY IN SUBNATIONAL GOVERNMENTS

Despite the greater fiscal and administrative decentralization tools with which the subnational governments have been empowered with, the situation of the basic social services hardly could be worse.

The satisfaction of basic needs will be our first approximation of the local government capacity to deliver social services. As such, the UBN shows an approximation to widely assess the subnational governments' capacity to deliver. However be aware that, by no means, it could be considered a comprehensive approach over La Guajira's institutional capacity.

In 1985 La Guajira accounted a UBN score of 57,3, very close to its Atlantic region average. Twenty years later all Departments in the Atlantic region have improved on average, except for La Guajira, which instead has showed a steady deterioration, more markedly between 1985 and 1993 (figure 5). In 2005 La Guajira was worse off than the rest of the Departments in the Atlantic region and only better off than Chocó and Vichada in the national context.

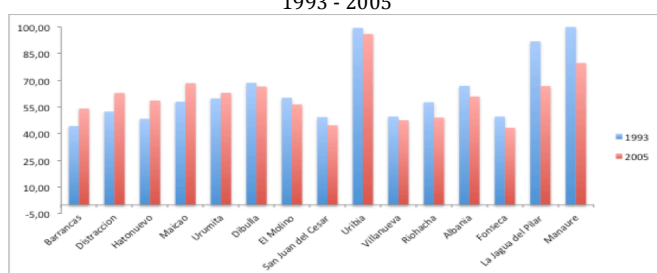
Figure 5. Unsatisfied Basic Needs Atlantic region 1985 - 1993 - 2005



Source: Author, DANE 2010

At the municipal level the situation confirm the Department's figure. From the 15 municipalities, only two have had important improvements, none of them are recipients of direct royalties; other three have had little improvements; five more have had not significant improvements, and five more have worsened their situation between 1993 and 2005. Of these last, two are amongst the major recipients of royalties: Barrancas and Hatonuevo (figure 6).

Figure 6. UBN of La Guajira's 15 municipalities
1993 - 2005



Source: Author, DANE 2010.

Complementarily, the analysis of the extent to which the social services of education, health, water, sewerage, and infant mortality, are delivered is our second *proxy* to assess the situation of efficiency and capacity. Several disaggregated measures of

output will be presented in the same issues in which supposedly both fiscal money streams - the direct royalties and the participations- must mandatorily be spent.

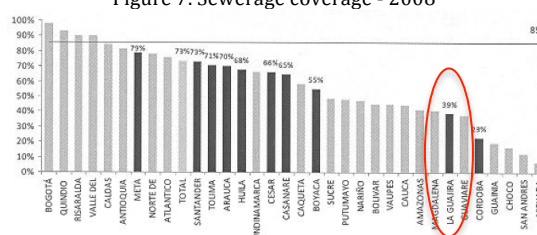
According to the certifying institution of public services (Superintendence of public services) in 2008 La Guajira provided drinkable water only to 52% of its population. This is by far the worse case amongst Departments governments enjoying royalties (figure 8) (Senado de Colombia 2010).

In terms of sewerage coverage, in 2008 the same institution certified a 39% of its people enjoying of proper disposition of residual waters. By far is the poorer capacity showed amongst the subnational governments enjoying of direct royalties and 30% away from the national average (figure 7) (Senado de Colombia 2010).

In terms of education, in 2009 the Ministry of the sector certified for La Guajira the second worse coverage of the country, offering school places for 68% of the children in school age (figure 9) (Senado de Colombia 2010).

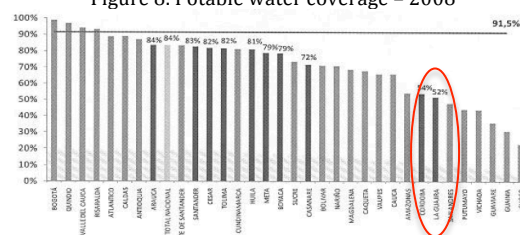
Finally, as for infant mortality, La Guajira holds 38,6 likelihood of decease under one year for every thousand born alive, having the second worse score in the country (figure 10) (Senado de Colombia 2010).

Figure 7. Sewerage coverage - 2008



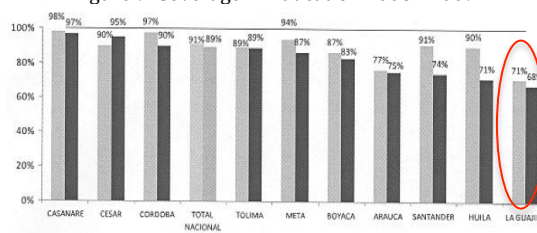
Source: Superintendents' of public services 2010.

Figure 8. Potable water coverage - 2008



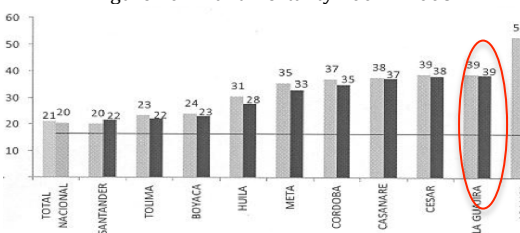
Source: Superintendents' of public services - 2010.

Figure 9. Coverage in Education 2008 - 2009



Source: Ministry of Education 2010.

Figure 10. Infant Mortality 2007 - 2008



Source: DANE 2010.

Although it is difficult to establish a comparison between the people of La Guajira

of 1990 with that of twenty years later, and despite the fact that this group of figures and analyses are at the most a snapshot intended to summarize a few different dimensions of a jurisdiction's local development, the capacity to deliver social service must be subject of further research and certainly shows practical and immediate concern.

From a community perspective the locals aren't receiving an appropriate balance of benefits associated with the impacts of livelihoods and socio-cultural and political problems. In Esteves (2008: 41) words the 'local communities bear most of the social costs of mining and most profit and rent flows are realized elsewhere' as we will show.

4.3. ATTEMPTS OF APPROPRIATION OVER MINERAL RENTS

Important efforts of political decentralization have taken place in Colombia in the last decades. According to Maldonado and in the vision of CEPAL and the German

agency for cooperation (2000), these decentralization efforts are especially strong in promote the local political autonomy and strength the fiscal and administrative capacity of the local governments. If such efforts have been taken place for the past decades, then why is it that the greater capacity and autonomy hardly end happily in the satisfaction of citizens' needs as the theory predicted?



Soon after the promulgation of the General Royalties System (GRS) in 1994, two new municipalities were created in the jurisdictions of the mining enclave: Hatonuevo in 1994 and Albania in 2000. This was due to the forecast of executing 30% of the total direct royalties in these two new Municipalities.

The Municipalities of Hatonuevo, Albania, Barrancas, Uribe and Maicao, and the Departmental government, concentrate the bulk of the direct royalties of La Guajira. For every one of these, the evidence hoist concerns about political contest over the resources and rent seeking. A long list of preventive and corrective measures from the technical and administrative, disciplinary, fiscal and penal agencies of control can be tracked down following the royalties. Here some exemplary cases.

In 2007 the National Planning Department (NPD) in charge of the financial and administrative auditing over the royalties, found that the Departmental government spent more than \$30.000 millions pesos in none permitted uses, and fail to invest other \$12.200 millions pesos in the minimum goals of the social

sectors along the years 2000, 2003, 2004, 2005, 2006, 2007 and 2008. Consequently the NPD stopped the transfers and addressed the fiscal, disciplinary and penal control agencies.

Similarly, also in 2007 the NPD found the municipalities of Hatonuevo and Maicao, two of the top recipients of royalties, responsible for having misused \$3.000 and \$2.500 million pesos respectively, between none permitted spending and lack of investment in the expected social sectors, during the years 2001, 2003, 2004, 2006, and 2007. Again, consequently with these findings, the other control schemes were addressed by the NPD.

Three former mayors of Uribia have been disqualified from their offices and disabled to nominate themselves to any public election position by the General Ombudsmen. First Carlos Alberto Almanza Monroy that governed from 1992 to 1994; then Wilmer Gonzalo Brito who was in office from 1995 to 1997; and then, Marcelino de Jesús Gómez from 2004 to 2007.

Similarly, two former mayors of Barrancas were disqualified from office and from occupy any public position in the future, in the same judgement in 2011: Yandra Cecilia Brito Carrillo mayoress between 2004 and 2007 and Juan Carlos Leon Solano mayor between 2008 and 2011. In the judgment the Ombudsmen found them guilty of spending irregularly \$25.000 million pesos that were supposedly going to water and sewerage. But this is only the tip of the iceberg.

Mrs Brito Carrillo's husband was murdered in 2008, and then she was murdered too in 2012. For the political analyst Claudia López writing for the portal Palabra Guajira (n.d) these two mayors mentioned above were directly related with the also former mayor of Barrancas Juan Francisco Gómez Cerchar, well known for its smuggling networks and links with paramilitary groups. Several civil society organizations such as Open Truth (Verdad Abierta) New Rainbow Coporation (Corporación Nuevo Arco Iris) and well-known independent magazines and portals such as Semana and La Silla Vacía, relate Gomez Cerchar with the paramilitary boss known as *Jorge 40* who exerted political influence over citizens to vote for his tokens.

Actually, the influence of armed groups in La Guajira's political arena was that impressive in the decade of 2000 that in 2002, not a single one citizen from La Guajira got a position in the Congress, when the north block of the paramilitary commanded by *Jorge 40* obliged the people to vote in favour of leaders from his affections coming from the neighbour Departments of Cesar and Magdalena (Lopez, in Palabra Guajira, n.d).

Similarly, three former governors have been disqualified of their positions and from occupy public positions; one of them was condemn to ten years of prison, and all of them were found of having had collaborated between them in different times.

The former governor José Luis Gonzalez Crespo, between 2004 and 2007, was condemn to 10 years of prison been founded guilty of by-passing the legal

procedures to procure and hence appropriating public funds. The other two former governors Alvaro Cuello Blanchar and Hernando Deluque Freyle were disqualified for having used money from royalties to support future candidates from their political affiliation.

The Ombudsmen found their *modus operandi* very similar on their ways and actors: A third and external party was hired by the governor to, on his behalf, claim taxes and contributions from public enterprises and other municipalities. This money was shadowed and mixed with other money streams and projects, and used partly to support political campaigns, or openly to be appropriated (General Ombudsmen 2005). In these complex operations was of fundamental importance the participation of the budget secretary to blank the money from the public budget, and the legal secretary to support the administrative acts that enforced the governors' orders.

Interestingly, Hernando Deluque Freyle was the former private secretary of Cuello Blancher, and both their secretaries, the legal and the financial, were ratified for the first, once he became governor following the lead of his predecessor. Consequently they were also disqualified.

The municipalities of Hatonuevo and Albania, also entitled with direct royalties, have also had their share on this attempts of appropriation of the royalties and, as expected, other officials from the regional control agencies and the Regional Autonomous Corporation have been removed from their positions because of their links with these networks (table 6).

Hence the contention that the process of deepening democracy will have a positive relationship with a greater allocative efficiency proofs to let open doubts and spaces for further research. The political autonomy promoted for the past decades have not served the purpose of addressing citizens' needs, rather there has been more political unrest. Certainly, the money streams from the fiscal decentralization mechanisms have endure a struggle over its control among political patrons.

This is proof of an extremely important relationship between democracy and management of natural resources in which, depending on the local actors entrusted with the discretionary power over the natural resources revenues it will either be promoted or undermined a representative, accountable and equitable democratic process (Ribot 1996, 1999).

In fact, the power over royalties exerted by political patrons in la Guajira is actually playing a counter productive role, strengthening customary authorities who serve as local agents for the purposes of controlling and managing local people, and reinforcing less-systematically accountable actors, and slowing democratic

Table 6. Public officials disqualified for the public life for misusing Royalties. La Guajira

Subnational Gvt.	Period	Subject	
HATONUEVO	2007 - 2009	José de Jesús Ortiz	
	2004 - 2007	Yandra Cecilia Brito	
	2008 - 2011	Juan Carlos León Solano	Murdered
MANAURE		Juan Francisco Gómez Cerchar	
	1992 - 1994	Menfis Palacio Pana	Murdered
URIBIA	1992 - 1994	Carlos Alberto Almanza Monroy	
	1995 - 1997	Wilmer Gonzalez Brito	
	2004 - 2007	Marcelo de Jesús Gómez	
GOVERNOR	1998 - 2001	Alvaro Cuello Blanchar	
	2001 - 2003	Hernando Deluque Freyle	
	2004 - 2007	José Luis Gonzáles	Jailed
REGIONAL OMBUDSMEN	2011	Carmen Beatriz de Vega de Martinez	
CORPOGUAJIRA	2012	Arcesion Romero Perez	

Source: Author. See list of references on corruption.

transitions (Ribot 1996, 1999). In this sense the relationship between natural resources and decentralization is having negative effects on democratic change. In Auty's words (2006) one of the negative effects of enclaves is that it can feed patronage if the political contest over royalties and the pressure to rapidly channel these resources to the local economy happens in a politically weak local government and a negligent central government.

4.4. FISCAL DECENTRALIZATION, ROYALTIES AND ECONOMIC GROWTH

What can we say about the fiscal levers and instruments that the subnational governments are accompanied with to effectively fulfil their decentralized functions? What does this institutional decentralization system described here says about the expenditure responsibilities of the subnational governments in Colombia? ¿Are the royalties spent in those responsibilities? ¿What has happened to La Guajira's economy along the development of the mining enclave? And, considering the narrow fiscal perspective of the past 20 years, there have been more economical and financial opportunities for subnational governments?

Recall that, central in the argument of fiscal decentralization is the allocative efficiency principle by which expenditure decisions would be more closely tied to real resources costs and that greater government performance would find space to improve too, all of which have proven to be doubtful.

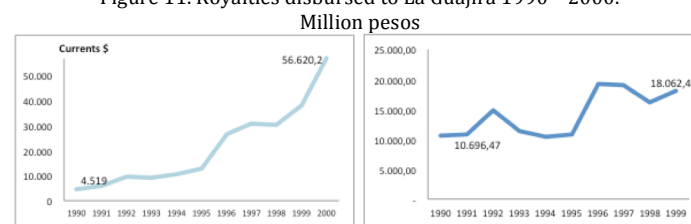
Recall too, the condition of mining enclave. As such this is a less desirable situation, in the sense that there is less economic diversification and hence less potential sources of revenues. Nevertheless, and acknowledging this fact, the answer in light of the evidence is affirmative, the financial capacity of La Guajira showed having growth for the past 20 years. Taking into account that around 40% of Colombian coal is produced in one single mine in La Guajira this is expected. As a mining enclave, La Guajira has been a steady recipient of royalties reaching the top three beneficiary Departments.

In the period from 1984 to 1990 the money stream from royalties grew almost ten times the amount of 1984. It was during this period that the operation of El Cerrejón began in 1986.

The international favourable prices of the minerals and the quality and scale of its endowments were the main factors explaining the growing in the production hence in the flows of royalties.

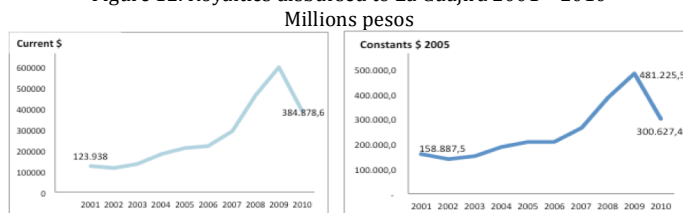
From 1991 to 2000 this trend continued and La Guajira's royalties grew up more than six times the amount of 1990; this time the scale of resources began to be very important in per capita terms. It was also during this period that the country ratified its vocation of openness towards foreign capitals and ownership of the

Figure 11. Royalties disbursed to La Guajira 1990 – 2000.



Source: Author, DNP, Minminas

Figure 12. Royalties disbursed to La Guajira 2001 – 2010



Source: Author, DNP, Minminas

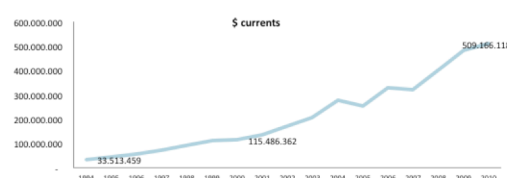
subnational governments over the royalties. In real terms the royalties grew 79% in this period.

Finally from 2001 to 2010 the royalties more than doubled the amount

of 2000, reaching a historical peak in 2009. By this time, the mining industry already took over the economic structure of La Guajira configuring the enclave it is now. In real terms the royalties grew 90% in this period.

Additionally to the royalties, the GPS have growth steadily ever since the Constitution of 1991. Recall that the goal of this money stream is precisely to perform the social responsibilities in a decentralized government setting. Hence, these resources have a specific destination for the social service already mentioned (figure 13).

Figure 13. La Guajira's Participations 1994 – 2010
Millions of pesos



Source: Author, DNP, Minminas

Both streams of money and decentralization institutional systems exposed in the chapter 3 –GRS and GSP- remarked the obligation of the expenditures to pursue social outcomes. It is considered mandatory for the subnational governments to observe these sectors and its minimum standards as their main targets and govern consequently. Even further, these systems provided the subnational governments with incentives to spend the transfers in a more free and autonomous fashion for those who were able to fulfil the minimum standards foreseen in laws.

In this sense is it verifiable that there are positive initial connections between mineral wealth and social policy considering that the former encourages higher levels of the latter. Even further the mineral wealth in this case is actually influencing the composition of those social expenditures (Hinojosa et al. 2010).

However, this institutional decentralization system coined in the theoretical hopes of the political and fiscal decentralization theories, and in the positive relationship between mineral wealth and social policy have failed to deliver its promises because of a very simple reason: its successive developments from the constitution, the laws, decrees, resolutions, and many other administrative instruments have been performed by political networks that had hardly transformed since then and have different objectives and incentives than those prescribed by the social contract.

As a result, the supposedly unequivocal social sectors have been reengineered into multiple legally authorised possibilities of spending in which much of the lack of impact lies on, as it will be shown later on.

Standing in the shore of the expending, or the responsibilities of local provision of service and development promotion, the attention is directed towards the royalties, and the straightforward question is: where did the money go?

First of all, it is needed to note that there is no systematic evidence of the final destination of the whole stream of royalties from 1990 to 2010, specially not in a subnational context such as that of La Guajira or even further in a municipal context such as that of Barrancas or Hatonuevo. This fact per se is of high concern.

There are several reasons for this: at the subnational level, both money streams from transfers from the centre and own revenue sources get mixed as part of the local autonomy to administer local matters; there is an overall and overarching incentive for different levels of government to co-finance development projects in order to coordinate actions and create political and administrative synergies; the many alternatives in which the royalties can be spent makes virtually impossible to track down in a systematic way the value chain of the resources. At the most, some broad categories can be used to analyse its use.

To test the general orientation of the spending, several data sets were analysed. First, the Treasury and Public Data Consolidation System from the General Comptroller Office (CHIP) was used to analyse the categories in which the subnational governments are using its royalties.

Information available from the years 2008, 2010 and 2011 served us to test the extent to which the royalties are going to each social sector, at least from an administrative perspective. It is important to remark, that this evidence is not conclusive, though it does help to approximate partially.

Table 7. Sectors of investment La Guajira
October - December 2008

SECTORS OF INVESTMENT	October - December 2008	
	Miles pesos	% of total
HEALTH	44.381.445	23,17%
CULTURE	3.313.733	1,73%
OTHER SERVICES (different from water, sewerage and cleaning)	2.386.196	1,25%
DISASTERS CONTENTION AND PREVENTION	167.566	0,09%
DEVELOPMENT PROMOTION - TOURISM	222.642	0,12%
VULNERABLE GROUPS ATTENTION	514.165	0,27%
MUNICIPAL EQUIPMENT	77.690	0,04%
COMMUNITY DEVELOPMENT	969.649	0,51%
INSTITUTIONAL DEVELOPMENT (fiscal obligations)	268.220	0,14%
OTHER SECTORS	64.769.351	33,82%
TECHNICAL AUDIT OF ROYALTIES PROJECTS	222.005	0,12%
EDUCATION AND SCHOOL NOURISHMENT (and other transfers)	49.159.196	25,67%
WATER AND SEWERAGE	9.190.499	4,80%
ENVIRONMENT	110.042	0,06%
POWER	1.102.425	0,58%
HOUSING	2.370.199	1,24%
TRANSPORT (roads)	7.037.411	3,67%
AGRICULTURE	2.855.743	1,49%
SPORT AND RECREATION	2.408.765	1,26%
CONTROL NUMBER - TOTAL	191.526.942	100%

Source: Author, Chip. Colombian Pesos

In 2008, of the data reported to CHIP from La Guajira Departmental government (table 7), the greater share of royalties is reported under 'other sectors' (33,8%), followed by health (23,1%), and education (25,6%). Of those 'other sectors', the expenses

concentrated around administrative 'wholes' from the past such as fiscal obligations, pending taxes, redundancies, technical studies, technical audits, and bankrupted retirement pensions. Although the dispersion is high, we can conclude that the bulk of the money is going to cover administrative problems.

Since this is merely a three-month sample (although of 128 different contracts), is not possible to establish a comparison between the money reported as disbursed from national entities with the one reported as effectively disbursed as investment from the subnational governments accounts. This could be a matter of further investigation.

Table 8. Sectors of investment. Direct royalties La Guajira
April – December 2010

SECTORS OF INVESTMENT	April-December 2010	
	Miles of pesos	% of total
HEALTH	530.596.530	46,48%
CULTURE	7.057.108	0,62%
PUBLIC SERVICES (different than water, sewerage, and cleaning)	10.315.522	0,90%
DISASTERS PREVENTION AND ATTENTION	2.247.380	0,20%
DEVELOPMENT PROMOTION - TOURISM	17.068.198	1,50%
VULNERABLE GROUPS ATTENTION	8.400.000	0,74%
MUNICIPAL EQUIPMENT	3.670.632	0,32%
COMMUNITY DEVELOPMENT	10.155.106	0,89%
INSTITUTIONAL DEVELOPMENT (fiscal obligations)	33.578.486	2,94%
OTHER SECTORS	0	0,00%
TECHNICAL AUDITS OF ROYALTIES PROJECTS	60.647.162	5,31%
EDUCATION - SCHOOL NOURISHMENT (and other transfers)	115.527.334	10,12%
WATER AND SEWERAGE	155.370.680	13,61%
HOUSING	47.454.290	4,16%
TRANSPORT - ROADS	50.469.472	4,42%
AGRICULTURAL	5.066.370	0,44%
SPORT AND RECREATION	39.967.238	3,50%
ENVIRONMENT	22.446.580	1,97%
JUSTICE	21.603.732	1,89%
CONTROL NUMBER - TOTAL	1.141.641.820	100,00%

Source: Author, Chip. Colombian pesos.

From the 2010 sample, the bulk of the money was invested in health (46,4%), followed in a much less intensity by water and sewerage (13,6%) and education (10,1%). However there is one issue calling our attention: by September of 2010, more that 300 different contracts were been financed with royalties. This impressive dispersion of the

money reinforces the problems of tracking down the line of impacts and dispersing the resources (table 8). The situation is similar for 2011; education takes the lead (30,1%) of the investments, followed by health (21,9%), and water and sewerage (15%).

The evidence showed that there have been greater financial opportunities to balance the subnational governments responsibilities, coming from the intergovernmental transfers' systems.

In fact by looking at the data sets from royalties, we can conclude that the money is indeed spent in administrative lines related some how with the ultimate social services that needs to be delivered. However, it has had very limited impact on the measures of social progress.

The money from royalties is actually spent, in a more decentralized fashion, with higher democratic devolution of power, and more control schemes than it was 20 years before, but this is hardly enough to transform societies, or level out the downturns from the enclaves configuration. Evidently, in this context, the more decentralized management of the natural resources had reinforced less-systematically accountable customary actors, without any effects on a more effective local government (Ribot 1996, 1999, 2003).

Now, what has been the transformation of La Guajira's economy after the mining enclave definitively took off? What are the impacts of the mining enclave in the local economy? Is there or not economic growth? After all, these were the theoretical grounds of the marriage between FDI and mining promotion.

A couple of simple snapshots over the composition of La Guajira's GDP and the evolution of its GDP per capita, together can help us to assemble and argument to contest those theoretical pillars of the relationship between mining and development, and keep on drawing the bridges with the decentralization theories.

Certainly, nationally the whole mining and hydrocarbons industries are of major importance for economic growth plans. Table 1 in the chapter 3 gave us a view about this relationship. However what can we say locally? The findings are clear.

Although La Guajira's has suffered a dramatic transformation of its economic structure and nowadays is dominated by an enclave, the extent to which this has been a vehicle of economic prosperity is highly debatable.

This is evidence of the fundamental failure of the institutional setting facilitating the implementation of a fiscal decentralized regime that hasn't redirect the accountability of the state towards the citizens. Hence, in light of the argument presented by this paper we could not confirm Hinojosa's et al. (2010) contention that this fiscal regime would create a social contract to redirect benefits from mineral wealth to the locale.

In 1974 long before the mining activities were developed in La Guajira, its economy had in commerce and agriculture its main sectors. Industry and the mining sector were then quite incipient. Thirty years later the transformation is dramatic. Commerce was reduced to a 5,3 percent of the GDP and agriculture to a mere 7,8 percent. Mining instead, passed to dominate the GDP with a 51,6% remarking the enclave nature of La Guajira's economic structure (table 9).

The decade of the 90s was indeed challenging for the Atlantic region showing a 10% of net growth along the period. This could be a modest 1% per year. However the figure showed for La Guajira is rather contraire. It shows a net deterioration of its GDP per capita of -25% (table 10). In real terms, its economy rather than growing was retarding its growth as predicted by some theories of mining and development presented before.

The decade of the 2000s shows rather a different landscape for the Colombian economy as a whole. The Atlantic region's average increase was of 40% and even for La Guajira was a period of economic prosperity in terms the GDP per capita (table 11). But finally, consider the fact that La Guajira's economy in 1990 represented 1,66% of the national GDP; in 2010 that participation dropped to 1,07%.

During the 90s, while La Guajira's economy was turning definitively towards a mining enclave and the stream of royalties was growing rampantly, the economy as a whole was rather tighten. In fact, this is evidence of symptoms of the mentioned Dutch disease and a matter of great concern.

The evidence also showed symptoms of a negative relationship between mining and development: First, the fact that the economy is almost completely missing-out sectors like agriculture and commerce; second, because of its very limited levels of

Table 9.
Economic transformation of La Guajira's GDP. 1974 - 2005

Sectors	% participation	
	1974	2004
Commerce	57,9	5,3
Agriculture	20,1	7,8
Industry	5,6	7,7
Government	3,5	5,0
Transport	2,4	3,0
Hoteling	1,5	1,4
Mining	1,9	51,6
Others	7,1	18,2

Source: Author, Meisel, Banrep 2007.

Table 10. GDP per capita Atlantic region 1990 - 1999

GDP per capita - constant pesos 1994 - Atlantic region				
	1990	1999	Net difference	% change
Atlántico	1.377.636	1.586.248	208.612	15%
Bolívar	1.257.326	1.287.363	30.036	2%
Cesar	1.123.412	1.238.827	115.415	10%
Córdoba	921.256	1.219.435	298.178	32%
La Guajira	2.330.553	1.747.522	-583.031	-25%
Magdalena	836.481	965.827	129.346	15%
Sucre	669.709	817.184	147.475	22%
Average:				10%

Source: Author, Dane 2010. Constants of 1994

Table 11. GDP per capita Atlantic region 2000 - 2010

PIB per capita - Pesos constantes de 2005 - Departamentos de la costa Atlántica				
	2000	2010	Diff. neta	Cambio %
Atlántico	6.100.166	6.976.500	876.334	14%
Bolívar	5.390.215	8.478.004	3.087.789	57%
Cesar	4.624.272	8.525.831	3.901.559	84%
Córdoba	4.209.018	5.012.433	803.415	19%
La Guajira	4.759.357	6.261.252	1.501.896	32%
Magdalena	3.430.438	4.832.199	1.401.761	41%
Sucre	3.143.220	4.068.011	924.791	29%
Average:				40%

Source: Author, Dane 2010. Constants of 2005

innovation and entrepreneurial activity; third, because of its indicators of poor governance and; fourth, because of the higher opportunities for rent seeking and even violent attempts to appropriation over these rents (Sachs and Warner 2001).

The evidence highlighted by this paper, directly challenge Hinojosa et al. (2010) contention that there would be a positive relationship between mineral wealth and the social policy, contingent on the decentralization arrangements, specifically of the fiscal decentralization type along the lines of the political distribution of power. Rather as stated before, these decentralization arrangements have served to promote customary local powers.

According to the resource curse arguments, La Guajira of the decade of the 90s would be a case in which the natural abundance was retarding the economic development and hindering other relevant variables to growth. Hence, in light of the evidence presented here, the Galyfason et al. and Sach and Warner (2001) contention that natural endowments will retard economic development and hinder other relevant variables to growth can be reaffirmed.

Finally, the unequal distribution of power, the persistency of corruption and rent seeking over the natural resources, and the decentralization arrangements designed to retard democratic transitions, together shrink the extent to which the mineral wealth can be converted in verifiable development outcomes. This is to ratify perhaps Bebbington's (2008) contention that the resource curse is more a political than an economical phenomenon.

CHAPTER 5. CONCLUSIONS: THE PERSISTENCY OF A POLITICAL CURSE

Coming back to our main question, *what explains the persistence and aggravation of poverty in La Guajira alongside its economic transformation towards mining?* The evidence and the analysis presented here take us to the following concluding remarks.

This research studied the relationship between mining and development from the side that see it as an enabler of substantial wealth flows, to the side that hoist awareness of the destructive power of mining for local livelihoods.

The nature of the mining enclaves and the possible consequences in the host economy was also studied, complementarily with the nature of the royalties and its implications in the process of levelling out imbalances. Then, the study draws bridges between theories of mining and development with theories of decentralization and decentralization of natural resources.

The contention under these links is that the local downturns from mining enclaves could be levelled out by an equitable redistribution system embedded in a wider political decentralization setting.

Along the research in chapter three, we constructed a critical approach to the Colombian modern decentralization institutions focusing on their fiscal tools, complemented with the political decentralization milestones. Then, the mining industry was analysed at the national and in the local context for its contributions to economic growth. Finally, the royalties were analysed from the perspective of their role enabling fiscal space for social services and triggering political contests over government.

Consequently, in chapter four, secondary data from the composition and evolution of the National, Departmental, and Municipal levels was compared. Data from the size, composition and evolution of the GDP was assessed. Data from the size and distribution of royalties was assembled to determine its composition and evolution. Data on the satisfaction of basic needs was assembled to analyse the evolution of the local capacity to deliver social outcomes, along with poverty and inequality measurements available. Complementarily, data on the political contests in the form of rent seeking and corruption accompanying these royalties was assembled to analyse its patterns.

Based upon this, the contributions of this thesis are in the interconnections between mining, decentralization, economic wealth, political contests, and social outcomes.

For the past three decades, La Guajira's economy witnessed an important transformation, turning from an economic structure based mainly on commerce and agriculture, to a sound mining enclave. Nowadays, the mining sector has

concentrated the bulk of resources and wealth, and has cripple the growth of non-mineral sectors.

Contrasted with the theories used here, this paper confirms the contention that the natural endowment abundance is retarding economic development and hindering other important variables to growth sustainably (Auty 2001, 2006, Sachs and Warner 2001). Under the evidence of this paper is possible to say that La Guajira faces a resource curse

This process of turning into a mining enclave has also enabled a sustained important money flow of royalties into the Department coming from the exploitation of natural resources, that, along with the larger resources coming from the system of participation, meant a more promising fiscal scenario for the subnational governments.

The decentralization policies from the 80s and 90s have been important in devolving power, and in enhancing the fiscal and administrative capacity of the subnational levels of government. The aim has been to promote the local political autonomy, to strengthen the fiscal and administrative capacity of the local governments to deliver, at the minimum, a well-established set of social services.

Theoretically, the institutional environment was under deployment while the mining enclave was configuring. Nevertheless, simultaneously, La Guajira was witnessing poorer indicators of governance, higher opportunities for rent seeking and even violent attempts of appropriation over its rents.

From Esteves's (2008) point of view this is equivalent to say that the mining enclaves represent dichotomies having opportunity at one extreme, for the production of substantial wealth, and on the other threatening community life.

From Hughes (1975) perspective the bridge between mining and development was set on conditions not easily achievable. For instance, while the new institutional arrangements to manage the revenues were to some extent developed, there were no change in the initial conditions of the host society, and certainly no development of the absorptive capacity of the domestic economy.

From a Bebbington (2008) perspective the bridge is in the quality of the institutional system hosting the enclave, understood as having dimensions of transparency, fiscal and social contract, and the quality of government. Meanwhile, from Hinojosa's arguments, the bridge from mineral wealth to enhanced local livelihood opportunities is supported in an institutional setting that 'redirect accountability of the state towards its citizens and produces a social contract' (Hinojosa et al 2010: 15).

As this paper proved, the accountability over the royalties, especially that coming from the citizens, is perhaps the weaker link in the chain of the fiscal decentralization. No bridges were built along the decentralization attempts to address directly the consequences from the enclave condition from civil society organizations.

The royalties and the other fiscal tools with which the subnational governments were entitled to deliver services, had unequivocal social targets and, in the case of the royalties, priority allocation in those jurisdictions directly bearing the downturns from the enclave condition. In this sense, this paper can verify Hinojosa's et al. (2010) contention that the mining activity created fiscal space for the social policy. Nevertheless, we could not prove this as a positive relationship taking into account the poor social services performance of La Guajira and its Municipalities.

Additionally, in the context researched here, the political and administrative models ruling over the relationships between different levels of government and between these and citizens have failed to support this bridging. It would be unfair to say that the decentralization attempts have failed to deliver the promises of deeper democracy and more efficient government, but it is fair to contest scholars like Smoke (2006), Cheema (2007), Rondinelli (1989), and Ribot (2005), to re-research their decentralization claims under contexts of mining and weak institutional systems of government.

This paper demonstrates that the money flows are actually passing from political and administrative systems from the centre to the locale, but these have had little or no impact in the local livelihoods bearing the consequences of the mining. The administrative decentralization entangled mess, in which the royalties can be traduced to, allow these networks to wash the money away from its objectives.

Certainly, Smoke (2001) contention of the prominent role of local governments in the allocation function based on its links between preferences and expenditure decisions do not hold in the context of La Guajira.

The political decentralization has served to channel the wealth from the mining into political patrons and patterns of spending that reproduce local elites. These local power networks are not accountable to their electorate and hardly to the local control agencies.

In fact, the natural resources have been an important basis of wealth for governments and elites, but they have had very limited impact in supporting local government legitimacy, capacity and independence (Ribot 2003, 2005). This has happened because the power of control of the royalties was allocated to non-democratic institutions.

In this context, we could not verify Smoke's (2006) links between deeper democracy and more efficient government. In fact, there is neither a deeper democracy, nor are there more efficient governments. There is certainly no process of governing according to the people needs, and certainly there is also no concept of governing according to the people preferences revealed democratically.

The political power and fiscal control over the greater money transfers from the centre are legally supported in the body of norms and tools drawn from the

Constitution. This, configures an equilibrium of powers between different levels of government and elites, in which the national government takes its share in the form of important FDI and export flows, and the subnational governments get their share in the form of financial space and ruling over these resources. In turn, the lack of institutional control and regulation, and civil accountability over these fiscal tools, allows this equilibrium to endure.

5.1. POLICY IMPLICATIONS

In this apart, this paper leaves some complementary policy measures designed upon the evidence and theoretical grounds of this investigation that could address some of the problematic matters remarked before.

The first stream of actions must be directed to the financial flows. All payments done with royalties, must go directly from the Financial Ministry and other central entities to the private enterprises, civil organizations, public enterprises, contractors, and so on organizations, executing projects. This aims at addressing two objectives: first, to reduce the political contests over the financial management of the royalties; and second, to reduce the complexity of the administrative tools with which the system is managed that make virtually impossible to track down the resources and its value chain.

Second, the monitoring of those projects must involve a new set of civil society organization constituted specifically to do so. For these organizations to have the capacity to perform, they must involve a faculty from a local university, a representative independent media, and the chamber of commerce of the jurisdiction. There must be a straightforward communication channel between contractors and these civil society organizations, and that interaction must be based on plans and budgets previously shared. The scheme of *Bogotá cómo vamos* and the dialogs promoted by the portal *Palabra Guajira* are good examples to design this scheme not from the scratch.

Third, there is the issue of the political control over the royalties. For this, the existent control agencies must control the mid and long term extent to which the National, Departmental and Municipal plans have been achieving its objectives. In other words, these control agencies must not bear the burden of monitoring the agents. Complementarily these control agencies must have feedback loops directly from the civil society organizations.

The issue of the regional and local control agencies and offices deserves especial attention. The changes here are of a simple matter. Basically, the political parties of those in power cannot be the instances appointing those in charge of controlling their actions. And, there is an urgent need for complementary actions between national and local control agencies. Not a single one fiscal, disciplinary or criminal action from the local control agencies could be tracked down by this investigation. Even tough, recognising the limited range of action not having doing field work nor addressing those agencies directly, there is a growing concern respecting these

matters.

Forth, the urgent provision of some services must be addressed directly by national agencies in the most depressed jurisdiction to restore the role of the public institutions and guarantee the severity of the gap to stop.

Fifth, all along the policy cycle a reengineering of the administrative tools and government instances must be rethought in order to reduce its administrative complexity.

The planning must be done in instance different from the unique control of the mayors and governors. It must have separate government organs and constituencies that print a more multidimensional and regional approach over the problems and the strategies. The planning process must ensure that the resources are directed towards the priorities. Technical organs from the sectorial ministries and the planning department must assist these organs to track down the extent to which the priorities are addressed in the short, mid and long term. These technical organs must have direct input from the contractors or implementers and again they must have direct feedback loops with the civil society organization.

Finally, these new civil society organizations must be part of a national system managed by the General Ombudsmen and the security forces, and accountable to national media; this aiming at having a tool to deal with bullying and violence against them.

5.2. FURTHER RESEARCH AREAS

First as mentioned in chapter 2, there is a lack of theories of decentralization of natural resources of the mineral type. The links between decentralization and mineral endowments are build upon the fiscal arrangements to design taxes and royalties that allow the activity to take place and simultaneously that allow the local communities to have a potential opportunity to level out the negative effects of the mining. However, there is no links between decentralization or best devolution of the endowment as such when they are of the mineral type.

The implications could be that local communities facing the dichotomies of meaningfully enhancing its wealth from a mining project, and at the same time facing the destructions of its livelihood, could potentially take better decisions about the uses of the royalties.

Second, as it was briefly explained in the chapters 3 and 4, there are future challenges for La Guajira in a less promising financial scenario. Further research is needed to anticipate the immediate negative effects in the local livelihoods and trigger social protection networks to alleviate the already depressed situation of the most backwards municipalities.

Third, Somke's (2006) theoretical contention of the deeper democracy alongside

the greater allocative efficiency promoted by a more decentralized setting, needs to be researched again. Especially in a context where violence replace or disguise legitimate democratic processes. Two questions are worth to raise here: where does the connections between more participation and more transparent government lies on? And second, which are the bridges between governance performance and preferences revealed democratically? Needless to mention, the actual process of voting is discarded as this bridge having proof to be useless in the context of this research.

Fourth, further research is needed in establishing the final destination of the royalties. This can be based in the comparison between resources disbursed from the national agencies and those reported as spending for the subnational governments. This is especially important to address unknown or not well-studied spots of corruption and rent seeking. Also to reveal to the maximum extent how the money diversion works and even further, to give insights on the opportunities to reengineer the actual administrative tangled mess.

Fifth, the corporation running the mining enclave in La Guajira has a complex and important system of foundations that aims to trigger sustainable development processes in the jurisdictions influenced by its operations. These actions include corporate social responsibility programs in the areas of financial opportunities for entrepreneurial activity, integral water and sewerage management, cultural indigenous development, and institutional development with local governments. It is of extreme importance to investigate the extent to which these programs could serve as experiences to draw policies, and accountability schemes.

Finally, been aware of successful cases in the use of royalties not only to satisfy the minimum standards but to enabling other mid term development paths, is important to research the determinant of that collective actions, from a political, sociological, and administrative perspective.

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