



- Workshop Report -

**New Frontiers in Local Content:
Environment and Transparency**

**Cape Town, South Africa
02 February 2020**

Introduction

Mining companies are some of the most important private sector actors in many countries in Sub-Saharan Africa, yet in many cases their linkages with the national economies in which they extract minerals is limited. In recent years there has been a growing interest in how mining companies can be better integrated within the economies of mining jurisdictions through local content policies. Research and policy guidance on local content policies is developing rapidly and, though challenges certainly remain, there has been progress in the design and implementation of such policies, as well as learning and information exchange between stakeholders. Concomitantly, the regulatory and broader governance agenda related to a variety of environmental and social concerns has been developed around themes such as transparency, social license to operate and, more recently, the contribution of the sector to carbon emissions. These issues are of significant relevance to African mining jurisdictions, as well as external partners such as Europe in the context of the EU Raw Materials Initiative, the Circular Economy Action Plan and the emerging agenda of the European Green New Deal.

It is noteworthy, however, that there has been little consideration of how the broader social and environmental debates related to mining governance intersect with the agenda around local content. In order to explore these issues, the Konrad-Adenauer-Stiftung's (KAS) Regional Programme for Energy Security and Climate Change in Sub-Saharan Africa, in partnership with the South African Institute of International Affairs (SAIIA), hosted a one-day workshop on the theme *New Frontiers in Local Content: Environment and Transparency*. The workshop was hosted on 2 February 2020 in Cape Town, South Africa and was attended by 37 participants representing industry, civil society and academic stakeholder networks (see Annex 2: Participants). The workshop followed on an initial workshop convened by the same partners in Gaborone, Botswana on 18 July 2019 on the theme of *Sustainable Use of Resources in the Extractive Industries: The role of local content provisions*.

Structure and Approach

The workshop was designed to allow for significant discussion among participants, thereby seeking to draw out key insights from the assembled stakeholders. Welcome remarks were followed by two rounds of speakers presenting on *Environment and Local Procurement in Extractive Industries* and *Transparency and Local Procurement*, respectively, followed by discussion sessions. The workshop concluded with plenary feedback on the presentations, a synthesis discussion and closing remarks by the organisers (see Annex 1: Workshop Programme).

Welcome remarks were made by Mr Benno Mühler, KAS Country Director for the Democratic Republic of the Congo, and Alex Benkenstein, Programme Head of the Governance of Africa's Resources Programme at SAIIA. Mr Mühler emphasised the importance of partnerships in KAS's global contribution to key policy and governance debates. Both Mr Mühler and Mr Benkenstein provided remarks on the alignment of the event with the strategic visions of the host organizations, and also addressed the incorporation of the event findings into the work programmes and ongoing policy engagement activities of the host organisations to support sustainability and impact.

Discussion and Key Themes

This first set of speakers addressed the overarching theme of *Environment and Local Procurement in Extractive Industries*. The first speaker, Isabelle Ramdoo from the International Institute for Sustainable Development, addressed the theme of *Incorporating Environmental Standards in Local Procurement*. The second speaker, Kyela de Weerd from Mining Shared Value, explored the theme of *Extractives Procurement and Carbon Emissions*.

The second set of speakers addressed the overarching theme of *Transparency and Local Procurement in Extractive Industries*. Jeff Geipel from Mining Shared Value spoke to the theme of *The Mining Local Procurement Reporting Mechanism*, while Kaisa Toroskainen from the Natural Resource Governance Institute (NRGI), introduced the *NRGI Governance Risk Study*. Thereafter, all participants were invited to participate in an open discussion.

This section provides an overview of key themes emerging from the speaker presentations and subsequent discussions. It should be noted that there was a diversity of views expressed by the assembled stakeholders and therefore the issues and views presented in this report do not necessarily represent a consensus. It should further be emphasised that the workshop approach was exploratory in nature and therefore the focus was to identify key issues related to the workshop theme and identify areas that would require further research and debate.

Local Content and Environmental Responsibility: More than compliance?

It was noted that the debate around local content was heavily shaped by social and economic justice concerns, whereas environmental issues within the mining sector were often addressed as compliance and risk mitigation concerns. Environmental regulations in the mining sector are set nationally and apply to foreign investors as well as local companies. While the link between local content and environmental governance may therefore not be obvious, a starting point may be that the compliance driven environmental governance agenda, guided by the 'how' question of process, could be enriched by 'what' (what goods and services are needed) and 'who' (capacity and inclusivity) social priorities of local content

agenda. Furthermore, it may be helpful to think separately about how, on the one hand, local content questions can be brought to bear on the environmental agenda, and on the other, how environmental concerns can be integrated into the local content agenda.

As an example of the first approach, mining companies may consider how local involvement and capacity development can support their efforts towards environmental responsibility. This may involve, for example, training and collaboration with communities around environmental monitoring. There may also be opportunities for mining companies to create employment and skills development opportunities for local communities through ecosystem preservation and/or restoration activities. In this sense, there is potential to explore opportunities for shared green infrastructure that can benefit both mining companies and surrounding communities. Given that local communities in many mining jurisdictions in Africa often face significant developmental challenges and remain highly reliant on ecosystem services, such collaboration can contribute to trust building and support the mining company's social license to operate.

Conversely, when considering how environmental concerns can be integrated into the local content agenda, it is important to emphasise that environmental compliance must be applied consistently to both foreign investors and local companies, and across the spectrum of large to small companies. In this sense, mining companies have both the responsibility and capability to work closely with local partners to ensure that environmental standards are adhered to. Important questions around compliance and accountability emerge in this debate, and this extends beyond narrow legal compliance to broader questions of corporate reputation and social license to operate. For example, if it emerged that a mining company was sourcing products from local companies with dubious environmental records, or was working with local waste management companies that did not adhere to environmental regulations, this could have significant negative impacts on the mining company at community, national and international levels. Ultimately, it is important that companies and broader mining stakeholders seeking to develop the linkages between environmental concerns and local procurement must be clear around social, economic and environmental objectives.

Workshop participants recognized that further development of key themes would be required by subsequent debates and research.

Extractives, Procurement and Carbon Emissions

Mining companies spend significant revenues on procurement, far more than is spent on taxes or social and environmental programmes, and procurement therefore represents an important opportunity for local economic actors. It is also true, however, that more than 90%

of greenhouse gas (GHG) emissions in the mining sector stem from the procurement aspect of mining. These 'scope 3 emissions', generated by upstream and downstream components of the mineral value chain, are central to the discussion of the mining sector's response to climate change. Given the number of actors involved in mineral supply chains, an approach built around inclusive partnerships holds significant potential. Action on integrating GHG emissions considerations in procurement is hampered by a significant lack of data on this aspect of supply chains and downstream linkages. Furthermore, significant work is required to develop best practice related to GHG accounting in mineral supply chains. Many multinational mining companies have developed climate change policies and/or made specific pledges to reduce GHG emissions, yet standardised frameworks are required to effectively track progress, enhance accountability and support comparative analysis.

Given that many companies still publish little information on relatively basic procurement data, it was recognized that GHG supply chain reporting may likely be a significant challenge in the short term, but that this is an important issue to pursue and develop.

Transparency in Local Procurement

It is noteworthy that much of the discussions related to transparency in the minerals sector has focused on taxation, yet relatively little focus has been placed on transparency issues related to procurement, even though expenditure on procurement is significantly greater than that on taxation. There has undeniably been progress in recent years in reporting on procurement, yet accessibility of the data is only one element – there is also a need to ensure that data is presented in accessible, user-friendly formats that allows concerned stakeholders to meaningfully engage with each other around these issues. Engagement by the Extractive Industry Transparency Initiative (EITI) on procurement has been an important step in strengthening transparency related to procurement and ensuring that standardised data is available, yet the information shared on this platform remains limited. The Mining Local Procurement Reporting Mechanism (LPRM), an initiative developed by Mining Shared Value, is a set of disclosures that seeks to standardise how the global mining industry and host countries measure and talk about local procurement. The LPRM aims to 1) improve internal management in mining companies to create more benefits for host countries and to strengthen their social license to operate; 2) empower suppliers, host governments, and other stakeholders with practical information that helps them to collaborate with mine sites; and 3) increase transparency in the procurement process to deter problematic practices such as corruption. To date, there has been limited wholesale adoption of the LPRM, however the framework has already had an important influence, in that many companies have adopted parts of the framework, while governments have also engaged with the framework when developing national reporting frameworks. The LPRM has also informed broader transparency frameworks and industry initiatives, including work by the Responsible Mining Index, the World Gold Council and the EITI.

The Natural Resource Governance Institute (NRGI), which has been supporting improved mineral resource governance since its establishment in 2013, has observed that ineffective local procurement practices are a major source of governance risk for extractive companies, along with cost control, taxation and corruption challenges. While there has been progress in

improving supplier transparency through initiatives such as the EITI and the LPRM, there is a need to further improve. A next phase of development would see the much wider adoption and improvement of supplier lists and portals, with clear distinction between local and international suppliers; clear bid monitoring and evaluation; a focus on beneficial owners of suppliers and standardisation of local procurement data.

As the local content agenda broadens, there is a need to promote standardisation of reporting frameworks, both to support engagement with the data produced and to ensure that reporting does not become overly onerous. Issues such as the capacity of national and regional governance actors to effectively monitor local procurement reporting should also be considered.

Next Steps

The assembled stakeholders allocated time towards the end of the event to discuss opportunities and platforms through which the discussions initiated through the workshop could be extended and expanded upon. Several events were specifically noted as important policy windows for further discussion, this included the Africa Forum on Sustainable Development to be held in Zimbabwe in February 2020 and the International Institute for Sustainable Development Annual General Meeting to be held in Geneva during November 2020. Both events will discuss global and continental efforts towards environmental management and sustainable development. SAIIA and KAS, as the host organisations, concluded with commitments to incorporate the inputs generated through the workshop in their ongoing research and policy engagement activities, working with regional and global partners such as those present.

Conclusion

Given the exploratory nature of the workshop, participants recognized that themes could not be fully developed, yet the event was an important opportunity to assess the potential scope of emerging governance debates within the broader local procurement agenda. It was cautioned that clarity around objectives would be essential in order to retain clarity of purpose and focus as the local procurement agenda developed. Nevertheless, participants generally recognized that important issues related to environment and transparency should be further developed to address the broader relationship between local procurement and development.