Care in the community

Alexander Bruce Lister Matheson FIMMM reflects on why mining companies need to integrate robust local procurement strategies to protect and benefit host communities.

Pictured: Mining equipment spare parts are stored in an open-air area in front of a warehouse under construction in Kamsar, Guinea, West Africa

Mine site local procurement is the mining version of shopping locally. It ensures that, where possible, products are procured from businesses close to a mine and helps the local community benefit from the works being carried out in their own backyard.

In most cases, procurement by a mining operation is the single-largest, potential economic impact in a host country or region – more than payments in taxes, wages and community investment combined. Furthermore, when spent locally, the money tends to stay local, whereas taxes and royalties often fail to find their way to the communities. If carried out well, local procurement can play a pivotal role in supporting economic development of these host communities.

This issue is most prevalent in the global South where there are areas with large concentrations of mineral resources. These communities have often endured decades of mining activity with little of the expected corresponding advances in socio-economic development to show for it, known as the 'Paradox of Plenty' (see the box-out on p33).

One of the causes of this paradox is the lack of supply chain linkage between domestic suppliers and mining investment. In sub-Saharan Africa, for example, mining operations have tended to operate out of enclaves, importing a large proportion of goods and services to meet the needs of operations, rather than engaging with their host communities and prioritising purchasing from local suppliers.

However, now an increasing number of companies are trying to avoid the enclave mistakes of the past. It has taken a long time to change this trend – arguably, it was started approximately two decades ago with the Equator Principles in 2003, with local sourcing being a logical extension of the embodied 'social licence' principle.

Additionally, there was the realisation that the benefits of local procurement serve both the mine and the local community

– very much a 'win-win'. If done properly, local procurement can build capacity, ability and resilience in a mine, the local community and the supply chain that links them. COVID-19 has also made it clear that having competent local suppliers/clients who consider themselves your partners is not just a good idea but a good risk management policy (see table below).

Benefits to the community
Backward linkages – spillover purchasing benefits (chain of capacity).
Engagement with mine/communication with mine
Increased capacity of community and local suppliers
Revenue directly into the community
Benefits to the mine/organisation
Engagement with local community
Cost saving/stock saving
Good service
Reduced risk of supply stoppages
Shareholder/investor approval (investor activism)
Meaningful legacy
Meaningful benefit to reputation in host country

When considering the benefits, it is a wonder that mine operators are not falling over themselves to develop local procurement strategies. While it does take place, it is not always done well. However, there are other external influences encouraging good practice, which can vary from regional to local governmental policies in host counties and mining company countries of origin, or even due to activist investors.

African vision

With regards to policy in the host region or country, a good example in Africa is the influential African Mining Vision – a policy framework that was created by the African Union in 2009 to ensure that the continent uses its mineral resources strategically for broad-based, inclusive development. It forms the basis for almost every country that is adding new regulations on local procurement as they update their mining codes. Senegal, Burkina Faso and Zambia are all in the process of implementing new rules. Ghana put in place new rules in December 2020, and, in 2018, the Democratic Republic of Congo, Tanzania and South Africa all added to their local procurement rules.

Beyond Africa, Saudi Arabia has recently instituted local procurement rules and supplier development for its mining sector, while the Argentinian province of Salta also added such rules in 2019. In addition, the normal practices of the country of domicile of many mining companies comes into play. So many firms are based in Canada and Australia, where local procurement is included in community development agreements with Indigenous communities and is of paramount importance. Pressure can be exerted at home and felt halfway around the world.

As we have seen with tailings issues, investors are watching the mining and extractives sector perhaps more than any other. The fact is that companies need to wake up to this issue because if they are not already actively engaging with it, they will soon find themselves forced to, lest we have more examples such as Fria in Guinea.

Ghost town

In 2017, Penda Diallo, a Lecturer at the Camborne School of Mines, at the University of Exeter, UK, published an article for *The Conversation*, on African towns falling into decline and poverty after mining companies use resources then exit. She profiles Fria, now in poverty following the decline of bauxite mining in the area – triggered in 2008 by the global financial crisis and tumbling aluminium prices which forced the remaining mining company to slow down its activities. Today, unemployment remains high leaving many families struggling to make ends meet.

Pictured: Bulk carrier ship loading bauxite aluminium ore at a loading jetee in the Kamsar port, Guinea, West Africa

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Diallo explains in the article how Fria was set up as an enclave, an 'artificial infrastructure' built in contrast to the standard of life outside of this bubble. Once mining slows down and stops, as it has in Fria, then outside investment follows. It has a negative impact on those local workers who remain, who are unable to garner an alternative source of income.

"To prevent mining companies leaving ghost towns like Fria," Diallo concludes in her article, "plans must be put in place to promote the kind of economic development that will sustain the population long after mining has finished".

Mining Shared Value

Encouragingly, there are also plenty of good tools for companies to use, such as the Local Procurement Reporting Mechanism (LPRM), developed by the Mining Shared Value (MSV) initiative.

MSV is a programme developed by Engineers Without Borders Canada that focuses on helping the mining sector and related stakeholders to maximise local procurement of goods and services. It works with industry actors to disseminate research and resources, notably through a partnership with the World Bank to support the online Extractives-Led Local Economic Diversification (ELLED) Community of Practice (CoP).

It aims to aggregate key local procurement resources, discussions and policy changes. Research spans from site-level case studies to country-level analyses and continent-level policy examinations related to mining local procurement. Furthermore, it develops resources to support decision-making by all stakeholders. Where gaps occur, MSV's work can develop a standard set of disclosures on local procurement to support management of that issue.

LPRM is a publicly available framework aimed at increasing and standardising information on mine site level local procurement processes and results.

"The LPRM is an Environmental, Social and Governance (ESG) transparency framework that guides mining companies to provide information on their local procurement efforts and results at site level," explains Jeff Geipel, Managing Director of MSV. "It is a publicly available framework that was created with the support of the German development agency (GIZ) to increase transparency for what is generally the single largest potential economic impact of mining in host countries."

Geipel says that using the reporting mechanism, companies can structure local procurement practices in alignment with best practices, and MSV has already seen companies put in place new policies and initiatives to meet the requirements of the standard, thus improving their performance.

LPRM helps mine sites report on local procurement to:

- Improve internal management in mining companies to create more benefits for host countries and to strengthen their social licence to operate.
- Empower suppliers, host governments and other stakeholders with practical information that helps them to collaborate with mine sites.
- Increase transparency in the procurement process to deter problematic practices such as corruption.

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Dutch Disease and the Paradox of Plenty

The phrase 'Dutch Disease' was coined by *The Economist* in 1977 following analysis of the 1959 crisis that occurred in the Netherlands, after the discovery of vast natural gas deposits in the North Sea. The analysis found that the newfound wealth (and potential thereof), combined with the massive exports of oil, caused the value of the local currency to rise, making Dutch exports of all non-oil products less competitive on the world market and, more importantly (and for the sake of this article), made many items and goods cheaper to import. The result was increased unemployment from 1.1% to 5.1% and decreased capital investment.

'The Paradox of Plenty' is a similar but a more extreme version of the above. It is typically used to highlight why the population of many resource-rich countries in the global South fail to enjoy the socio-economic advances that should by rights be theirs, as the mineral resources in their countries are exploited. It is often linked to a lack of engagement from the leaders and elites of those countries to work for the betterment of the population.

> *"In 2019, almost 84% of our procurement spend was with Ghanaian companies, up from 73% in the previous year. Local procurement provides the framework for genuinely interdependent relationships – where miners and host communities succeed together."*

Golden Star Resources, for example, released its first sustainability report using the LPRM in September 2020. The firm operates in Ghana where the government is currently in the process of enhancing regulations on the mining sector regarding local procurement.

Philipa Varris, Head of Sustainability at Golden Star, notes that local procurement participation has long been recognised as a vital element of retaining and enhancing the value of the company's operations for host communities. "Our objective is to move beyond social licence to operate to [the] creation of lasting value," Varris says. "In 2019, almost 84% of our procurement spend was with Ghanaian companies, up from 73% in the previous year. Local procurement provides the framework for genuinely interdependent relationships – where miners and host communities succeed together. The Mining LPRM provides a standardised method for ensuring transparency and in practical terms has guided our efforts and performance improvement."

Due dilligence

Despite the positive progress being made, it is not to say the room is devoid of elephants – areas where mining companies believe the responsibility falls squarely on the shoulders of governments, and conversely, governments tend to feel the problem is not theirs. As often is the case, the answer is somewhere in between.

To this end, due diligence and beneficial ownership initiatives are being addressed on a policy as well as a grassroots level. The onus of checking and carrying out due diligence is being pushed on to the mining companies, through standards and regulations. It means that plausible deniability is no longer an excuse.

For example, the World Gold Council in 2019 made a public supply chain policy a requirement in its Responsible Gold Mining Principles. ESG ratings agencies are also asking about due diligence and anti-corruption systems in their questionnaires for companies, and the EU is in the process of putting in place regulations both for supplier due diligence and reporting on it.

Just rewards

Local procurement is a long overdue issue – while it is not a panacea to the 'Paradox of plenty', it is a step in the right direction and already improving lives as the communities that host mining ventures get their just rewards.

Strong links?

Mining Shared Value released a report in July 2021 providing an *Overview of Local Content in the Mining Sector in Southern Africa*. Commissioned by the South African Resource Watch, the study offers insights into experiences with local content regulation at an international level.

It analyses the legal framework and public policies related to local content in the Democratic Republic of Congo, Mozambique, South Africa, Zambia and Zimbabwe, exploring how local content regulation influences government and the extractive industries in the Southern African Development Community (SADC) region to generate economic and infrastructure linkages along the value chain of their operations.

The report recommends "that in most cases, in the SADC region, it will make more sense to focus on backward [or upstream] linkages rather than forward linkages in the short-to-medium term".

Backward linkages refer to the procurement of goods and services for extractive industry projects, while forward linkages relate to creation of finished products. The report reads, "Across Africa, there has often been a political obsession with creating extractive industry forward linkages at the expense of attention to upstream linkages. Many feel that there is something intuitively problematic about the idea of exporting raw materials to other countries, who then process them into finished products, only for the original exporting country to buy them back at a higher cost.

"It is for this reason that many developing countries have tried hard to create in-country beneficiation for their raw materials, and why the idea is politically popular in Africa even though there have been few examples of success. This is not to say that SADC countries should entirely avoid attempting to create forward linkages from their extractive industry outputs, but rather to explain the economics as to why it is not as straightforward as it seems, and to emphasise the multitude of preconditions that need to be satisfied to target a particular processed product. Policy options will then be provided, with examples of success and failure."

The report continues, "Not only are the economic preconditions difficult for the processing of raw materials, particularly due to the lack of regional demand for the products (from copper to polished gemstones), but for most countries there are more effective ways of creating jobs and government revenue by focusing on backward linkages."