



# Sustainable Extractive Industries: The Role of Local Content provisions



---

***Policy brief resulting from the workshop entitled above and hosted on 18 July 2019 in Gaborone, Botswana, co-organized with the South African Institute of Internationale Affaires (SAIIA), South Africa***

## **Recommendations:**

- Stakeholders should work towards greater clarity and policy coherence around how 'local' is defined in the context local content requirements
- Reporting standards and frameworks should be standardized to promote trust, accountability and transparency
- Industry competitiveness and the sustainability of local businesses must be taken into consideration in efforts to promote local economic linkages with mineral supply chains
- While implementation challenges and potential impacts on competitiveness related to local content requirements must be acknowledged, this should not justify inaction; there is a need for a systematic, incremental and transparent process to enhance local content in mineral supply chains.

## Executive Summary

Enhancing local content in mineral supply chains holds the potential to contribute to employment and socio-economic development in mining jurisdictions, as well as improve mining companies' social license to operate. Yet poorly framed and implemented local content frameworks can have a number of negative impacts, including undermining the competitiveness and even viability of certain operations. Almost all countries with significant extractive industries (mining as well as oil and gas) have some form of regulatory framework seeking to support greater local engagement in extractive value chains, but these policies have a mixed record of success and there is a great diversity in how these frameworks have been designed. This policy brief outlines key recommendations emerging from a workshop convened by the Konrad-Adenauer-Stiftung's (KAS) Regional Programme for Energy Security and Climate Change in Sub-Saharan Africa and the South African Institute of International Affairs, which was hosted on 18 July 2019 in Gaborone, Botswana. Recommendations centre on the question of how 'local' is defined in the context of local content provisions, considerations related to industry competitiveness, the issue of reporting and transparency, and the relationship between corporate social responsibility and local content provisions. The key conclusion is that, while implementation challenges and potential impacts on competitiveness related to local content requirements must be acknowledged, this should not justify inaction; there is a need for a systematic, incremental and transparent process to enhance local content in mineral supply chains.

## Introduction

The African Mining Vision (AMV), the central framework setting out the ambitions of the continent for a closer relationship between the mining industry and broader development, calls for "transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development"<sup>1</sup>. A central aspect of this vision is a closer link between mining operations and the local economy. Efforts to promote local content within mineral supply chains have become an important focus in supporting such linkages. However, several barriers to the effective promotion of local content exist, while stakeholders have also raised concerns around potential unintended negative consequences of an injudicious application of local content requirements.

This policy briefing presents the key recommendations emerging from a workshop convened by the Konrad-Adenauer-Stiftung's (KAS) Regional Programme for Energy Security and Climate Change in Sub-Saharan Africa and the South African Institute of International Affairs on the theme of Sustainable Use of Resources in the Extractive Industries: The role of local content provisions. The workshop was hosted on 18 July 2019 in Gaborone, Botswana and was attended by 33 participants representing industry, civil society and academic stakeholder networks within the Southern African region. Key regional institutions represented included the Southern African Development Community Secretariat and the African Mineral Development Centre, a multi-agency centre tasked with coordinating the implementation of the African Mining Vision.

---

<sup>1</sup> <http://www.africaminingvision.org/>

## A mixed record

Almost all countries with significant extractive industries (mining as well as oil and gas) have some form of regulatory framework seeking to support greater local engagement in extractive value chains. Governments see this as an avenue to secure greater socio-economic benefits from mining activities, particularly in terms of job creation and enterprise development, while companies may benefit from a strengthened social license to operate<sup>2</sup>.

Many authors, however, have pointed to the mixed record of efforts to enhance local content, also highlighting the diversity of approaches employed across mining jurisdictions<sup>3</sup>. At a very basic level, governments face the choice of adopting a regulatory ('stick') approach, which emphasises compliance with specific legislative or policy instruments, or an incentive-based ('carrot') approach where the state seeks to facilitate greater local involvement through incentives or non-mandatory guidelines; typically, the regulatory framework would include some combination of these broad approaches<sup>4</sup>. Even before the specifics of the regulatory approach is taken, however, there are certain critical factors that policymakers must consider. The potential risks and opportunities associated with local content policies must be clearly assessed within the broader political-economic setting<sup>5</sup>; institutional readiness must be assessed and if necessary strengthened to avoid the risk of unrealistic or ill-targeted policy interventions; and policies must be "targeted, realistic and specific enough to be successful"<sup>6</sup>.

## What is local?

Any discussion of local content provisions must engage with the question of how 'local' is to be defined. There is no single, accepted definition of local procurement, but most countries develop their definition of local around three components: geographical location (a requirement that the registration, incorporation, or activities of a business take place at the regional, national, state, or mine-adjacent communities); participation (a requirement that a business be majority-owned by citizens of the country, or that a percentage of the management and/or employees are citizens of the country; and local content and/or value addition (a requirement that goods, works, and services be created or provided for locally, that locally-made parts and/or labour are used, or that value is added to the product or service in-country)<sup>7</sup>.

In the context of local content, 'local' is often conceived as any individual, community or business within the country in which mineral extraction takes place. In many cases, however, stakeholders may wish for 'local' to be more narrowly defined, for example, a specific state/provincial boundary or even a municipal boundary or set of mine-adjacent communities. A broader geographic framing may present a risk that opportunities are taken up primarily by already well-resourced business people from national or regional economic centres, thereby contributing to a sense of marginalization and undermining the social license to mine within those communities closest to the mine site. Conversely, a narrow framing of local may present challenges in terms of the availability of necessary skills, materials and services, even when mining companies invest in training and enterprise development.

In many mineral-rich regions, national jurisdictions don't provide sufficient economies of scale to justify the manufacture of certain inputs or certain elements of downstream value addition.

---

<sup>2</sup> <https://kaiseredp.com/wp-content/uploads/2015/03/A-practical-guide-to-increasing-mining-local-procurement-in-West-Africa.pdf>

<sup>3</sup> <https://www.iisd.org/sites/default/files/publications/local-content-policies-mineral-rich-countries.pdf>; <https://kaiseredp.com/wp-content/uploads/2015/03/A-practical-guide-to-increasing-mining-local-procurement-in-West-Africa.pdf>

<sup>4</sup> <https://ecdpm.org/publications/local-content-policies-mineral-rich-countries-overview/>

<sup>5</sup> <https://ecdpm.org/publications/local-content-policies-mineral-rich-countries-overview/>

<sup>6</sup> [https://www.unido.org/sites/default/files/2017-01/UNIDO\\_Working\\_paper\\_Local\\_content\\_policies\\_FINAL\\_15803\\_0.pdf](https://www.unido.org/sites/default/files/2017-01/UNIDO_Working_paper_Local_content_policies_FINAL_15803_0.pdf)

<sup>7</sup> <https://kaiseredp.com/wp-content/uploads/2015/03/A-practical-guide-to-increasing-mining-local-procurement-in-West-Africa.pdf>; see also <https://www.iisd.org/sites/default/files/publications/local-content-policies-mineral-rich-countries.pdf> (p.2-3)

In this context, it may be more feasible to consider regional value chains and markets, so that 'local' may be then defined as the broader region.

A further element relates to the 'content' aspect of 'local content'. In certain cases, the content aspect of goods and services may be straightforward, for example, in the case of a locally owned company providing security or cleaning services. However, few cases are so simple, particularly in the context of the manufactured goods. At one extreme a local businessperson may simply import foreign goods and provide these to a mining operation with no local value addition, at the other extreme a product may be produced entirely from local inputs by a wholly owned local company employing only local staff; of course, the vast majority of production processes lie between these extremes. Such nuances must be taken into account in regulating, reporting and promoting local content.

### Industry competitiveness

It is a common concern that restrictive local content regulations may undermine the competitiveness or even viability of mining operations<sup>8</sup>. The use of global or regional suppliers and downstream processors or manufacturers allow for the benefit of economies of scale, thereby allowing mining companies to contain costs and operate efficiently. In the case of certain marginal operations, restrictive local content regulations may mean that a mining operation becomes unviable, and therefore the local employment and tax revenue that could be generated by such a mine cannot be realised. In cases where large extractive projects are positioned in relatively small and/or underdeveloped economies, local communities "can become overly dependent on the opportunities provided by a single project, with implications for longer-term development"<sup>9</sup>. Other reasons that local procurement efforts may not realise their intended objectives include (1) market failures and information asymmetry, where demand for local procurement or skilled workers is not matched by local supplies; non-availability of domestic good and services; skills shortage on the local market; quality issues and lack of trust of local suppliers; ignorance of mining procurement needs or employment opportunities etc. (2) Systemic or policy coordination failures, where policies (national, international, private-led) are not aligned or are driven by short-term considerations tied to political/ commodity cycle changes. This is relevant to various areas such as local procurement, skills development, policies to stimulate local value addition etc. (3) Institutional limitations, where there are gaps in the institutional frameworks (or lack of coordination) surrounding local supply chains and workforce development and lack of capacity to implement, manage and monitor local content policies. (4) Limited capacity of local firms, due to size, access to credit, ability to deliver on quality, quantity and price competitiveness. (5) Insufficient linkages with research institutions and universities, which limits the ability to innovate or provide technical solutions to specific challenges encountered by mining companies in difficult environments<sup>10</sup>. Discussions between industry and government, as well as other mining stakeholders, regarding industry competitiveness is often characterised by mutual suspicion and mistrust. Developing such trust through clear and sustained engagement and transparent communications is therefore imperative.

### Reporting and Transparency

A lack of standardised reporting criteria and protocols undermine efforts to support enhanced local procurement. While companies and governments are increasingly monitoring and reporting on local content, benchmarking and comparisons cannot be made when reporting criteria are not standardised. Many countries are reporting on local content through the

---

<sup>8</sup> See <https://www.iisd.org/sites/default/files/publications/local-content-policies-mineral-rich-countries.pdf> p.4-5

<sup>9</sup> [https://eiti.org/sites/default/files/documents/brief\\_on\\_eiti\\_and\\_local\\_content\\_transparency\\_-\\_formatted.pdf](https://eiti.org/sites/default/files/documents/brief_on_eiti_and_local_content_transparency_-_formatted.pdf)

<sup>10</sup> <https://www.iisd.org/sites/default/files/publications/local-content-policies-mineral-rich-countries.pdf>

reporting requirements of the Extractive Industries Transparency Initiative (EITI)<sup>11</sup>. The EITI is an informative example, in that earlier reports were very rich in data but not necessarily easy to interpret and compare; in other words, it is not just the availability of the data but also the manner in which it is presented that can assist in supporting the goal of enhanced local content. There are a number of good practice examples that may be drawn from in the area of data capturing and visualisation that could inform efforts to standardise local content reporting.

### Local Content & Corporate Social Responsibility

Where local content provisions lead to effective local participation in mineral value chains this can enhance the social license to operate for mining companies. As outlined in the previous section, however, local content should be one element of a broader strategy seeking to pursue sustainability across economic, social and environmental dimensions. Negative social and environmental impacts of mining operations, particularly in developing country settings, are well documented. In this context, mining companies have a responsibility to not only create opportunities for economic benefit, but also to minimize negative social and environmental impacts. There has been little focus on environmental aspects of local procurement policies and this is an area that requires greater engagement. There is significant potential, for example, for enterprise development efforts managed by mining operations targeting supplier development to incorporate social and environmental sustainability concerns, standards and monitoring programmes. In this respect, broader efforts at greening supply chain management in mineral value chains should be extended to local content initiatives and policies, thereby ensuring that environmental sustainability receives adequate focus within the broader sustainability framework related to local engagement in mineral supply chains.

## Conclusion

While it was clear that local procurement is a complex issue, with many barriers to effective implementation and potential pitfalls, there is equally a strong sense that these challenges should not be used to justify inaction. The private sector, government and other stakeholders need to ensure that progress is achieved. This should emerge from a detailed assessment of specific mineral value chains and even specific mine sites to assess opportunities to enhance local procurement. This assessment can then inform an incremental strategy, with an initial focus on some of the easy wins. It is important to recognize that enterprise development takes time, and therefore stakeholders may wish to set incremental targets for local procurement. It is essential, however, that the overall strategy and specific targets are clearly communicated, otherwise trust between government, the private sector, local communities and other stakeholders will be eroded.

### Alex Benkenstein, SAIIA Head of Governance of Africa's Resources Programme



Der Text dieses Werkes ist lizenziert unter den Bedingungen von „Creative Commons Namensnennung-Weitergabe unter gleichen Bedingungen 4.0 international“, CC BY-SA 4.0 (abrufbar unter: <https://creativecommons.org/licenses/by-sa/4.0/legalcode.de>)

<sup>11</sup> See [https://eiti.org/sites/default/files/documents/brief\\_on\\_eiti\\_and\\_local\\_content\\_transparency\\_formatted.pdf](https://eiti.org/sites/default/files/documents/brief_on_eiti_and_local_content_transparency_formatted.pdf)