Juruti mine forest being cleared: the local community has benefited via co-operation with company representatives

Six steps to stability

Engaging with local communities in the development and exploitation of mining projects can bring huge benefits to both the host population and the miners themselves, as *Roland Haslehner, Jose Garcia* and *Guido Battaglia* report

Ask inhabitants of the Juruti district of Brazil what benefits have been brought by the bauxite mining started in 2009 by Alcoa Inc., and they can point to a new school and police station. These are among 21 projects backed by the Sustainable Juruti Fund (FUNJUS), created by Alcoa, but run by a local development council with representatives from industry, government and non-governmental organisations (NGO).

Set up as a public arena for dialogue, debate and directing development for a region new to large-scale mining, the council also supports eight technical committees focusing on issues such as health and environment.

This open, collaborative, and trust-building approach between developer and host community, is advocated in a recent report - *A Framework for Advancing Responsible Mineral Development*. Produced by the Responsible Mineral Development Initiative (RDMI) - the World Economic Forum (WEF) in partnership with The Boston Consulting Group (BCG) - the report's premise is that while mining is a key driver of global economic growth, with the potential to transform economies and societies, it has not always fulfilled that potential.

The report is based on two years' of research, analysis and consultation with more than 400 stakeholders worldwide – not only the companies, but governments at national and local level, NGOs, communities affected by mineral development and independent experts.

The RMDI analysed the 30 largest mining countries in terms of the potential future impact of mineral development, using estimated untapped resources and the United Nations Development Index to find countries with low levels of development and untapped resources. This isolated a group of nine high-potential countries – Angola, Bolivia, Botswana, Democratic Republic of the Congo (DRC), Guinea, Mongolia, Peru, South Africa and Tanzania.

The report estimates that these countries hold 28% of resources in the top 30 countries, but attracts only 12% of investment and suggests this may reflect either reluctance to welcome mining or company wariness of local conditions.

So, what are the stumbling blocks to unlocking this significant potential for growth and the building blocks for success?

The challenges

The size and complexity of mining projects, and the huge variety of contexts in which they take place, makes any search for single 'silver bullet' answers to the industry's challenges a futile one.

'A Framework for Advancing Responsible Mineral Development' does not claim to have all the answers, or to be a comprehensive recipe for addressing the industry's challenges. Instead, it offers a framework for progress towards dealing with the most significant of them.

The first stage for the RMDI was identifying the challenges. Stakeholders perceived four major obstacles:

- Limited expertise and institutional capacity in government, civil society and companies;
- The inadequate inclusion of stakeholders in decision-making processes;
- Opaque negotiation and development processes, with inadequate sharing of information;
- Incomplete compliance, monitoring and dispute resolution procedures.

The World Economic Forum (WEF) and BCG found that the key demand on all sides was for trust and stability. Companies making large, long-term investments need to be sure they are working in a stable environment, and so fear resource nationalism and arbitrary law changes. In turn, the governments and communities need to feel that they will receive an equitable share of the benefits from mining in their countries in return for the impact development has on their society and environment. All of this makes transparency and good communication essential – in their absence, distrust and misunderstanding will flourish.

The framework

The RMDI's second stage was devoted to devising and developing a framework for advancing responsible mineral development. This consists of six building blocks in parallel dimensions, developed to address each challenge and provide guidance on practical steps. Each is intended to operate across the length of a mining project, creating trust and stability and minimising the likelihood of conflict while also providing a means of resolving disputes. Each building block is supported by examples of possible actions, case studies and initiatives.

The building blocks are:

- Progressive capacity building and knowledge sharing among all stakeholders;
- A shared understanding of the benefits, costs, risks and responsibilities related to mineral development;
- Collaborative processes for stakeholder engagement throughout the life cycle of mining projects;
- Transparent processes and arrangements;
- Thorough compliance, monitoring and enforcement of commitments;
- Early and comprehensive dispute management.

The WEF and BCG's extensive consultation showed that capacity limitations across all stakeholder groups are recognised as a significant problem. They can, for example, limit the ability of governments to negotiate effectively with companies at the beginning of a project. This can lead to unequal agreements, and later, destabilising demands for them to be re-opened. Having better equipped, better informed stakeholders is beneficial on all sides.

One of the most effective ways of addressing this would be the creation of a global repository of good practice guidance. *The World Bank Extractive Industries Source Book*, launched in 2011 and run by the University of Dundee, is an excellent example.

There is also a need for tailored training and development programmes for governments and other participants. This is being done under the Africa Mining Vision founded by the African Union in 2009 as a capacity-building institution for mining companies. An example already in action is the Royal Bafokeng Nation in South Africa making use of its income from platinum-mining to fund tertiary education for community leaders.

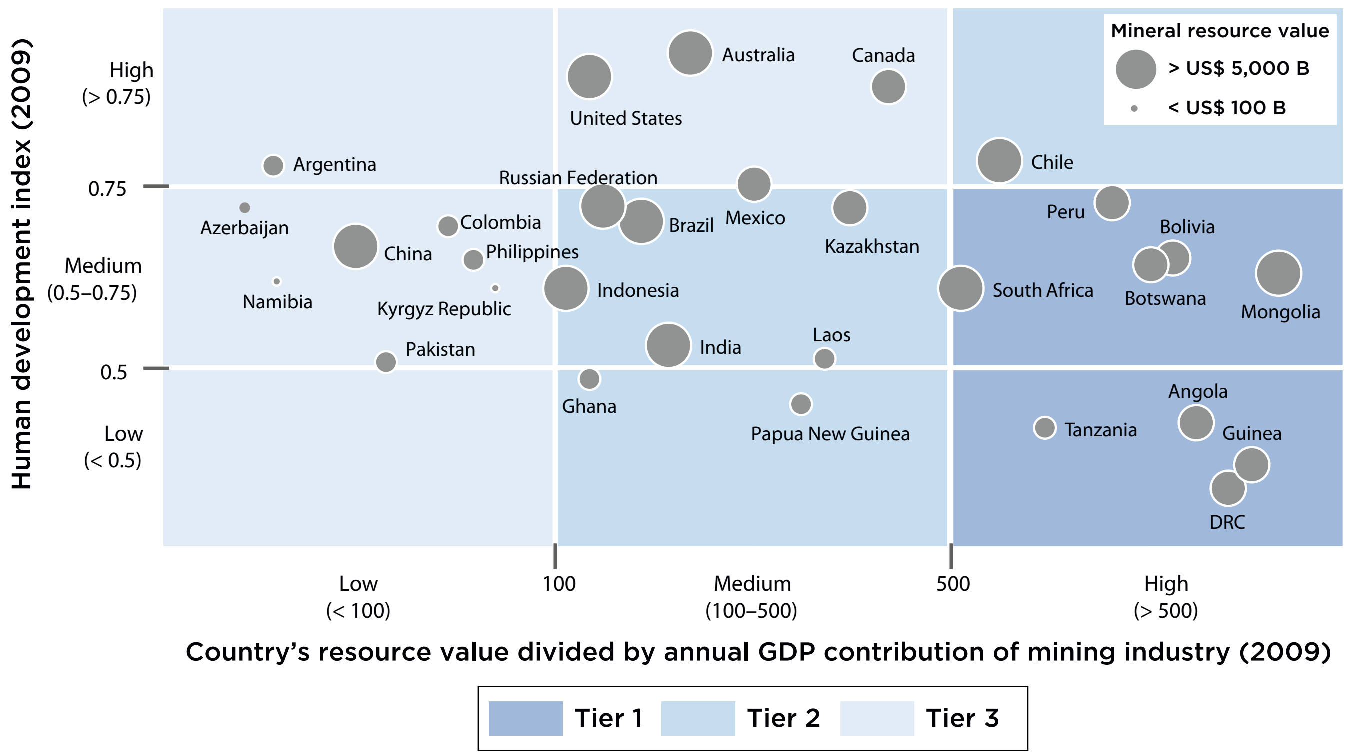
Shared understanding

A major source of distrust and instability is disagreement on, or ignorance of, the precise costs, benefits, risk and responsibilities related to any mining development. This creates fear that one party will get all the benefits from mining, while others carry the costs and risks, accompanied by a lack of clarity over the assignment of responsibilities.

This can be effectively addressed by commissioning rigorous and collaborative socio-economic studies of economic and social costs and benefits. These provide objective evidence on which to base discussions, negotiations and partnerships.

One highly effective template for such studies is provided by ICMM's 'Mining : Partnerships for Development' toolkit, which is currently being applied in Brazil, the 10th country in which it has been used since 2006. When applied to Laos it established, surprising even the country's government, that mining makes a bigger economic contribution to the national economy than hydro-electric power. A privately funded initiative, Newmont's study of Ghana, has won general acceptance because it was run independently,

Country segmentation clustered by potential for mining sector growth and potential for socio-economic development



used publicly available data and took full account of community and other stakeholder viewpoints.

Collaborative processes

Sustainable, responsible development, based on trust and stability, will only be achieved if there is somewhere for stakeholders to meet for an open, honest, robust dialogue explaining decisions and debating contentious issues. This sort of engagement should start at the earliest stage of any project and be maintained throughout its lifecycle. These dialogue platforms need to operate at both national and regional/local level - with connection between the levels.

Since 2007, the Canadian-based Devonshire Initiative has provided a neutral international venue for contact between mining companies and NGOs concerned with developing economies. At national level, Mongolia has since 2006 brought together government, companies and NGOs for discussion of its high-potential, but contentious, minerals sector. Juruti in Brazil provides an example of a local development council, while the agreement to mine gold at Eleonore in Canada specifically commits Goldcorp Inc. to actively involve the local Cree Nation population – for example in co-writing the environmental and social impact assessment – throughout the lifecycle of the project.

Transparent processes

Making information quickly and easily available, open negotiations and making agreements available will enhance trust between stakeholders. Trust can be further underpinned by independent auditing of data.

The action essential to this is the publication of mining contracts and the tax, royalty and revenue data associated with them. The Extractive Industries Transparency Initiative (EITI) provides a system for monitoring and reconciling payments which has been fully adopted by 11 countries – with Ghana going well beyond EITI minimums by publishing on a project-by-project basis – and a further 23 are at the candidate stage.

Liberia, the second country to become EITI compliant, has published all mining agreements and tax payments since 2008 and established its own EITI. Rio Tinto has supported EITI since its launch in 2002 and in 2012, for the second time published, the full details of taxes paid to governments in all the countries where it generates revenue.

With most attention paid to agreements, much less notice is taken of procurement, compliance and the enforcement of contracts, but these are also highly important. Rigorous, universally understood standards for awarding contracts, can be supplemented by monitoring for compliance and performance and guidelines for establishing whether parties are keeping promises.

These processes will work best if they are established from an early stage, with the full involvement of all stakeholders. There is then great transparency to who has agreed to what, which parties have which roles, what are the processes and how will they be enforced?

The World Bank Institute (WBI) has worked together with its Africa region to create a contract monitoring initiative in the area. It already includes six countries and is expanding into Francophone Africa. In Ghana, the WBI helped create a contract-monitoring coalition of stakeholders, which campaigned successfully to get the issue onto the agenda of the Public Accounts Committee and Auditor General.

Dispute management

Even with full transparency and the best possible compliance mechanisms, differences in interests and priorities will inevitably lead to disagreements. By accepting this reality, and planning for it, stakeholders can minimize the likelihood of conflict escalating to the point that it seriously disrupts projects.

A wide range of conflict management mechanisms is available. What matters is that stakeholders select one appropriate to local circumstances and that it is in place and fully understood by all parties as early as possible in the process. Discussion of how to manage disputes can of itself help to identify potential conflicts early on.

The Harvard Kennedy School 'rights-compatible grievance mechanism' offers companies a flexible toolkit, based on seven key principles and offering 24 practical guidance points.

Among leading companies, Anglo-American has pioneered a standardised complaints and grievance procedure for employees, including electronic tracking and monitoring, while the Canadian government's Office of the Extractive Sector CSR counselor was created in 2010 to promote responsible practices and resolve disputes for Canadian mining, oil and gas companies operating overseas.

Stakeholders polled about the actions put forward under the six building blocks in this report were very positive, with nearly two-thirds of a sample of 145 from 33 different countries saying that were 'very' or 'extremely' helpful. Overall, support was greatest for training and development programmes and the creation of national dialogue platforms.

Public sector respondents, who were the most enthusiastic about the proposals as a whole, rated those two actions most important, as did those from civil society and NGOs, who also highlighted the need for compliance monitoring.

Company representatives also strongly favoured national dialogue platforms, but placed their strongest emphasis on conducting rigorous socio-economic studies.

Mineral development agreements

The RMDI process also included an examination of Mineral Development Agreements (MDAs), the agreements between companies and governments under which mining is conducted in many countries, including 23 of the 30 largest mining economies. MDAs have been widely criticised, with particular concern about asymmetrical bargaining, lack of transparency and complexity. Options discussed included devising a model MDA, or advocating their replacement by regulatory systems based on legislation. Neither was felt to be practical.

MDAs are likeliest to be demanded by investors in countries with limited government capacity, and the best legislation is ineffective unless backed by honest policing and an effective court system.

With MDAs almost certain to remain a feature of the mining environment in the immediate and mid-term future, some stakeholders argue that they have potential as a guarantee to investors, and to define the roles and responsibilities of different parties. In the longer-term, the aim would be, through the six stepping stones, to create environments of trust in which investors are less likely to demand MDAs.

What next?

Mining companies are advised to prioritise stakeholder engagement and understanding host communities, and are reminded that a reputation for responsible development is an increasingly valuable asset.

Policy-makers are advised to aim for robust regulation and identify gaps in their own capacity and the means of closing them, and making use of tools and partnerships available. They are reminded that where regulation is lacking, improved transparency can bring immense benefits.

NGOs are advised to play a full and active part in partnerships and forums, bringing their local expertise to bear. They are reminded of a potential role as facilitators between local commu nities, industry and government.

The hope of the RMDI is that implementation of the six building blocks will, by creating trust and stability, address the problems unearthed through consultation with the industry's various stakeholder groups and unlock the potential for growth.

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