



Mining for Development Conference 2013

Sydney, Australia

SESSION SUMMARY - CONCURRENT 2B

Building sustainable local enterprise and employment

Jonathan Samuel, Head of Social Performance, Anglo American

Ainsley Butler, Chief Investment Officer, Building Markets

Hudson Mtegha, School of Engineering, University of Witwatersrand

Mining companies are learning they can achieve a greater and more immediate impact in local communities through smart procurement practices, not just social development budgets. This session also discussed how governments unlock new opportunities by shifting focus further down the mining value chain and supporting smaller projects.

Jonathan Samuel, Head of Social Performance, at Anglo American said companies such as his have an obligation to three different groups. “One is clearly the government which has given us the permission to exploit the resources and they of course only do that for some sort of financial benefit to the community.”

He said contracts with governments had become increasingly explicit in recent years. “We have a responsibility to the communities and often for those particular communities it is probably their one chance for a major development.”

Mr Samuel said his company also has a responsibility to its investors. “Unless we meet the aspirations of the communities we operate in, we won’t be able to run our business in a way our investors would want us to,” he said.

On all three counts, development within the local community could create a virtuous circle that met the requirements of all three sets of stakeholders. The issue was really about how to best affect positive change. “We are not a development agency. We don’t have that expertise but we do have certain things that allow us to make that contribution.”

He said the approach Anglo American preferred was to take advantage of procurement budgets and policies as a starting point for the planning of contributions to local communities.

Last year Anglo American’s turnover was just under \$30 billion worldwide, with about half of that revenue going back out to suppliers. Of this \$15 billion procurement, roughly \$7.3 billion was spent in Africa and \$4.8 billion was spent in South America.

“Those are large numbers and they are substantially larger than many governments contributions to bilateral aid projects,” he explained. “Another way of thinking of it is that our procurement budget is about 100 times our social investment budget, so you can see where we should be putting our focus.”

He said just increasing Anglo American’s procurement budget by one percent in local communities effectively doubled its social investment budget. Importantly, he noted it was not just the money but how it is applied.”

International Mining for Development Centre

FUNDED BY



IMPLEMENTING PARTNERS



WA Trustees Building
Level 2, 133 St Georges Terrace
Perth, Western Australia 6000

Tel: +61 8 9263 9811
Fax: +61 8 9263 9877
Email: conference@im4dc.org
Web: www.im4dc.org



It starts with changing terms and conditions, changing contract packages, or payment terms for example. The company is also looking at supplier development programs and building the capacity of new and potential suppliers.

Since 2011 the amount of money the company has spent on local procurement has increased from 9.5 per cent to 11.3 per cent in 2012. “It doesn't sound like much but it puts an extra \$200 million into local communities,” he said.

Ainsley Butler, Chief Investment Officer at Building Markets, is also a believer in the power of procurement, and especially its potential to unlock the creativity of local entrepreneurs.

“The biggest development opportunity is local procurement. We are huge believers in the power of entrepreneurs. At the end of the day poverty can only be beaten by jobs,” she said.

Butler made the point that very little foreign aid is actually spent in the country where the aid is heading. She gave an example of a company she was working with in Afghanistan that was sourcing several millions of dollars worth of bottled water from across the border when there was a perfectly good water supplier only a few miles away.

“Our job is to help companies understand what is available in the local marketplace,” she said. One of the issues that caused problems was the rotation of staff in and out of developing markets. This rotation meant that they didn't have the time to build up local knowledge.

“We encourage miners to treat their procurement budgets as corporate social responsibility spending. Small increases in local spending have the biggest impact. We have helped local entrepreneurs win over a billion dollars worth of contracts and the goal is to double that in the next three years.”

Committing procurement budgets also meant committing to overcoming asymmetry in the relationship between the large miner and the local suppliers, said Anglo's Mr Samuel. “We find that often local entrepreneurs do not know how to access information about local opportunities, so we need to be proactive around these opportunities.”

Another issue is that local suppliers are often unfamiliar with the approaches of international companies operating on international standards. “These can be simple things like giving your best price first.”

Meanwhile, Dr Hudson Mtegha from the University of Witwatersrand's School of Engineering, said governments can realise significant opportunities by looking beyond large deals with foreign mining companies and working instead with both smaller and mid-tier companies.

Most governments don't pay enough attention to smaller miners, he said. “We require value chain analysis for those deposits as well. We need to look at the required inputs then



examine the necessary support mechanisms in order to develop that sector. The advantage of operating at this level is that it engages those government departments which are participating at the lowest level in terms of donor communities.”

“If we paid particular attention to the low end we could create employment which links up with agriculture and other parts of the community.”

Mr Mtegha said greatest opportunity is in the mid tier. “It is the best option for local participation in mineral resources development activities. These are smaller deposits and often industrial deposits and the minerals being extracted are the kind used for things like construction.”

ENDS