

Public Investments of Extractive Multinationals in Developing Countries: A Cautionary Tale

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A new consensus is forming around the need of multinational corporations to improve their social profiles. Regardless of whether it is underpinned by ethical concerns about the public responsibilities of the private sector (Ruggie 2003, 2004) or by material interests on the financial returns of being green and considerate (Vogel, 2005), this change is generally regarded as good news for developing countries that host MNCs activities. Corporations possess resources and technical expertise that often governments have in short supply, and if that is combined with their recently acquired willingness to be environmentally and socially mindful, one could expect a substantial upsurge of investments in public goods and services led by MNCs. They can help build critical infrastructure that can spur economic development, provide basic services to local populations and contribute to the improvement of the living conditions of millions.

The potential advantages of private involvement in public goods provision are particularly large in the case of mining MNCs (MMNCs). Often operating in poor and isolated localities, MMNCs could turn around the fate of forgotten parts of the developing world by supplying much needed public goods and services. So, what could be objectionable about the new social strategies of MMNCs that make them more concerned with people and nature?

The other side of the coin

Despite the general enthusiasm aroused by the changes in MMNCs strategies, some sobering experiences on the ground remind us of the challenges created by this corporate involvement in public good provision. Corporations adopting higher social business standards may create unintended political consequences in mineral-rich but institution-poor developing countries. In fact, a vigorous involvement of the private sector in public welfare provision may undermine national efforts to

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construct technically competent and politically legitimate bureaucracies, foster civil society organizations that are autonomous and able to participate in public decision-making and strengthen formal mechanisms of interest representation.

Evidence from my fieldwork on a multinational mining corporation operating in Perú – a collection of about twenty interviews with academics, politicians, and community leaders at the national, regional and local levels – illustrates how, even corporations that are genuinely committed to CSR and the social and economic development of their areas of influence, may unintentionally hinder governance by corroding the political capacities of both the State and civil society organizations.

In terms of the **state-corroding effects**, one could identify three mechanisms. First, MNCs run the risk of becoming a surrogate government in the area. Civil society organizations find it more efficient to take their problems and urgent needs to the mine than to the local government, and local governments feel relieved that the mine is taking care of some of the social demands. Illustratively, the main advisor to the Committee on Energy and Mines in the Peruvian Congress recently declared that “mining companies should pre-pay a share of their income tax to finance the construction of local infrastructure, or they could even build the infrastructure themselves. After all, they have the logistics, knowledge and capacity to do so, and what the State does in two or three years, the company could finish in eight months.”² Slowly but surely, state actors give up political power and legitimacy in the eyes of the population.

Second, the voluntary and self-enforced nature of CSR regulations restricts state's ability to discipline private corporations. Corporations may argue that in order to build “modern” relationships between States and mining companies, public sectors must reduce intrusive laws and trust corporations to regulate themselves in the absence of public enforcement and penalties. Because legally binding business standards in developing countries are minimal, the sudden withdrawal of MNCs from their social commitments may leave vulnerable interests unprotected.

² Pedro Gamio, Principal Advisor of the Committee on Energy and Mines in Congress. Declarations on a television interview, 28/06/06.

Finally, public resources and public capacities may dwindle in mineral-rich regions. Private involvement in public good provision may reduce public incentive to enhance the technical capacities and skills of local and regional authorities, and even set off an entropic process of “forgetting by not doing.”³

Turning to the ***civil society-corroding effects***, I also identify three mechanisms. First, the mine’s position as the main source of funding for local civil society initiatives may undermine the autonomy of grassroots organizations. With little alternative sources of funding to carry out their activities, civil society organizations find themselves in a conundrum: they need the resources the mine offers them, but are concerned about the potential damage to their reputation of independence. In the case study, this problem was particularly acute for local environmental organizations. If they are receiving funding from the mine, how can they be critical of it and disapprove any eventual misconduct?

Second, corporate social investments may not be driven by the goal of reaching those in need and promoting the collective welfare, but may instead focus on soothing conflict-prone localities, areas that are either socially problematic to the mine or that have a higher capacity to organize and demand from it, which may increase the levels of inequality in their regions.

Finally, private companies and their officials do not represent nor are properly accountable to the local population for their activities. There are few mechanisms for voicing complaints and, hence, no real accountability. Indeed, it becomes quite difficult for the people to complain about a provider of public goods and services that does not have a *legal obligation* – only a non-binding commitment – to provide. Unaccountable private companies may perpetuate and promote a one-way, hierarchical and paternalistic relationship between the society and the “provider” that is likely to be replicated in the interaction with public authorities. As has been suggested, “[T]he population’s perception of the company was of an actor that filled the space of expectations related to a paternalistic and authoritarian State. The miners were the

³ This is a concept forged by Paul Krugman and used in some of his models of technological change. It refers to the opposite of the notion of “learning by doing”.

new and powerful lords who were going to bring development to the region.” (Salas 2002: 636).

The presence of large extractive corporations changes the structure of economic and political incentives of local actors, and unleashes deep transformations in the political capabilities of the public and private sectors. In developing countries where state and societal capacities are often in short supply, extractive MNCs wanting to contribute to the development of the area could become an expansive force that unintentionally belittles the public bureaucracy and undermines the political capacities of other local actors. But mining does not have to be undermining. Identifying risks and limitations is just the flip side of discovering benefits and advantages, and hence a better understanding of the potential corrosive effects of CSR on the political capacities of local actors will help design corporate interventions in the public realm that contribute to the growth and prosperity of local communities.

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