

# WORKING PAPER

## **Political Dynasties and Mining: A Toxic Mix?**

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This working paper is a discussion draft in progress that is posted to stimulate discussion and critical comment. The views expressed herein are those of the authors and do not necessarily reflect the views of Asian Institute of Management.

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## 1. Introduction

Political dynasties are ubiquitous in the Philippine local government landscape, yet none more so than in the Dinagat Islands, a province where members of one family—the Ecleos—have dominated local government politics since the province was carved out of Surigao del Norte in 2006. The Ecleos were also considered as influential figures in the politics of Surigao del Norte, with one member of its clan having served as provincial governor and another member having represented the first district of the province for at least 4 terms in the post-Marcos Congress<sup>1</sup>. The Ecleos maintain a strong influence on the members of the Philippine Benevolent Missionaries Association (PBMA), a religious organization founded by Ruben Ecleo Sr. in 1965. This single family has also translated their religious following into political dominance, lording it over the province’s politics. Since the creation of Dinagat Islands as a Philippine province in 2006, an Ecleo has been Governor and until 2013 (when Atty. Kaka Bag-ao finally wrested the Congressional seat from the Ecleos) Congressman (for the lone Congressional district).

This province provides a stark reminder of how non-inclusive economic growth and development might turn out to be, despite its obvious wealth in natural resources. A rough calculation of the mining wealth generated by the province from 2006 to 2013 suggests that approximately PhP 8.7 billion has been produced, which indicates the receipt of both the national government and local government units of significant amount of revenues from mining activities in the area. Nevertheless, approximately 70 percent (at 68.1%) of all households remains below the poverty line, and more than half (at 54.5%) of all households are “food poor” or have incomes that are not adequate to satisfy their basic nutritional requirements (Office of the Provincial Governor, Dinagat Islands, 2011).

Essentially, political concentration of power appears to be matched by the concentration of economic wealth in this Philippine province. While mining could have provided the resources necessary to boost infrastructure and human capital in the province, in turn leading to a more competitive workforce and job-creating investments); instead it appears to have fed a rent-seeking bonanza. This illustrates the risk associated

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<sup>1</sup> Moises Ecleo (brother of Ruben Ecleo, Sr) served as the Governor of Surigao del Norte from 1988- 1992, while Glenda Ecleo (wife of Ruben Ecleo, Sr) served as the Representative of the First district of Surigao del Norte (which encompassed Dinagat and Siargao islands) from 1987 to 1995, and 2001 to 2007.

with concentration of political power—it leaves little leeway for democratic checks and balances, when both governance and policies go wrong.

## **2. Number 1 in Political Inequality**

A long and un-interrupted grip on power could translate into either of polar opposite results—either dramatic economic development due to sustained planning and project development takes a country or region forward rapidly; or economic stagnation could take place due to “state capture” and extractive politics.

As regards the concentration of political power, Dinagat Islands tops the AIM Policy Center’s Political Dynasties Database. Dinagat is number one in the Philippines in two political concentration indicators: 1) in terms of the share of a single dynastic family out of the total elected positions in the province<sup>2</sup>; and 2) in terms of the indicator for political concentration (akin to regulators’ Hirschman-Herfindahl indicator of monopolistic concentration for industries).

Presently, the Governor of Dinagat Islands is the family matriarch, her son is the Vice Governor, and three (out of seven) Mayors are also Ecleo family members. Additionally, two councilors and two provincial board members are from the Ecleo family.<sup>3</sup> Other well-known (but much smaller) political families in power in Dinagat Islands includes the Vargases, Ladagas and Longos (see Figure 1).

The political career of the Ecleos started when the family patriarch, Ruben Ecleo Sr., became the Mayor of Dinagat town in 1963. He held the said position until his death in 1987. His wife Glenda eventually entered politics, serving as a Provincial Board Member in 1980 and then as Representative of the 1<sup>st</sup> district of Surigao del Norte. The family has relied on PBMA to elect its members in various local positions and that some national politicians supported by the Ecleos have benefited from the overwhelming support provided by the said religious organization<sup>4</sup> (Danguilan Vitug, 1995).

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<sup>2</sup> The elected positions considered include all local government positions in the province except municipal councilors.

<sup>3</sup> Annex 1 includes a short video clip of a report of Dinagat Island politics prior to the 2013 elections. The results of those elections are reflected in figure 1.

<sup>4</sup> For instance, in the 1986 presidential elections, the Ecleos have supported Ferdinand Marcos who obtained 20, 249 votes from the municipality of Dinagat (in which Ruben Sr. was serving as the Mayor at that time) while Corazon Aquino only obtained 945 votes from the said municipality.

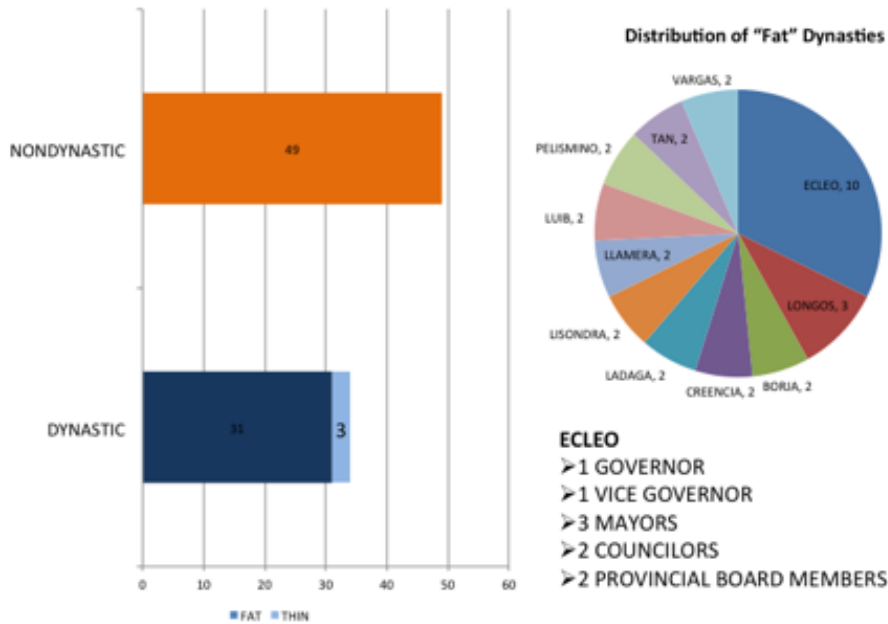
**Table 1.**

**Top 10 Philippine Provinces in Various Dynastic Indicators, 2013**

	DYNASTIC SHARE	LARGEST DYNASTIC CLAN (SHARE OF TOTAL POSITIONS)	DYNASTIC COMPETITION-HERFINDAHL
TOP 1	MAGUINDANAO	DINAGAT ISLANDS	DINAGAT ISLANDS
TOP 2	APAYAO	SIQUIJOR	MAGUINDANAO
TOP 3	SULU	MAGUINDANAO	SIQUIJOR
TOP 4	TAWI-TAWI	CAMIGUIN	APAYAO
TOP 5	ILOCOS NORTE	BILIRAN	QUIRINO
TOP 6	ABRA	LANAO DEL SUR	TAWI-TAWI
TOP 7	NEGROS OCCIDENTAL	BATANES	BILIRAN
TOP 8	ILOCOS SUR	GUIMARAS	SULU
TOP 9	QUIRINO	AGUSAN DEL SUR	CAMIGUIN
TOP 10	CEBU	SAMAR (WEST SAMAR)	DAVAO ORIENTAL

Source: AIM Policy Center Political Dynasties Database (Version 2013).

**Figure 1.**  
**Dynasties and Non-Dynasties in Dinagat Islands, 2013**



Source: AIM Policy Center Political Dynasties Database (Version 2013).

### 3. Rent-rich, but development-poor?

What would fuel such a family's ambition to dominate political life in this province? International experience suggests that where the possibility of rent-seeking is involved, and combined with a weak institutional environment (including poor democratic representation), the abuse of political power, notably if it is concentrated in the hands of a few, is a real risk.

The family matriarch, Gov. Glenda Ecleo, has seen an increase in her total net worth between 2001 and 2011 (see Table 2). In this case, data from Gov. Ecleo's Statement of Assets, Liabilities and Net Worth in 2001 and 2004 (as cited by PCIJ) show that the increase in assets over the said period can be attributed to declaration of ownership of agricultural lands in Surigao del Norte and Surigao City (worth PhP 5.5 million and PhP 16.5 million, respectively) and a commercial lot in Butuan City (worth PhP 20 million) in her 2004 SALN, and an increase in value of some of her personal assets. On the other hand, the family patriarch is said to have owned luxury cars (such as Rolls Royce and Cadillac), speedboats and other assets in his lifetime<sup>5</sup>.

**Table 2: Total assets, liabilities and net worth of Gov. Glenda Ecleo (in PhP million)**

Year	Total assets	Total liabilities	Net worth
2001	35.4	2.144	33.256
2004	81.6	2.844	78.756
2008	142.1	5	137.1
2011	171.1	5	166.1

\*Current fair market value is used in the declaration of Gov. Ecleo's real properties in her 2011 SALN

Sources: PCIJ (2001a), PCIJ (2004a), PCIJ (2011)

Part of the reason behind the accumulation of wealth by the Ecleos is the support provided by PBMA members in the family patriarch's move in the 1970s to transform PBMA into an organization that would engage in business ventures, noting that this can be beneficial for its members. In this case, the Ecleos established some businesses which

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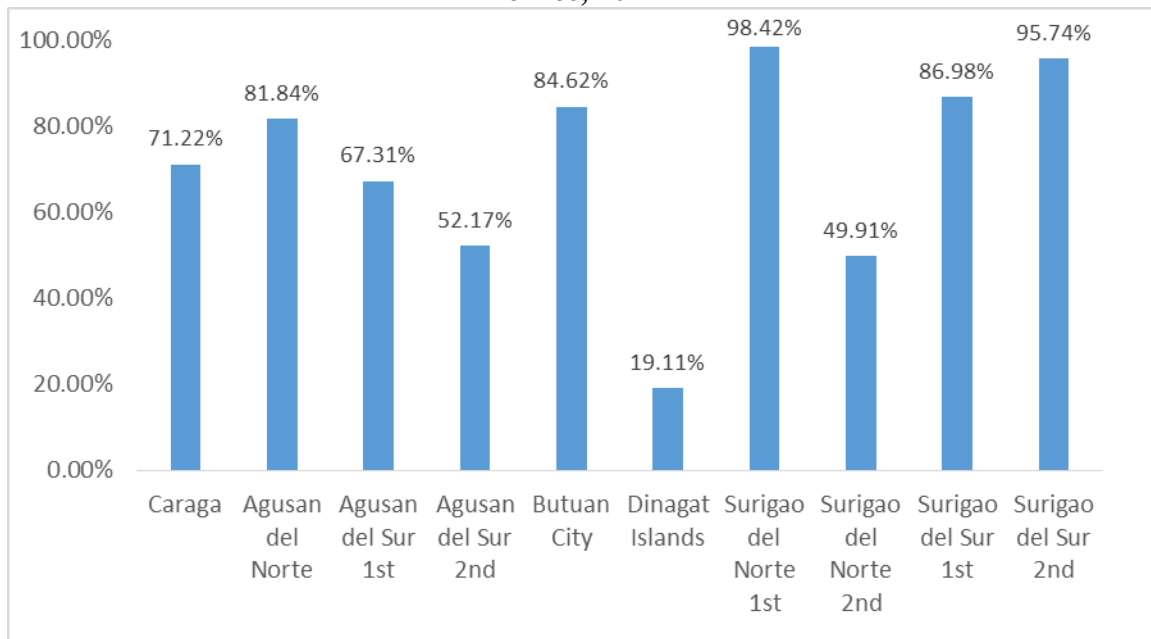
<sup>5</sup> See Danguilan-Vitug (1995)

he encouraged PBMA members to support (such as Ben-Gen fleet of boats which PBMA members were reportedly required to ride when taking a travel to Surigao City and vice versa), fees were collected from members annually and that members were required to provide free labor (Danguilan Vitug, 1995). In her 2001 and 2004 SALNs, Gov. Glenda Ecleo reported having stake in different businesses, which include a recruitment agency (RGE Contracting Services Corporation), a printing press (Twin Dragon Printing), a tailoring shop (RGE Stitchmark) and a mining firm (Minahang Bayan ng Mamamayan ng Dinagat Island) (Danguilan Vitug, 1995; PCIJ, 2001b; PCIJ, 2004b).

On the other hand, challenges remain with regards to development outcomes in Dinagat Islands. Results of the first Community-Based Monitoring System (CBMS) conducted in 2008 show that aside from high poverty incidence among households in the province, a significant proportion of households (at 18.8%) do not have access to safe water facilities. In some barangays, an overwhelming proportion of households do not have access to safe water supply, as in the case of Barangay Ferdinand in Loreto town and Barangay Cab-ilan in Dinagat town in which only 5.3% and 9% of households, respectively, have access to safe water supply. 6 out of 100 children aged 0 to 5 years old in the province are found to be malnourished, while in some barangays (such as Barangay Justiniana Edera and Barangay Gomez in Dinagat town), the proportion is higher-malnourished children account for more than one-fourth of all children aged 0 to 5 years old. Further, 9.7% of 6 to 16 year old children in Dinagat Islands were not in school at the time the survey was conducted, while almost one-fifth (17.6%) of 6-12 year old children were not in elementary and 4 out of 10 (38.2%) 12 to 16 year old children were not in high school (Office of the Provincial Governor, Dinagat Islands, 2011).

Similar challenges exist with regards to access to transportation infrastructure. In 2012, only 20.18 km out of a total road length of 105.59 km (or about 19.11% of total road length) in Dinagat Islands is considered as paved. This is in contrast to the regional total (which amounts to 71.22% of total road length), and to other district engineering offices in Caraga region, almost all of which have more than half of their total road length as paved (see Figure 2). The only exception to this is the 2<sup>nd</sup> district of Surigao del Norte, in which almost half (76.38 km out of 153.04 km) is considered as paved.

**Figure 2.**  
**Paved road length (as a proportion of total road length) by district engineering office, 2012**



Source: Department of Public Works and Highways (2013)

The possibility of rent-seeking appears to be quite common where natural resource wealth is involved. Countries with governments that maintain strong control over natural resource deposits or with elites that maintain their hereditary grip on this wealth may be less likely to develop strong institutions for good governance and well-functioning market economies. Thus, some countries that have turned to extractive industries have increased the economic pie, yet they have also been able to grow the democratic and other institutions that a well-functioning and growing market economy needs to sustain and share this growth.

Countries like Angola, Chad, Democratic Republic of Congo and Venezuela, for example, are among those that have faced various symptoms of the natural resource curse such as vulnerability to boom-bust episodes and wild swings in public spending and investments (i.e. spending bonanzas during times when the price of commodities are favorable, and crushing debt and severe fiscal austerity during commodity price downturns). Slower growth, higher corruption and more prevalent conflicts also form part of the broader malaise for these countries.



Nevertheless, some developing countries are on the opposite side of the spectrum, where natural resource wealth can be characterized as a blessing. Botswana, Chile, and Malaysia, are widely touted as examples of those natural resource exporters that effectively channeled their wealth towards investments in economic and human development, boosting education and health of the population while also improving economic diversification and competitiveness. A synthesis of these experiences, coupled with the amalgam of empirical evidence to date would suggest that natural resource wealth is a double-edged sword. Indeed this wealth could fuel rapid and inclusive development, or it could stifle economic diversification, and breed dependence, corruption and social and macroeconomic vulnerability.

Mining is well known to attract rent-seeking activities notably when governance and institutions are weak. In the case of Dinagat Islands, mineral wealth is abundant. Krominco Incorporated (mining chromite in Loreto Municipality), AAM-Phil Natural Resources Exploration and Development Corporation (mining nickel in Basilisa and San Jose Municipalities and operating since 2010), Cagdianao Mining Corporation (mining nickel in Barangay Valencia, Cagdianao Municipality and registered with SEC on July 25, 1997), and Oriental Vision Mining Philippines Corporation (mining nickel in Loreto and Tubajon Municipalities and has been shipping nickel ores to Australia, China and Japan since 2010) are among the major mines in Dinagat Islands.<sup>6</sup>

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<sup>6</sup> See Mines and Geosciences Bureau, NiHao Mineral Resources International, Inc. and Nickel Asia Corporation (2012)

**Figure 3.**  
**Map of Dinagat Islands**



Since the Dinagat Islands became a province in 2006, around PhP 8.7 billion in minerals (particularly nickel and chromite) has been extracted (See Table 3). Further, mining operations in the said province have generated significant amount of revenues on the part of the government. For instance, a mining company has paid the government a total of around PhP 96 million in taxes from 2007 to 2013. Taxes paid include various tax dues to national government<sup>7</sup> and local government<sup>8</sup>, withheld taxes and royalty payments. In this case, operations by the said mining company generated around PhP 9.88 million in tax revenues to the local government over the same period (see Figure 4). Relatedly, another mining company remitted business tax payments amounting to PhP 48 million to a municipality in Dinagat Islands for its operations from 2003 to 2008 (Bureau of Local Government Finance). In this case, a report by the Bureau of Local Government Finance noted that Dinagat Islands registered the highest collection efficiency (of local business tax) among the provinces in CARAGA region in 2010 and this was attributed to

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<sup>7</sup> This includes corporate income tax, excise tax, customs duties, value-added tax and export tax, among others.

<sup>8</sup> This includes local business tax, real property tax, occupation tax, community tax and permit fee, among others.

the presence of large scale mining companies in the province. In 2010, mining activities in Dinagat Islands generated about PhP 97.81 million in total tax revenues (Mines and Geosciences Bureau Region 13, 2011). On the other hand, it is estimated (based on data from large scale mining firms) that there are around 1 million tons of Chromite reserves, 30.92 million tons of Nickel reserves and 25.28 million tons of Iron (associated with Nickel) reserves in the province as of 2013 (Mines and Geosciences Bureau, 2014c).

**Table 3.**  
**Value of Mining Production in Dinagat islands, 2006-2013 (in PhP million)**

**Nickel production**

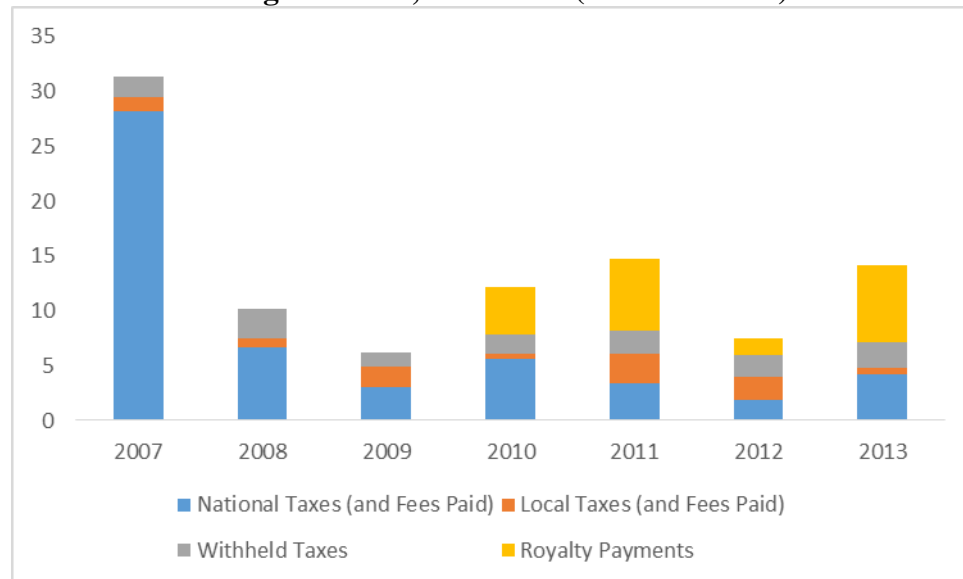
<b>Mining Company</b>	<b>Mining Project</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2006-2013 total</b>
Cagdianao Mining Corporation	Cagdianao Nickel Project	1598	3514	774	487.15	268.91	327.4	212.16		7181.62
Oriental Synergy Mining Corp	Bel-at Nickel Project						44.22	196.91	226.27	467.4
AAM Phil Natural Resources Exploration	Dinagat Chromite/ Nickel Project							76.37	208.28	284.65
Sinosteel Philippines HY Mining Corp	HY Nickel-Chromite Project							71.23		71.23
<b>Sub-Total</b>		1598	3514	774	487.15	268.91	371.62	556.67	434.55	8004.85

**Chromite production**

<b>Mining Company</b>	<b>Mining Project</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2006-2013 total</b>
Krominco, Inc	Dinagat Chromite Project	53	93	108	126	117	70	68	53.07	688.07
CRAU Mineral Resources Corp	Dinagat Chromite Project	0.49								0.49
<b>Sub-Total</b>		53.49	93	108	126	117	70	68	53.07	688.56
<b>Nickel and Chromite total</b>		1651	3607	882	613.2	385.91	441.62	624.67	487.62	8693.41

Sources: Mineral Statistics Series (2004-2008, 2006-2010, 2008-2012), Mines and Geosciences Bureau; Mines and Geosciences Bureau (2014a)

**Figure 4.**  
**Total taxes and fees collected from a mining company operating in**  
**Dinagat Islands, 2007-2013 (in PhP million)**



Source: Mines and Geosciences Bureau (2014b)

The local government can parcel out access to the islands' abundant mineral deposits. This is fine as long as the government can play a key role in regulating the industry; and if the industry has clear guidelines for operating responsibly. Yet the mining industry in Dinagat Islands is associated with controversy. Mining revenues are not associated with stronger development outcomes as the province continues to want for key infrastructure and public services, despite the wealth extracted.

In a moment of unguarded candor, even the Governor of the province (and the family matriarch of the Ecleo dynasty) hinted that the family benefited immensely from the mining wealth.<sup>9</sup> Gov. Ecleo revealed in her previous SALNs her stake in Minahang Bayan ng Mamamayan ng Dinagat Island cooperative, which, based on a Commission on Audit (COA) report in 1993, received PhP 500,000 from the Countrywide Development Fund (CDF) allocation to the municipality of San Jose (in which one of the elder Ecleo's

<sup>9</sup>See the video link in Annex 1.

children served as Mayor) (Danguilan Vitug, 1995). The said cooperative is one of the 3 Dinagat Islands mining cooperatives that served as signatories of a 2006 Memorandum of Agreement (together with Oriental Synergy Mining Corporation and Macau-based Chinese group) in which Oriental Synergy is given jurisdiction to develop and manage their mining operations while the Chinese group would provide investment resources and help in searching potential markets abroad (Philippine Information Agency, 2006).

Many Dinagat residents remain skeptical on whether mining would truly bring development in the province. Instead, there is a general anxiety about the continued environmental risk created by the mining operations. Landslides are not uncommon, due in part to the combined effects of deforestation and mining in the countryside. Air quality (during the summer months) and soil erosion and the spilling of mine tailings into rivers and the sea (primarily during the rainy season) are also among the concerns raised by citizens.

Generally, these are all aspects of mining that can be addressed responsibly and effectively—that they are not, is almost always a reflection of poor governance and corruption rather than the absence of appropriate technologies and mine management strategies.<sup>10</sup>

#### **4. Quo vadis?**

Mining brings considerable wealth to Dinagat Islands. And political concentration of power offers an opportunity to direct this wealth into visionary investments for the province. Nevertheless, political concentration of power is often accompanied by very poor institutional development. And the latter is often tantamount to a poor safeguard for using mining wealth effectively for economic development. This is the catch-22 of concentrating political power—leaders can achieve a lot in principle; but voters roll the dice on how their leaders utilize that power.

Eventually, however, the concentration of political power—notably in the form of dynastic families (rather than long-lived political parties)—does not bode well for the health of any participatory democracy.

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<sup>10</sup>Annex 2 contains images from Loreto Municipality, where many of the mining concessions operate. This author confirms many of the risks reiterated by residents.

Such a concentration of power in dynastic politics often relies on shortcuts (such as alliances crafted out of convenience rather than on shared principles and policy strategies), and on an unhealthy dependence on a small group of leaders (or in this case, a small group of well-connected political families). Even if they were neither extractive nor corrupt, their mere presence in the political landscape often crowds out the political space necessary to grow much more inclusive and robust democratic institutions which are potentially more conducive for sustainable economic development.

For Dinagat Islands, the stakes are high—they can break free from poverty and dynastic politics in 2016, or they can experience more of the same. Many hope the latter cannot last for much longer, as the hunger for change grows against the stark nature of underdevelopment, environmental degradation and inequality in this province.

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### **Annex 1. Coverage of the 2013 Elections in Dinagat Islands**



Source: <https://www.youtube.com/watch?v=Sbd6q3TMc-o>

### **Annex 2. Images of Mining Areas in Dinagat Islands**

(Photos taken by the author on 16 April 2014)

Mining on one mountain top in Loreto Municipality



Open pit mine of Krominco Incorporated operating in Loreto Municipality



Rivers carry soil, sediments and mining refuse, emptying into the sea. Residents claim these rivers were clear prior to the increase in mining in Dinagat Islands.





Landslides and soil erosion appear common where deforestation and mining has intensified. Roads to Loreto are also unpaved and very poorly kept, effectively isolating Loreto Municipality from the other parts of Dinagat Islands.



Snapshot of economic inequality—the Ecleo family’s “White Castle” in the background;  
and a fishing village in San Jose Municipality in the foreground.



+AMDG

This policy research is in collaboration Konrad-Adenauer-Stiftung.



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