

Stream: Harnessing our Diverse World

S. McFaul, SEF Canada Ltd., Canada

A.M. Xavier, Norman B. Keevil Institute of Mining Engineering, University of British Columbia, Canada

ABSTRACT

Abstract Title: Harnessing resource wealth for inclusive and economic development in communities influenced by mining

Abstract Resume: This paper will focus on the solution for sustainable and inclusive economic growth in mining communities. Mining of natural resources plays a large role in their economies but dependence on endowments is a mixed blessing. Key challenges faced by all are in ensuring that resource wealth contributes in a sustained and inclusive fashion to growth and higher living standards for all. Our presentation highlights ways to promote economic diversification. Diversification is an absolutely key area especially given the simple facts that the natural resource sectors in themselves typically employ very few people, and that the resource is exhaustible. For inclusive growth it is imperative that linkages are developed between the mining sector and the wider community. One side of economic development involves financial contributions, building infrastructure, and promoting local procurement. In our experience, these efforts, although greatly appreciated, have not lasted beyond the life of the project. This is because the projects were imposed on the community and not aligned with the needs or the capacities of the locals to sustain them. Bringing together people with varied backgrounds, skills, experiences, and perspectives while providing them opportunities is the other economy.

1. INTRODUCTION

Harnessing Natural Resource Wealth for Inclusive Growth and Economic Development will reflect on the dynamics and existing challenges companies face to provide economic wealth and sustainability to all community citizens. Even through considerable amounts of money is invested into the community, not everyone benefits. We look at a case study showing economic diversification that provides positive and long-lasting results to the local community.

To maintain economic sustainability, various factors must be taken into account. In addition to the traditional economic methods in communities, such as net sales, payments and debts, other factors create considerable challenges. Diversification is an absolutely key area and clearly also, it is every challenging.

More fundamentally, dependence on natural resource endowments can be a mixed blessing. We are all familiar with the "resource curse" and the historic experience in many resource rich countries of boom-bust cycles, debt crises, and poor governance that have led to the persistence of poverty and lack of inclusiveness

Challenges exist beyond geography, and the mining industry has a number of characteristics which draw it into the delivery of development at local, regional and sometimes national levels:

- Operations often exist in environments where government institutions may be absent, weak, lacking in capacity or corrupt, leaving gaps in essential public service provision;
- The social and environmental footprint of mining operations often has impacts on local communities, requiring compensation and mitigation programmes;
- The remote location of many operations accentuates the expectation for employment and economic development within host communities; and
- The enclave nature of the mining industry can limit the "trickle down" of benefits unless specific social investment programmes are undertaken.

INEQUITABLE

The rationale for local communities to receive a greater share of the benefits is clear: first, for communities to accept mining on their doorstep, they must see some realizable benefits over and above being compensated for loss or other impacts. Second, for mining to contribute to the goals of sustainable development at the community level, it must provide a net benefit to the affected community.

New projects can bring jobs, business activities, roads, schools, and health clinics to remote and previously impoverished areas, but the benefits may be unevenly shared, and for some they may be poor recompense

for the loss of existing livelihoods and the damage to their environment and culture. If communities feel they are being unfairly treated or inadequately compensated, mining can lead to social tension and sometimes to violent conflict.

Conflict in and around mining operations usually stems from poor governance. It is also more likely to take place where the distribution of mineral revenues and benefits are non-existent or perceived to be unjust, or where the community opposes and actively resists any mining activity on their land. Companies or even central governments may have little understanding of the customs and traditions of those living in and around the mines, and may therefore be insensitive in their dealings with local communities, potentially fuelling further conflict. It has been suggested that in a number of cases of conflict involving local communities and mining interests, radical environmental NGOs (often headquartered in a foreign country) have been involved whose primary aim is to contribute to tension in the community through misinformation and fear-mongering. (Prospectors and Developers Association of Canada, 2002)

Mining companies are challenged to contribute to the sustainable growth of the communities in which they operate by leaving behind institutions and infrastructure that will support the community beyond the life cycle of the mine. Companies are encouraged to identify sites where local economic development is of particular significance and interest to stakeholders, outline policies with respect to assessing this contribution, to invest in these institutions and infrastructure. In addition, companies are advised to draw goods, materials, and services from local communities. Key challenges faced by this are in ensuring that these contributions are inclusive for the benefit of all.

PAYMENT

The mining industry makes social and economic contributions and payments to communities and governments through a number of channels, as illustrated in Figure 1. This figure highlights contributions and payments necessary due to the impacts generated by the project (compensation), those payable as part of the mineral lease conditions (government payments including taxes and royalties), direct benefits (employment, procurement, beneficiation (eg diamond industry) and project infrastructure) and community investments.

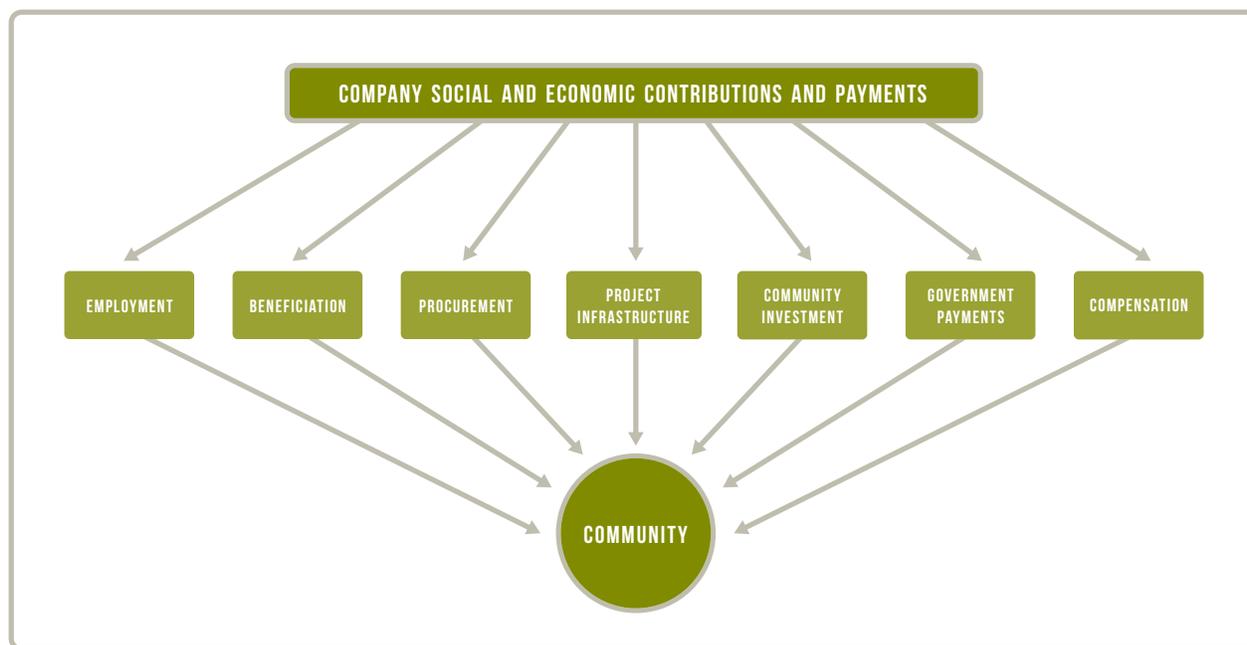


Figure 1 Figure 1 Channels for Social and Economic Contributions and Payments (World Bank)

Implementing employment, procurement and project infrastructure programmes are within the day-to-day business of a mining company, and are typically kept within the operational control of the business. Similarly, taxes and royalties typically follow a specified format, with transactions occurring between companies, communities and various levels of Government. Large flows of money at the local level can encourage bribery and other forms of corruption, undermining the potential for community citizens to receive a fair share of the revenues from mining for longer-term investment. This may damage the social fabric and lead to conflicts.

In many respects, the central issue is less about how much is received than about how it is used – how should this revenue best be spent to contribute to sustainable development? In PNG, for example, the bulk of compensation is paid in cash, and ample evidence suggests that much of the revenue is spent or invested outside the area. Researchers looking at Porgera estimated that just 5–10% of compensation payments were invested, 20–25% went into business developments (most of which quickly failed), and 65–75% had been used (or redistributed and then used) within Porgera or distributed to people outside the area. (Banks 2011)

The philanthropic approach to CSR has largely been built on a top-down paradigm that sees community investment decisions being made high up in the hierarchy of the community together with mining companies, and handed down to a community that sometimes neither wants nor can appreciate the investment.

CORRUPTION

Mining funds in many cases are not trickled down to the local government or smaller communities and to benefit all the people. While corruption and secrecy remain serious challenges, there is also a genuine lack of capacity within government administrations to manage the sector.

JOBS

Where mining has created jobs, it has also led to increased incomes. In Mwendakulima, for example, near the Buzwagi mine, incomes have increased significantly in recent years because there are more mineworkers in the village, more community investment projects and the construction of the ward office, which provided short-term employment. However, people perceive that increased incomes have led to localised inflation for basic commodities, as well as for land. Those not benefitting from the mine have therefore found it difficult to pay their bills, with the greater costs compounded in some cases by in-migration and increased demand for goods, services and land.(Oxford Policy Management 2011)

WOMEN

Women account for approximately 70% of the world's poor, lacking not only in income but also in access to resources, services, and opportunities in the economy and society. (UNDP 1996)

Women exist in mining rarely as workers but as spouses of mine employees. Opportunities for women are very few in mining communities. This scenario is not sustainable as women are known to play a significant part in reducing poverty at the household level as well as in the community. Women in mining communities are generally neglected.

It is equally critical for the industry to take into consideration the reasons behind the unequal distribution of benefits between the different genders. Although most women have marketable skills, they find it difficult to take part in economic activities mainly because of the isolation of mining sites, lack of credit facilities and insecure tenure, among other problems. (Aleta Netsai Musvato 2001)

In general, these women only become a factor after major shocks such as mine closure or major job cut backs. Once these shocks have been experienced, the plight of the women in these communities becomes exposed as they try to step into the shoes of their husbands and provide for families. In Peru, Portillo reported that most of the women were previously only known as 'such and such a miner's wife'. For years they had been victims of unemployment and poverty as they resided on the mines with their partners. (Musvato 2001)

PROCUREMENT

Standards in the procurement process are often too strict for the ability of a local business to adapt or meet. This effectively excludes the participation the service sector from engaging in a significant percentage of the procurement process.

Communities generally do not feel the mines have provided good employment opportunities and benefits. Despite company figures showing relatively high levels of local procurement, definitions of 'local' vary and can include workers from areas extending well beyond surrounding villages. (Oxford Policy Management 2011)

DEPENDENCY

With the intention of creating positive relationships as well as to enhance the quality of life in host communities, mining corporations have traditionally turned to philanthropic models, which have engendered donor-recipient relationships that are not to be sustainable in the long run as they do not focus on building capacity within the community to sustain itself after mine closure (Veiga et.al., 2001). Second, that unless efforts are made to diversify the local and region economy, mining companies can create a situation of 'cultures of dependency', which leads to problems following mine closure (C. M. Rogerson, 2011)

Lastly, in terms of regional planning, from recent experience in Latin America there is identified the imperative to improve the competitiveness of the mining industry through enhancing the local business environment through better coordination of local and regional public institutions related to mining (Buitelaar, 2001).

This is supported by the International Council on Mining and Metals (ICMM) in its Community Development Toolkit recommends that, "Our job is to enhance the benefits from the mining project through economic stimulus. For long-term community and economic viability and sustainable community development, it is vital that efforts be made to help diversify local economies" (ICMM, 2012).

MINE CLOSURE

Mine closure can be very traumatic. There needs to be development of other economic bases besides mining. Although it may not be possible to match the best years of mine operation, it is realistic to aim for sustainable on-going economic activity at levels that substantially exceed those in place before the project – ideally, diversified and providing a broad range of employment opportunities.

All of this points to the need for a new approach to mineral resources wealth. The complexity and diversity of communities presents a particular challenge, as do trends towards downsizing in the industry, increased technology, reduced direct employment, and weaker economic linkages. Another is ensuring that the goals and means of achieving sustainable development are defined by the community.

The incorporation of Economic Development into local and regional development plans can assist in sustaining benefits and ensuring a diversified resource base.

2. ENTREPRENEURIAL DEVELOPMENT (ED) MODEL RATIONALE

As communities experience increasingly critical needs such as declining economies and related civic and social challenges, local leaders must respond and provide a solution. It is the entrepreneurs who can transform resources and generate new wealth in a community. (McFaul et al 2014) Entrepreneurship is a powerful means of diversifying and strengthening a local economy.

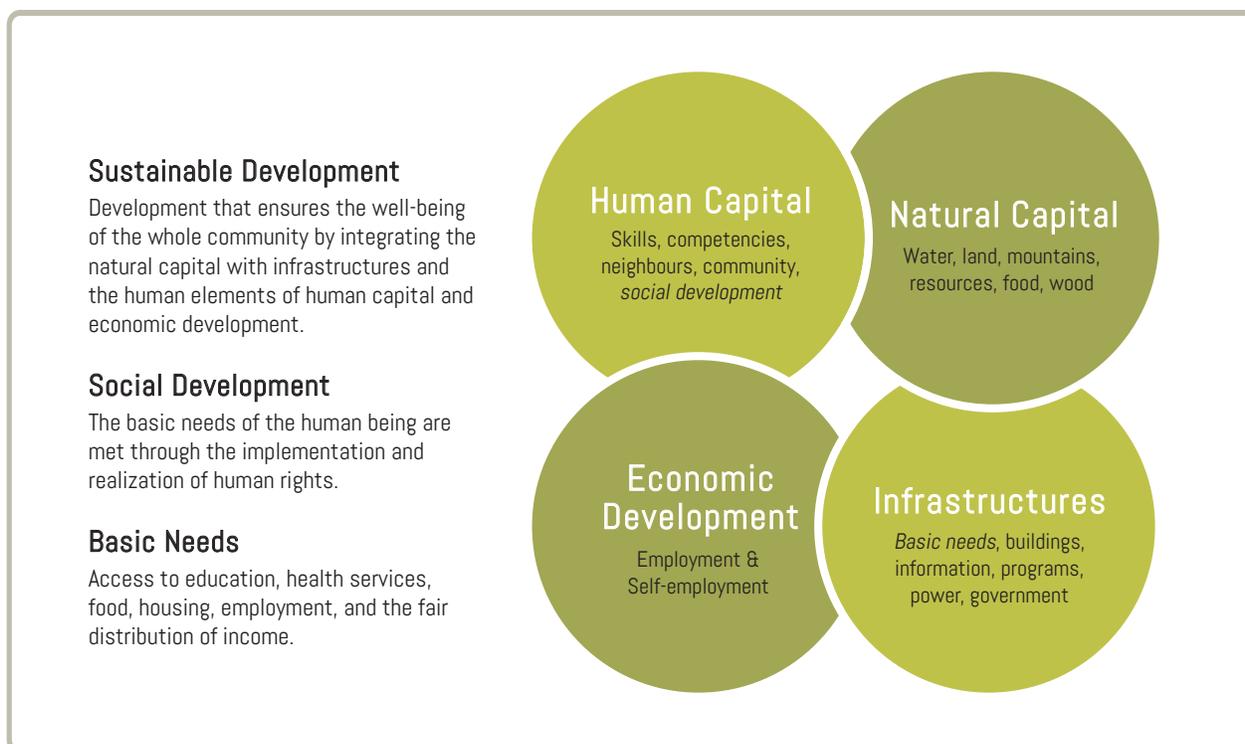


Figure 2 Human capital, Natural capital, Economic development, and Infrastructure.

Resources – quantity, quality, access to them, and realizable value are important and need to be inclusive to everyone.

The various parts consist of the four circles in Figure 2: human capital, natural capital, economic development, and infrastructure. The Entrepreneurial Development program discussed in this paper builds off these four parts to increase the positive interactions among people in the community to source out expertise and skills that can help each new entrepreneur to develop a successful business.

These principles feed into and out of the concept of sustainable, caring communities that work collaboratively to address issues that can enhance the living conditions and social interactions among the citizens that populate that community.

As community members look for answers, Entrepreneurial Development provides an atmosphere of mentoring that nurtures new businesses, new jobs, and new prosperity. This is a community-based approach; it works regularly with community citizens in a volunteer capacity with the intent of providing a support system for youth to find the assistance they need to make their business a success. Without those an absolute mix "ordinary citizens, the real intelligence of the community is lost.

Entrepreneurial Development supports the passion and ideas of local entrepreneurs wanting to start a viable business. Entrepreneurs require precise understanding, guidance, and support to meet head on challenges and issues along the path from start-up through business growth. In the end, Entrepreneurial Development contributes to a diversity of good economic opportunities for all citizens.

Proponents of this approach argue that net job formation today is largely driven by small businesses and creating small businesses inherently requires attention to local resources and local markets. A consequence of the focus on local development is the increased importance of entrepreneurship by creating economic value through the establishment of new or growth of existing firms. New businesses and self employment contribute jobs, resulting in higher income levels and increased wealth and enhanced markets (Henderson 2006; Fritsch and Mueller 2004). One of the obvious contributions of entrepreneurship to the increased welfare of society beyond direct income is the multiplier effects induced by additional income. Minniti (1999) argues that entrepreneurs are catalysts for economic growth because they generate a networking externality that promotes the creation of new ideas and new market formations. Another advantage of the local level development approach is that local entrepreneurs have obvious and strong ties to the community, which means that they are less likely to be lured away to other regions. They may reinvest profits locally and they are potentially active philanthropists for local causes (Pages and Poole 2003). Local entrepreneurs are also more likely to establish firms that are compatible with the resources and opportunities for the communities than are outsiders.

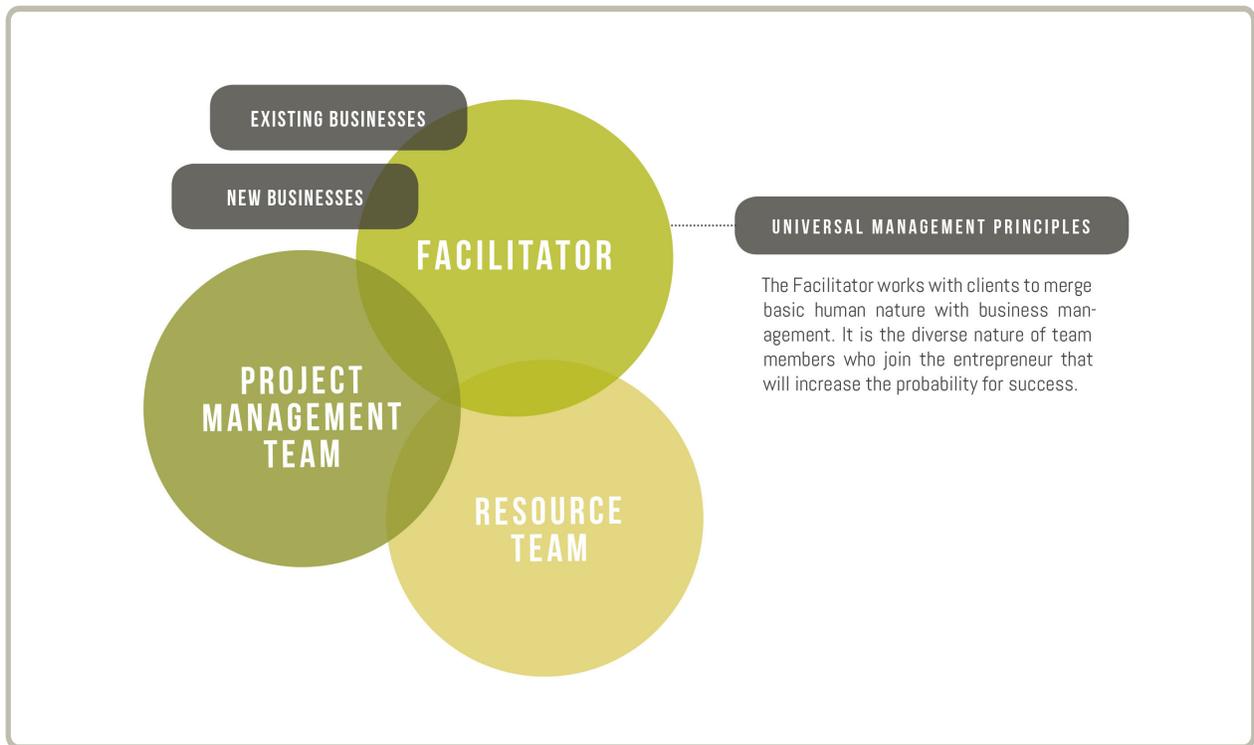


Figure 2 Human capital, Natural capital, Economic development, and Infrastructure.

Figure 3 shows the three components of a project. The Project Management Team is responsible for the overall healthy functioning of the project. This is a multi-stakeholder governance model is where civic leaders, government, community, and the mine sponsor make decisions.

The Facilitator is a paid professional that tests the personal motivation, passion and skill of the client and develops the client's capacity to assess their own management strengths and weaknesses.

The Community Resource Team is comprised of involved citizens who at the grassroots level volunteer their time to support ED in a community. The community learns to take ownership and responsibility for the project management including learning to engage fully in the community volunteer team. The recourse team in order to be effective must be made up of diverse individuals from all geographic, psychographic and diverse backgrounds; a full mix of the community. These groups which range from 20 to 100 citizens create a strong network of perspectives and skills to provide solutions.

Building and sharing the knowledge base through collaboration is essential for developing the capacity of the community. Entrepreneurial Development focuses on activities that promote sustainable human communities. The approach begins with peoples' assets and capabilities, and seeks to build on them. This approach recognizes that the root of all human development and economic growth is livelihoods.

3. CASE STUDY IN MINING – COBAR

Peak Gold Mine established a new policy stating that Peak Gold operations are to “encourage economic prosperity in surrounding communities, both during and post mining operations by fostering local, private and civic entrepreneurship”.

The mine is located within the Cobar Shire mining district approximately 600 kilometers northwest of Sydney and eight kilometers south of the town of Cobar in New South Wales (NSW), Australia. The community of Cobar Shire comprises a population of approximately 5120 people and its economy is built around the mineral extraction activities in the region as well as pastoral activities.

The company supported the grassroots approach to foster local economic diversification. The community members were at the center of the process which, in addition to promoting community engagement, helped create a strong sense of ownership. When the community enjoys some social capital and is given the right tools to build capacity, it is natural to develop long-lasting successful projects

In Cobar following the implementation of ED model in 2009, the town opened 43 new businesses, providing 90 new jobs, generating over 2456,300 (\$CD) in gross sales and re-investing 776,650 (\$CD) into the community (McFaul, et al., 2013).

RESULTS OBTAINED BY COBAR SHIRE EF PROJECT

RESULTS	
Businesses Opened	43
Businesses Expanded	10
Businesses Retained	5
Job Created	90
Investment Generated	\$776,650
Clients Assisted	127
Personal Contacts Made	551
Business Failures	1
Businesses Sold	3

4. CONCLUSIONS

Projects planned together with locals can create a positive relationship as well as an economically-sustainable community creating independence beyond the life of the mine. Creating a stable plan for economic diversification includes capacity building and ownership of development plans within the community but also engages to all community members.

- We need to foster stakeholder participation in the management and operation of community investment programmes.
- Signal commitment and establish a formal, professional and systematic approach to development which can in turn help to win and retain social licence to operate.
- Support long-term, multi-year development projects without necessarily being tied to annual company budgeting cycles.
- Facilitate community input into project selection and implementation.

Moreover, the relationships between the community and other actors, including the company and government, need to be ones of collaboration, trust, and respect. It is obvious that the benefits brought and enabled by mining must be maximized and the negative effects avoided or mitigated. Furthermore, the benefits need to be shared equitably within communities and sustained after the life of the mine. The actions of companies and governments need to reflect cultural sensitivity and relevance.

In conclusion, providing economic wealth that is beneficial to all is particularly but at a minimum consideration needs to be given to ensuring that the mechanisms, institutions, and processes created to distribute benefits will be sustainable in the long term. Economic alternatives such as Entrepreneurial Development need to be considered at the outset, as do the ownership of processes and outcomes need to be taken on by the community.

The following elements are essential to any strategy:

- Leadership and commitment on the part of all actors;
- Capacity-building;
- Identification and establishment of economic activities for communities post-mine, including pre-existing activities and those related to the mining activity as well as non-mineral-related activities such as tourism and agricultural services; and
- Mechanisms to ensure essential services can be sustained post-closure.

Building trust and relationships between all stakeholders is important and having a third party technical advisor can facilitate this. This collaboration focuses on creating a long-lasting bottom-up economic

development model through capacity building and more stable long lasting projects. Finally the methodology needs to help local communities to take ownership of the community development projects and as a result become less dependent on the financial resources of mining companies while out lasting the life of the mine

Mining companies, therefore, should facilitate local entrepreneurship. Working with entrepreneurs in a community requires the creation of a “convivial” social infrastructure that allows for free, confidential, and competent services. Unless such **social infrastructure is in place**, would-be entrepreneurs will shy away from working with outsiders or, even worse, they will seek help for the wrong reasons.

Companies need to change their policies and need to be committed to supporting meaningful community development. Such approaches, which are those that produce results at the community level, require a closer and more collaborative relationship with local communities. This collaboration improves communication with host communities and lowers the company's risk of losing its social license to operate.

COBAR ENTERPRISE FACILITATION HELPS BUSINESSES DIVERSIFY

In response to 2013's economic downturn in gold mining, the Cobar Enterprise Facilitation (CEF) – an organization established by Peak Mines to help new businesses get off the ground – found itself with a new kind of client: they were approached by established businesses seeking strategies for weathering harder times. Said Mark Workman, Peak's CEF Facilitator, “Clients from the trades and mining supply business began to come in. They're under pressure to expand their client base, and they looked to us for strategies.” Helping a struggling business is completely different than starting a new one, and the CEF had to adapt. “When you look at an existing business, the guidance can be entirely different. We may encourage them to take a fresh look at services they offer. In some cases, they may need to learn how to use the Internet to attract clients from further away.” To the Cobar region, the value of the CEF has been its versatility. In adapting to serve the changing business climate, it proves the importance of economic depth in a mining-dependent community. 2013 New Gold Sustainability Report Summary