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Review Article

# Extractive industries and poverty: A review of recent findings and linkage mechanisms

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ABSTRACT

This article surveys fifty-two empirical studies on relationships between extractive industries and poverty, addressing both poverty impacts and possible linkage mechanisms. Distinguishing these studies by mode of resource extraction, we find industrial mining to be more frequently associated with poverty exacerbation, and artisanal mining with poverty reduction. Poverty exacerbation findings are more pronounced in cross-national statistical studies and ethnographic local case studies, especially when relative deprivation and longer-term impacts are taken into account; while sub-national census-based studies tend to show lower poverty levels in areas with extractive sector activities. A review of thirteen specific linkages between extractive industries and poverty highlights the importance of governance institutions and the limited effects of Corporate Social Responsibility activities. Methodologically, our survey points to the dominance of industrial mining-related data in cross-national and sub-national studies and the overlooked effects of artisanal and small-scale mining on poverty reduction at analytical scales larger than community-level. Such findings call for integrated studies assessing effects on poverty at various scales and attending to the specificities of mining-related livelihoods. Nested mixed-methods including place-based ethnographic observation, longitudinal surveys, as well as socioeconomic and political analysis across multiple scales are needed to provide more robust contextual understandings of the relationships between extractive sectors and poverty.
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## 1. Introduction

The developmental record of resource-rich countries has received much attention since the oil boom of the 1970s. In theory, mineral extraction, including oil and gas, should contribute to development by increasing employment, economic growth and public services, and thus reduce poverty. Yet many empirical studies point to the challenge of translating resource wealth and resource-led growth into poverty reduction, stressing the "ambiguity" in the relationship between extractive industries and "development" (Bebbington et al., 2008). This article reviews empirical studies that specifically examine the relationship between extractive industries and poverty as well as the particular linkages articulated in these studies in order to gain further insight into this ambiguity. Our findings underscore how divergences between methodological orientations in studying these linkages matter, and we argue that interdisciplinary mixed methods approaches that take into account the full range of socioeconomic costs and benefits as well as power dynamics at multiple scales are vital to understanding the relationship between extractive industries and poverty.

Analytic simplifications abound in the literature addressing the poverty impacts of extractive industries. Studies of extractive sectors tend to follow one of two main paradigms. The dominant paradigm related to large-scale mining extols the potential for extractive sectors to reduce poverty. Since the onset of the recent commodity 'super-cycle' driven by 'emerging economies', many proponents of extraction-led development have renewed arguments that the poverty reduction potential of extractive sectors can be harnessed (ICMM, 2013). The World Bank Group supports extraction-led development in low- and middle-income countries on the grounds that large-scale industrial mining can contribute both directly and indirectly to poverty reduction (Weber-Fahr et al., 2001; Weber-Fahr, 2002). In addition to its contribution to aggregate growth, the ICMM (2013: 5) argues that extractive industries have important regional and local level effects, noting that mining regions in Chile, Ghana, and Brazil "[h]ave enjoyed stronger poverty reduction and social development performance than non-mining areas." Extractive companies highlight the potential poverty-reducing effects of their activities through employment, local procurement, physical infrastructure and the provision of public goods such as health care and education as well as skills training through their Corporate Social Responsibility (CSR) programmes (Dashwood, 2012). Many proponents within 'international development' do stress the challenges of soundly governing extractive industries, yet remain confident about the possibility of positive contributions (Pedro, 2006; Collier, 2010; APP, 2013).

While extractive companies, industry associations, national governments and many international development agencies present arguments regarding the potential positive contributions from extractive industries to poverty reduction, many other voices have empirically challenged the prevailing optimism. For many critics of extractive industries, the past record of mismanagement, corruption, pollution and exploitative terms of commercial relations suggest that new resource booms are unlikely to benefit the poor, absent major changes in power relations between governments, companies and communities at both domestic and international levels (Gary and Karl, 2003). Such perspectives echo earlier studies in rural sociology of persistent poverty within natural resource-dependent areas, which point to "the shift from labour to capital-intensive resource extraction, profit squeezes, and increased capital mobility ... [as well as] internal colonialism such as unequal exchange, the clash between traditional and secular cultures, and the control of public agencies by powerful private interests" (Peluso et al., 1994: 23; Freudenburg, 1992). This more critical paradigm related to large-scale mining often engages early studies on rentier states (Mabro, 1969; Mahdavy, 1970; Yates, 1996; Karl, 1997) and is frequently articulated around the concept of *resource curse*.[1] Resource curse scholarship argues (with variations) that resource-rich and/or resource-dependent countries generally experience relative economic and institutional underperformance as a result of a series of mechanisms including greater exposure to economic shocks, currency overvaluation, higher levels of corruption, lower levels of democratization, higher likelihood of armed conflict, and a consolidation of patriarchy (Auty, 1994; Arezki and Van der Ploeg, 2011; Ross, 2012; for a critique of common framings of the 'resource curse,' see Di John, 2011; Boschini, 2013). Whereas some early econometric studies of the 'resource curse' claimed unconditional negative impacts on economic growth (Sachs and Warner, 1995), more recent ones demonstrate the crucial role of institutions (Bulte et al., 2005), and emphasize the difficulties of managing large and volatile revenues even with relatively sound governance institutions (Ross, 2012).

While the 'resource curse' paradigm mostly questions the macro-level developmental contribution of large-scale mining and oil and gas industries, another paradigm critical of extractive industries is one that emphasizes negative micro-level impacts of artisanal and small-scale mining (ASM) on rural communities – such as health, environmental and work safety hazards, high inefficiencies and low returns, labour diversion – and negative impacts on public finances and political order due to the weak 'tax-handle' (difficulty of taxation) provided by a mostly 'informal' sector (Davies, 2009; Snyder and Bhavnani, 2005). There is, however, a growing counter-perspective to this negative portrayal, namely one that focuses on ASM's potential for poverty alleviation – a perspective, as Hilson and McQuilken (2014) demonstrate in a recent review, that is often undervalued within global and national development agendas and marginalized relative to industrial mining.

If the 'curse or blessing' of resource wealth is intensely debated, relatively few studies have systematically reviewed the linkages between extractive industries and poverty. Among these, Labonne (2002: 69) concludes that "mining broadly contributes to poverty reduction", whereas Pegg (2006: 376) suggests that "mining is more likely to lead to poverty exacerbation than it is to poverty reduction." As discussed below, settling this debate is difficult. Despite the many articles on the resource curse, very few mobilize

[1] The term curse seems to have been first used academically in relation to resource-led development by Thorp and Bertram (1978), and most prominently by Gelb (1988), although the term 'resource curse' first appears as a metonym in Auty (1994).

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