

# Development policies in Colombia

By Vicente Giordanelli Duran

This paper describes the Colombian mining sector, and the institutions and state entities in charge of its promotion and development.

Colombia has abundant and varied mineral resources, and is rich in mining potential; however, the lack of systematic exploration has limited geological knowledge. Corresponding with the nation's potential is its rich mining tradition; since pre-Columbian times, Colombians extracted emeralds and salt in the eastern mountain range, and in the Spanish colonial period, gold mining became the principal economic activity. Gold was the national economic mainstay through three centuries; the country has substantial proven coal resources as well.

When Colombia's geography, with coastlines on both the Atlantic and Pacific oceans, is considered along with its natural resources and historic economic focus, it is clear that the nation can develop into a mining country of the first order.

## Legislation and governmental interests

Colombia's mining industry is considered a public and social interest. Mining legislation is predicated on the principles of state control over resources; social and economic value of private ownership; free enterprise; and management of the nation's economy.

National mining policy is established by the Ministry of Mines and Energy, and carried out through the following official entities: Ingeominas, which is responsible for design of geological maps of the country; Carobcol, which develops plans and programs for promotion and development of the coal industry; and *Empresa Colombiana de Minas* (Ecominas), which carries out a similar mission for other solid minerals.

Legislation for small-scale production projects has established a system by which the Ministry of Mines and Energy

grants legal power to a person, civil or juridical, for exploration and exploitation in a specified mining area. This entitlement lasts for five years and is renewable for a second five-year period.

Development of medium-sized mining projects by private sector enterprises is regulated through a concession-type administrative contract signed with the Ministry of Mines and Energy. This contract gives a licensee authority to exploit a specific mineral at his/her cost and risk after completing a technical exploration of the field with a valid exploration license. The contract has a duration of 30 years, with a superfiiciary extension greater than that of the permit.

The third legal procedure, known as "aporte," governs the exploration and exploitation, yield and refining of minerals found in a given area. These rights are granted only to official mining entities, and last for the economic life of the deposit. Only minerals or areas that the Ministry considers of basic importance to the nation are granted an "aporte."

## Current conditions in the Colombian mining industry

The current state of Colombia's mining industry reflects neither its resource potential nor its great mining tradition. In the Latin American context, Colombia does not stand out as an active mining country when compared with Mexico, Peru, Bolivia, Chile or Brazil. The mining sector, including petroleum, metallic and non-metallic minerals, represents only a small proportion of the nation's Gross National Product. Only in the last few years has its share exceeded 3%, primarily because of an increase in oil and coal production. Mining's contribution to the GNP is minimal when these activities are excluded.

Certain mining sectors have progressed well when compared with a medium level of production in 1975-78. Gold production has shown favorable growth, primarily because of its special

price and market characteristics. Coal production has increased as well, through development of special projects such as the Cerrejon North Zone. Limestone, sulphur and phosphoric rock are other minerals whose production rate has improved substantially. However, the majority of minerals show a very low or even a negative rate of increase. Some have intermittent or minimal production, and the mining of others has been discontinued entirely.

Imports of minerals and their principal products greatly surpass exports, except of coal and petroleum. Colombia principally imports by-products of iron (steel), products of copper, aluminum, zinc, lead, tin, nickel, magnesium, manganese, mercury, cobalt and several iron alloys at an average cost of 450 MUSD annually.

In general, the Colombian mining sector (excluding petroleum) is characterized primarily by small production units. A great part of this activity is made up of rudimentary work, poorly organized and with non-technical skills. This characteristic of the spread-out small producer, when added to decreasing and unstable markets and trading difficulties, pose a great obstacle to development of small and medium-sized mines. In addition, these firms often do not have access to institutional credit, which restricts the possibility of developing efficient operations.

Finally, development of small and medium-sized operations are hindered by the lack of an integral mining policy to protect them, and by poor planning. No financial institutions specialize in development of the mining sector. Meager government funding is dispersed among several development entities.

The following programs are being instituted to assist in development of Colombian mining:

### **Support of small and medium-sized mining operations, especially of precious metals and coal**

The priority accorded this program reflects the high level of employment in these areas, and the potential for increased productivity. Further, these sectors can impact the nation's balance of payments most dramatically through growth of the international reserves of the Banco de la Republica, and, indirectly, through the substitution of other exportable sources of energy (such as by-products of petroleum).

The social impact of this policy is particularly important, as most of the small and medium-sized operations are located in marginal or depressed areas of the nation.

Funding for this program is provided through government agencies. The program includes the following sub-programs:

#### *(a) Legal*

More than 80% of small and medium-sized operations lack defined legal positions. Consequently, they do not have access to the state's incentive programs or business credit, and are subject to considerable instability. This reduces investment in mine improvements, and contributes to the deterioration of public security in this sector. In 1986, the government established a commission to study the reform of Colombian mining legislation and to make recommendations to address mining-related legal issues.

#### *(b) Credit*

This program would create, for the first time, specific lines of credit for small and medium-sized miners of precious metals and coal. Even though these firms may have their titles in order, they do not meet the regular stipulations for credit, as they cannot offer banks and other financial institutions the guaran-

tees they demand. In addition, smaller firms often lack the managerial capacity that would allow them to comply with the requirements of lending institutions.

#### *(c) Technical assistance*

Technical assistance is indispensable for small and medium-sized mining operations, both to improve their methods and to meet requirements for obtaining credit and defining their legal positions. Government efforts attempt to transform the smaller mining works into efficient ones with enhanced operational technology and management.

#### *(d) Processing and marketing*

Small and medium-sized mining operations require mechanisms to guarantee them the sale of their product at a suitable price. This effort analyzes components of various producer zones as a means of establishing or widening marketing streams, thus greatly benefiting producers and consumers. Recommendations center on cost reduction through efficient use of extracting equipment and other operational improvements. Evaluations also are made of economic competence; a region's technological level; feasibility; profitability; project financing; program alternatives; means of improving supply and different uses to which minerals can be put.

#### *(e) Mining safety*

Accidents in underground mining operations frequently result in the loss of human lives, destruction of the mines and damage to mining equipment. This sub-program is being carried out through the miners' help and rescue stations that are located in each mining area. These stations study mining operations; develop technological information; and make findings, recommendations and plans for mining safety and rescue.

#### *(f) Infrastructure*

Small and medium-size mining operations generally lack the infrastructure for

transportation and supply of services. This sub-program's aim is to co-ordinate and encourage the improvement of the infrastructure for roadways, electricity, communication, and social services in the mining regions. Government funding requirements for this effort have been established.

### Consolidation of mining for export and new project development

Colombia wants to strengthen existing mining operations to encourage export-oriented projects, and to develop new ones. National policy is to maximize mining's contribution to its balance of payments without direct government investment.

In 1986, the North Cerrejon project achieved production of 5.3 Mt of coal, a total that was expected to rise to some 8.5 Mt in 1987. Colombia thus can enter large-volume mining for export, and establish itself as a major force in the international coal market. Unfortunately, development of the full productive capacity of the North Cerrejon Project has coincided with an over-supply of coal in the international market and a slow growth of import demand by the consuming countries. Under these circumstances, there has been a substantial turn-about in business policy to make Colombian coal more price-competitive, and to develop new markets.

As a means of developing new export projects, a model contract has been designed to aid negotiations with a number of Colombian and foreign firms for new project development. The contracting process, it is felt, will guarantee a suitable economic revenue for the nation and the mining regions, since the government will not invest capital directly to develop mining projects or efforts to extract precious metals. In addition, the state can avoid financial risk inherent in projects of this type, where markets are subject to large price fluctuations.

### Mining funds

#### (a) *The National Coal Fund*

The National Coal Fund was created in 1979 to fill an institutional void in the Colombian financial system. Prior to that time, there were no financial resources targeted to encourage coal mining. The Fund, which is administered directly by the Carbocol staff, has as its principal resource a tax levied on mining operations that is equivalent to 5% of the value of the coal mine being exploited. This tax has not been demonstrated to be counter-motivating, nor does it burden mining operations disproportionately. It forms a flexible and effective instrument through which mining has begun to generate its own financing. It is expected that the revenue produced by the tax will return shortly to the coal producers in tangible benefits, such as implementation of the programs aforementioned.

#### (b) *Mining Development Fund*

Recent studies by the Mining Policy Committee of the Ministry of Mines and Energy and other entities have concluded that the precious metal mines of Colombia, particularly gold mines, show the greatest promise over the short and medium term for increasing production, employment, and foreign exchange.

More than 85% of the gold Colombia produces, according to purchase statistics of the Banco de la Republica, is from rudimentary mining in small and medium-scale operations. The great majority of these operations use non-technical methods, and are wasteful of minerals and funds. These operations generally lack proper financial mechanisms and technical assistance. However, recent experience shows that small-scale mining has a great ability to expand production in a short while, as it reacts quickly to price stimulation. Further, as previously stated, small operations have a great potential for generating employment in the gold-bearing zones, which are located in economically depressed

regions with little or deteriorated infrastructure.

The government has proposed creation of a permanent, dedicated Mining Motivation Fund to provide the mining sector sufficient financial means for the development of the operations, and for promotion of the industry. The Mining Motivation Fund has been conceived not only as a financing mechanism, but as an integrating and co-ordinating instrument for government action, as well as a means of focussing attention of the entities responsible for the policies and development of precious metal mining.

The Fund will operate under the special account system administered by Ecominas, which has the specialized capabilities required to carry out its objectives. The Fund will have a committee made up of the Ministry of Mines and Energy, the National Planning Department and the Banco de la Republica, which would determine its direction and the activities it would support.