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South African gold mining and local procurement in Tanzania and Ghana

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Abstract: We examine the extent to which two of Africa's leading gold mining economies, Ghana and Tanzania, have adopted transformative local procurement policies to enhance backward linkages from the minerals sector. We assess the impact that evolving legislation in the gold industry has had on industrialization and development in each country. South Africa's gold mining investments in Ghana and Tanzania are used to illustrate policy impact and the state–capital relations that shape policy formulation and implementation. We conclude this study with concrete policy recommendations for host country governments and South African policy makers on how to deepen backward linkages emerging out of South African gold mining operations in each country. We propose that this research forms the beginning of in-depth assessments of the impact of South African mining investment on the continent and its potential role in realizing the minerals-based industrialization agenda of Africa's resource-rich economies.

Key words: gold mining, industrial policy, local procurement, minerals-based industrialization, Tanzania, Ghana, South Africa

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1 Introduction: mining and industrialization and the problem of resource dependence in Africa

Mining is a critical industry for many African economies. The continent holds 30 per cent of the world's mineral reserves and mining contributes in excess of 10 per cent of GDP in a number of African countries. The mining industry is a crucial source of employment, tax and export revenues. However, cyclical commodity slumps underscore the resource dependence that continues to frustrate inclusive growth and development (Turok et al. 2018). In recent years the mining industry has come under increasing pressure by host governments and regional governance structures in Africa, to act as a catalyst for economic diversification and industrialization. As growth in mining investment and operations on the continent is predicted in the coming years, the issue of how to leverage mining for socioeconomic transformation will be at the centre stage of policy debates across the continent.

It was once a widely held view that mining is an industry with very little developmental potential. The 'resource curse' argument maintained that a range of factors, including the Dutch Disease, vast infrastructural issues and the extractive interests of mining firms, meant that mining was an 'enclave' industry with little potential to stimulate industrialization (see for example Auty 1994). This perspective, however, has given way to a growing recognition of the developmental potential of mining (Morris et al. 2012; Fessahie et al. 2016).

Since the turn of the last decade, Africa's regional bodies and governance structures as well as a number of governments have promoted a 'minerals-based industrialization' path. The African Union (AU), in collaboration with the African Development Bank (AfDB), United Nations Conference on Trade and Development (UNCTAD) and United Nations Industrial Development Organisation (UNIDO), launched the *African Mining Vision* (AMV) in 2009. The AMV calls for the 'formulation and implementation of workable industrialization strategies based on our continent's unique strengths' and notes that minerals-based industrialization can only result from the stimulation of upstream, downstream, and sidestream linkages, demonstrated in UNECA (2011a: figure 8.1)

In 2011, the AU, AfDB and UNECA launched the *Action Plan for Implementing the AMV-Building a sustainable future for Africa's extractive industry: From Vision to Action*. This document lists concrete policy interventions for African countries to follow to realize minerals-based industrialization (AU 2011). In the same year, UNECA's Economic Report for Africa (ERA) made additional policy proposals (UNECA 2011b). Since then, much academic and research work has been undertaken to advise regional and national governments on appropriate mechanisms to tap into the developmental potential of mining (Morris et al 2012; Fessahie et al 2016; UNECA 2013; Turok et al. 2018). However, as our previous research has indicated (Turok and Smith 2017; Turok et al. 2018), progress in implementing the AMV has been slow across the continent.

Notwithstanding the slow practical uptake of the AMV by Africa's minerals rich economies, recent literature suggests that local procurement presents the most appropriate 'path of least resistance' that African countries should follow in order to ignite minerals-based industrialization (Morris et al. 2012 and Fessahie et al. 2016). According to a report from Mining Shared Value (2017: 13), 'upstream linkages often require a smaller capital investment than downstream linkages and also offer more opportunities for transferability of human and physical capital (upgrading) within the mining sector and other sectors, as the needs of the mining industry 'generate a host of skills and capabilities in the design and production of high performance equipment'. Local procurement, however and as we shall discuss in greater detail below, should only be classified as such if there is clear value addition in host countries. For a simple and useful depiction of the linkages in the minerals industry and the relationship between firms see the figure on page 103 of UNECA's report, "Minerals and Africa's Development." (2011). This figure demonstrates the pyramidal nature of the supply-chain process which allows for fewer level 1 supplies who often end up determining those at level 2 and 3. As will be discussed subsequently, there are a number of structural issues (health and safety standards, risk-averse mining companies etc.) that often contribute to the same level 1 firms being used. If they are not brought on board in the local procurement initiative process then they risk playing the role of gatekeepers in the supply chain limiting the effectiveness of such initiatives.

2 South African mining investment in Ghana and Tanzania

There has been steady progress by African countries in implementing policy change in the minerals sector in recent years. A number of resource-rich countries have taken a proactive approach to minerals sector governance. Tanzania and Ghana are two such nations. This study aims to track the progress that Tanzania and Ghana have made in developing policies suitable for linkage development and minerals-based industrialization. In particular, we assess the formulation and implementation of local procurement policies in the gold mining sector. The operations of South Africa's gold mining companies, and how they have been affected by procurement legislation, is used as a case-study to illustrate the impact of these policies and the potential for South African investment to act as a catalyst for minerals-based industrialization.

The South African government is committed to facilitating regional industrialization. The Department of Trade and Industry (DTI)'s Medium-Term Strategic Framework 2014–2019 aims to take forward a regional industrialization agenda to ensure Africa becomes a manufacturing and industrial power (DTI quoted in Turok et al. 2018). South Africa is a major investor in the minerals sector across Africa, yet these investments are not regularly monitored in terms of their developmental impact (for exceptions see Hanlin 2011; Hanlin and Hanlin 2012; Turok et al. 2016). This research aims to fill this gap and contribute to understanding how South African regional investment can stimulate broader development, industrialization and the diversification of Africa's economies.

This is in line with South African government's strategic aim to improve the perception that South African trade and investment in Africa is a one-sided affair, with the majority of benefits accruing to Africa's most industrialised economy. As noted by the DTI (2018: 87):

> The regional trading relationship is, however, highly skewed in South Africa's favour (at an approximate ratio of 3:1) with South African imports (of just over R100 billion) being mostly composed of raw materials, particularly oil. This has led to increasing concern in many countries that South African imports have had a detrimental impact on small and micro players, who are being squeezed out of their domestic market positions while big South African firms do little to invest in skills and local capacity-building.

The response is for the South African government to play a developmental role in encouraging South African companies on the continent to invest in local production and develop partnerships and joint-centres with local players, even when this is ostensibly in conflict with the drive to increase South African exports to Africa. This study aims to illuminate the scope for such activity in the mining value chain in Ghana and Tanzania.

2.1 Why local procurement?

Local procurement is a crucial component in the stimulation of upstream linkages and is a fertile avenue by which to enhance minerals-based industrialization (Fessahie et al. 2016). Local procurement within the mining industry is relevant at all stages of the mining process from initial resource assessments to mine closures. While the range of industries is vast, it can be broadly divided into five categories (World Bank 2012):

1. services (financial, legal, catering etc.)
2. capital goods and construction
3. consumable materials and replacement parts
4. bulk services and infrastructure
5. non-core goods (e.g. uniform or medicine provision).

In addition to the World Bank categories, this study adds employment into what it considers to be local procurement. The choice to include employment in this requirement is based off the importance of increasing employment to fully achieving the benefits of minerals-based industrialization in particular and development in general. In the ICMM report, they note that growth has not always been matched with increased employment. Given that the mining industry is capital-intensive as opposed to labour-intensive, an explicit focus on employment is necessary.

Within the literature, there are a number of purported advantages of policies that encourage local procurement in the mining industry, most of which aim to deepen and broaden links between the mining industry and domestic economies. More local sourcing will result in greater demand for other products and services, and consequently even more value-add and employment is created locally. Increasing demand also allows local industries to develop and formalise and the country to diversify its economy making it more resilient. Encouraging local procurement can also result in increased skill and technology transfer and greater integration into global value chains (Mining Shared Value 2013: 7).

Increasing local procurement also has benefits to mining companies. Procuring locally can potentially lower costs for mining companies. It can often result in decreased prices; sometimes this is directly related to product unit costs but can also be as a result of reduced shipping distance. Procuring locally also improves supply chain efficiency through shortened delivery times and increased resilience in supply chain management through development of multiple supplier options (Mining Shared Value 2013: 7). This can result in the strengthening of the so-called 'social license' to operate i.e. the increased legitimacy that mining companies get from local communities when they are embedded in local economies.

In Brazil, local supply in the oil and gas industry increased from 57 per cent to 75 per cent between 2003–08, contributing US$9.3 billion to the local economy as a result of ambitious local content policy implementation. In Chile, similarly ambitious policies have resulted in substantial increases in procurement spend by foreign multinationals including Barrick Gold and BHB Billiton (World Bank 2012). These success stories should be emulated in Africa.

Problems of definition and measurement

Local procurement is difficult to both measure and regulate. There is currently is no one agreed-upon definition for what constitutes local procurement in the literature. The World Bank argues that there are three elements which should go into definitions of local procurement. Firstly, geographical location should be considered and can range from vicinity to the mine, national boundaries or wider regional considerations. Secondly, citizen participation should be taken into account in terms of ownership, management and employment. Finally, local content should be emphasised in terms of inputs, value add and substantial transformation (World Bank 2015). However, the exact considerations for each of these three elements is not clear. A number of questions remain:

1. For a company to be defined as local, do we look at its place of registration, its ownership structure, its management, its staff or a combination?
2. As indicated above, geographical proximity can mean 'local-local', i.e. proximity to the mine, national, or regional. A variety of mine-specific considerations may go into which of these are chosen.
3. Should local manufacturing and sourcing of goods be emphasised over ownership/management? That is, how do we compare a locally-owned firm that is primarily importing versus a foreign-owned firm that is manufacturing locally and sourcing local raw materials (World Bank 2012: 29)

As the above indicates, there are necessary tensions between local procurement and local content considerations. These problems with measurement and definition are not merely academic but have concrete impacts on the ability of governments to adequately monitor and encourage local procurement. One way in which this happens is a manifestation of the tension between local content and local procurement resulting from how we define local indicated as in points 1 and 2 above. As Hanlin and Hanlin (2012) note, a firm may procure spare parts from locally-owned dealerships of multinational plant suppliers (for example, Caterpillar) and this may be deemed local procurement regardless of the fact that there is very little local value addition. This can lead to the emergence of 'fronting' whereby multinational corporations set up offices in-country that may be owned by locals (usually well-connected elites) but who operate merely as 'middlemen'. This is a problem that is serious in South Africa and related to that government's Black Economic Empowerment (BEE) policy. For the purposes of this research, therefore, we stress that local procurement should only be classified as such if there is clear value added for host countries (see a more detailed discussion in section 4). However, as our discussions to follow indicate, it is often difficult to identify when procurement practices are superficial or genuine. In fact, this responsibility should be at the forefront of minerals governance regimes, both public and private.

2.2 Research questions

This study seeks to answer the following research questions:

1. What is the state of current local procurement legislation in Ghana and Tanzania and how mature are these policies in relation to best practice developed in the literature on minerals governance?
2. Can we identify evidence that positive policy change in local procurement has resulted in positive local value added in the gold mining sectors of Ghana and Tanzania?
3. What is the potential for South African gold mining investment in Ghana and Tanzania to contribute to local value added through increasing local procurement and in what way can the South African government facilitate this without undermining South Africa's export priorities?
4. How can local procurement legislation be improved in Ghana and Tanzania?

2.3 Literature and methodology

This study is based on a significant literature review including academic papers, research reports, press reports and statements, integrated company reports and sustainability reports. These have been supplemented with correspondence with South African business representatives and consultations with South African government officials. We were not able to conduct interviews and correspond in Tanzania or Ghana due to insufficient resources. [1]

As mentioned above, there is now a significant literature on the broader concerns of minerals-based industrialization in Africa. In addition, a number of studies have been conducted examining the gold mining sector in Ghana (see for example Elbra 2017) and the impact of local procurement on local value addition (ICMM 2015). While this report could draw upon valuable literature on Ghana's mineral sector, it struggled to locate significant research in the Tanzanian context. State reporting on mining activity in Tanzania is minimal and lacking in quality and depth. The Ghanaian government sources are more satisfactory yet still present significant weaknesses. Research into South African mining operations in Tanzania and Ghana is also sparse, making our study a unique contribution to the literature even while it draws upon limited resources. These limitations have made press reports, semi-structured and informal interviews and correspondence in South Africa and private sector reports important sources of data.

It is important to acknowledge concerns with regards to the utility and integrity of private sector reporting in the form of annual integrated reports, supplementary sustainability reports, press releases and the like. Private companies have commercial incentive to over-emphasize development contributions while underplaying poor compliance and, in some cases, malpractice (Elbra 2017). These are factors that necessitate the importance of cross-checking company figures and, where possible, with other available data and reporting. Nonetheless, we need to understand the public narrative of private companies in order to gain insight into business priorities and challenges and accept legitimate attempts to contribute towards government's developmental agenda in other countries where these have been apparent. In addition, the phenomenon of private governance, where firms undertake self-regulation in the absence of a well-formulated and clear government initiative, is one worth examining. Anglo-Gold Ashanti, for example, has taken the initiative to develop a comprehensive sustainability agenda that goes beyond what is required from governments. This phenomenon is a product of both increasing government and societal pressure for mining reform but can also be used as a commercial device by private firms to circumscribe the limits of reform by enjoying 'first-mover' status (Elbra 2017).

3 Local procurement in Ghana's gold mining industry: policy, performance and South African mining investments

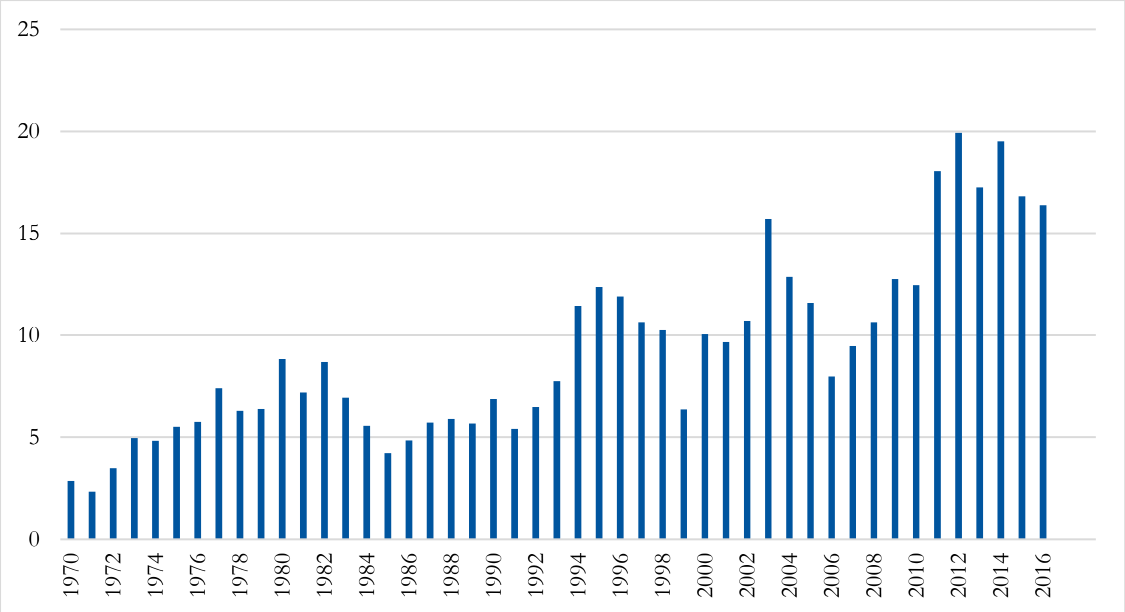
3.1 Mining in Ghana

Mining is a crucial sector in the Ghanaian economy and the country is one of the top 10 Gold producers globally. A 2015 report that focused on seven main mining operations in Ghana found that they directly contributed US$796 million to the economy in 2013. However, once indirect spend was also taken into account (through the inclusion of expenditures on goods and services in the supply chain) this figure increases to US$1.556 billion. Mining attracts more than half of all

[1] The Ghanaian and Tanzanian embassies in South Africa were contacted. However, we received no meaningful communication in return.

foreign direct investment (FDI) and generates more than one-third of all export revenues. It has thus played an important role in providing foreign exchange reserves and has supported the balance of payments position (ICMM 2015). The mining sector is also the largest tax-paying industry in the country outside of the (recent) advent of oil. As Figure 2 illustrates, natural resource rents have become increasingly important for the Ghanaian economy.

Figure 1: Ghana's total natural resources rents (as % of GDP)



Source: authors' illustration using World Bank data: https://data.worldbank.org/indicator/ny.gdp.totl.rt.zs)

In the 2nd quarter of 2018, the mining and quarrying sector recorded 24.7 per cent year-on-year growth rates driving overall industrial sector year-on-year growth of 11.1 per cent (as compared to 4.8 per cent in agriculture and 0.5 per cent in services) (Ghana Statistical Services 2018). The Ghanaian mining sector is dominated by gold, manganese, bauxite and diamond but with gold making up 95 per cent of the country's mineral revenue. This makes it second to South Africa in terms of gold production in Africa (World Bank 2012).

As a result of the dominance of gold in the mining sector, global demand and prices have a significant effect on the Ghanaian economy as well as its place in the global industry. Prior to the 2013 commodity collapse, 'high demand, significant profits and a constrained supply … translated into much greater exploration activity by the industry-with mining going much deeper and further: pushing out the mineral resources frontier' (Bloch and Owusu 2012: 436). The higher gold prices between 2010–13 also led to significant investments in the sector (ICMM 2015). Ghana benefited from declining overall volumes in traditional top producing countries like South Africa, the US, Australia, Canada and Indonesia (Bloch and Owusu 2012). Yet despite the boom, Ghana's economy continues to fail to produce the means to uplift people from poverty. Mining's contribution to industrialization and need for economic diversification are now priorities for government policy.

3.2 Government mining policy

As with many other countries on the continent, there is a belief that the potential benefits of the gold reserves and gold mining have not been leveraged in Ghana. Historically, West African mining has been characterised by low levels of local participation in mining supply chains. While this is sometimes a result of limited availability of local suppliers, it has also been the case in instances where capacity already exists. As a result, the industry tends to be perceived as responsible for impoverished communities and environmental degradation as opposed to development, industrialization and community upliftment.

In recent times, the government has shifted to acknowledge the need to move Ghana away from an extractive economy. The Ghanaian President Akufo-Addo described his local economy as a 'Guggisberg Economy', referencing Gordon Guggisberg, a colonial governor in the Gold Ghost. This he did to highlight the continuities of the colonial economic structure of raw material extraction still evident today (Akolgo 2017: 148).

As with literature on the continent more broadly, a dominant trend in analysis on Ghana has held that the mining industry is an 'economic enclave' that is 'disconnected and delinked from the rest of the national economy' (Bloch and Owusu 2012: 435). This view was contested by Bloch and Owusu who argue that 'Gold mining is no longer an enclave characterised only by fiscal linkages. It is rather more deeply linked into the Ghanaian economy than hitherto understood through a set of as yet under-researched, imperfect, but promising economic linkages' (2012: 435). Many of the legislative changes that have been implemented in recent years have been targeting at increasing these linkages. While some of these have looked to downstream beneficiation, a major focus of the legislation has been on increasing local procurement.

Local procurement

Elbra (2017) argues that minerals governance in Ghana has improved dramatically since the introduction of the 2006 Ghana Minerals and Mining Act. In response to shifts in government policy, over the past decade the country has seen improving growth rates, averaging over 5 per cent since 2006. However, this growth has not translated into significant improvements in development indicators. Challenges remain for the Ghanaian government to convert economic growth into poverty alleviation. The mining sector remains a key industry from which it will attempt to stimulate more inclusive growth patterns. Enhancing backward linkages within the gold mining sector is a key priority in this regard.

The Ghanaian government has taken a firmer stance towards local procurement over the course of the past decade. The 2006 Ghana Minerals and Mining Act included a provision for mining companies giving preferential procurement materials and products made in Ghana. The Act also included a number of requirements for employee localization (ICMM 2015). However, it was formulated without specific articulation of a local procurement policy rubric. This gap has been progressively filled in recent years.

The process of developing, adopting and implementing legislation on local procurement has been a collaborative one between the Minerals Commission and the Chamber of Mines. For example, following the 2008 proposed legislation, mining companies identified and proposed ways that they felt were the most practical to increase local procurement. For its part, the Chamber of Mines created a local content portal and has positively stated that, 'the Chamber's preference is for local manufacturers to produce and supply into the value chain of its members rather than importing same and supply to the industry. Obviously local manufacturing lends more value to the local economy than imports.' (Chamber of Mines 2018: 3)

Beyond private sector participation, various international actors were also part of this process of collaboration including the International Finance Corporation (IFC). In August 2011, the IFC signed an agreement with the Minerals Commission and the Chamber of Mines which would focus on identifying and developing suppliers, especially small and medium sized enterprises (World

Bank 2015). This has also been supported by the World Bank as part of the World Bank West African Mining Local Procurement Implementation Project (WALP).

As a consequence of this collaborative effort, Ghana has put in place a combination of demand- and supply-side policy options to improve local participation in mining value chains, improving its 2006 Act with a stronger and more assertive amendments in 2012 (OECD 2017). Some of the mechanisms include preferential procurement of local goods and services when bids are within 2 per cent of each other on price, submission of a procurement plan that covers a five-year period, and other specific enforcement mechanisms, such as annual reports regarding compliance and financial penalties that will be applied if the local procurement plan or a semi-annual report on the implementation of the procurement plan is not provided. Additionally, a list is maintained of which goods are to be procured in Ghana (see Appendix 1); failure to buy these goods locally will result in penalties and a payment of the full customs duty for the imported goods (Regulations, Art. 2(10) and (11)). Ghana also launched the National Suppliers' Development Program (NSDP) in late 2017. The NSDP was conceived of in line with the AMV goals to catalyse Ghana's development through mining supply chains. However, it is unclear how much more has been done in developing this further subsequent to this.

3.3 Local procurement in practice

In 2015, the ICMM estimated that on average US$628 million (or 25 per cent of total expenditure) was spent in Ghana on local procurement (ICMM 2015: 42). Currently, reports indicate that the construction industry receives most of the supplier expenditure but there are also benefits to local trade, manufacturing and utilities. The ICMM report found that roughly half of the expenditures that remain in Ghana are local procurement (25 percent of total expenditures are local procurement) and the other half are direct value added (wages and payments to government) (ICMM 2015:6). The seven mining companies employ 7,000 people directly each year, and are said to be responsible for 111,000 jobs in total when one accounts for indirect jobs; i.e. for each job at the mine, 15 more are created. It was found that for each US$1 million of local procurement spend, approximately 105 jobs are supported (ICMM 2015).

The ICMM Report indicates the potential that additional procurement may have on the Ghanaian economy as a whole:

> Our scenario analysis shows that value added to the Ghanaian economy could increase by approximately US$50 million annually based on the assumption that certain categories of local procurement increase by 25 percent, the gold price remains competitive and all other things remain equal (ICMM 2015: 6).

However, in order for this potential to be realised local value addition must be ensured. Even though the Chamber of Mines and government note the importance of ensuring that local suppliers are not merely importing and selling on, the latter phenomenon is still far too pronounced in Ghana and in West Africa as a whole. A portion of local procurement is effectively lost in terms of value add when one accounts for subsequent imports by direct and indirect suppliers. The ICMM report of 2015 estimates that this loss constitutes roughly 20 percent of total procurement in Ghana. In other words, for every US$1 spent on local procurement about US$0.80 was value added. (ICMM 2015). This ratio will need to improve. Currently, however, 'local content' is not expressly defined in Ghana's regulations. While reference is made to materials and products made in Ghana, the rules of origin are not clearly articulated (OECD 2017).

3.4 South African gold mining and procurement in Ghana

South Africa–Ghana economic relations have seen steady growth since the establishment of formal diplomatic relations between the two countries in May 1994. Ghana is currently the second largest African export market for South African goods after Nigeria (Erasmus 2018). South Africa is currently the fourteenth largest foreign direct investor in Ghana; primarily in mining and in communications, beverages, retail and franchising (Erasmus 2018). Two South African gold mining companies operate in Ghana, AngloGold Ashanti (AGA) and Goldfields. Along with Newmont Ghana Gold, South African companies dominate the Ghanaian industry and have significant discursive and material power to shape government policy's developmental impact of the minerals economy (Elbra 2017).

AngloGold Ashanti

AngloGold Ashanti, the third largest gold mining company in the world, operates two mines in Ghana, Iduapriem and Obuasi. Obuasi was placed on limited operations in 2014 yet a redevelopment plan is under way, with development agreements signed with the government (AGA 2017). First gold from a new long-life and highly mechanized mine is expected in 2019. AngloGold's commercial strategy indicates a prioritising of its Ghanaian and African investments more broadly as the company seeks to move away from its roots in South Africa's expensive, dangerous and labour-intensive mines.

AngloGold Ashanti presents itself as a global leader in sustainability and development (Chicksen et al. 2018). The firm's Annual Integrated Reports and Independent Sustainability Reports, along with its partnerships with multiple international organizations and research institutes, indicate its commitment to showing off its developmental credentials. In an insightful study on private sector governance and the commercial underpinnings of firms' social responsibility narratives in the gold mining sector, AngloGold Ashanti's elaborate sustainability reporting, often going beyond what is required from state regulators, is perceived to be part of the company's attempt to achieve 'first-mover' status and secure greater input into drafting potential legislation. As Elbra (2017) notes:

> By implementing private governance initiatives more stringently than is required and through participating in the drafting of these regimes, AGA demonstrates significant private authority. This private authority also provides AGA with a higher degree of legitimacy than its peers, and allows the firm a 'seat at the table' when rules are drafted.

AGA's reporting on its social development contribution in Ghana, ranging from safety, to environment, to community programs, is indeed impressive (AGA 2017). In terms of local procurement spending, AGA is also eager to present both compliance and independent initiative. This enthusiasm was strongly revealed in our consultations with the firm's business officials and executives.

In its 2014 Local Socio-Economic Development Report, AGA committed to maximizing the 'level of usage of local goods and services, local employment and local supplier development, all of which represent value channelled into the local economy' (AGA 2014).

The report continues:

> Having analysed where the opportunities for local suppliers lie, we identify and consider businesses which have the capacity and the potential to supply these goods and services. We also encourage global suppliers to

> deliver benefits in terms of their own spend through local procurement, employment and social investment initiatives to the local communities of our operations. Our experience has shown that focused resources are required to interact with local suppliers and build the capacity and commercial links which can lead to contracts. (AGA 2014)

Advancing local procurement is part of the AGA effort to embed their business in the framework of the United Nations Sustainable Development Goals (Chicksen et al. 2018; AGA 2017). AGA Sustainability Report of 2017 lists procurement spend as a total of spending in all of their operations. In Ghana the proportions were as follows (AGA 2017):

2013: 69%

2014: 79%

2015: 79%

2016: 87%

2017: 90%

While these statistics are impressive, it is not clear whether this fulfils local content requirements for value addition. Indeed, although AGA has stated ambitious compliance commitments in formal statements, as recently as 2018 the Ghanaian government expressed concern at the risk of local Ghanaians being disadvantaged in the mining industry. The Minister for Lands and Natural Resources, John Amew, called a 2018 Suppliers forum hosted by AGA with participation from industry stakeholders and government, a 'propaganda gathering'. Expressing a widespread view that mining continues to carry a colonial and extractive profile, and in spite of the AGA reports, he said, 'We have mined resources for over 100 years in this country. There is not even one single indicator to show that Ghanaians have benefitted from their resources' (Essabra-Mensah 2018). The minister has suggested that AGA, despite its rhetoric, has favoured large foreign companies in awarding large contracts. This is indeed noted in previous research on the mining industry as a whole (Hanlin and Hanlin 2012).

AGA response to government concerns has been measured and encouraging, rather than defensive. Top management figures in the company have continued to assert their commitment to work with local suppliers to enable them to compete effectively in the value chain of its mines (Essabra-Mensah 2018). Later in 2018, AGA committed to increasing local participation in the redevelopment of the Obuasi Mine and stated that it will abide by the governments stringent local content policies.

Far from criticizing government policy, AngloGold has formally welcomed efforts to boost local development impact (AGA 2017:10). The firm continues to pursue its 'first-mover' strategic approach to sustainable development component of its business. Yet it is clear that a gap exists between its reporting and the reality on the ground. Civil society watchdogs and researchers contradict the corporate narrative emerging from AngloGold Ashanti's development reports. Akolgo (2017: 150) argues that 'the community [in] which this rich metal [gold] is mined for over a century remained in poverty and devastation' throughout AngloGold's period mining in the area. When Obuasi was closed down in 2014 thousands of workers lost their jobs and the inhabitants of a village contaminated by mining chemicals mourned the failure of crops to yield. In 2006, ActionAid published a report documenting AGA pollution of rivers and streams in Obuasi (ActionAid 2006)

Goldfields

In contradistinction to its peer, Goldfields, which operates the Tarkwa and Damang mines in Ghana, does not make sustainability reporting a priority. It does not publish an independent sustainability report and devotes far less space in its reporting to explaining developmental performance and rationale. It does, however, have a local procurement policy governing its operations.

Procurement procedures for Goldfields in Ghana are separated into two distinct categories, local or in-country procurement and host community procurement. The former indicates that sourcing is made from Ghanaian companies while the latter indicates that sourcing is made from the communities that host their two Ghanaian mines, Tarkwa and Damang

Over the period of 2014–17 local procurement has consisted of an annual average of 75 per cent of total procurement expenditure with a peak of 85 per cent in 2017 up from 72 per cent in 2014 (Gold Fields Limited 2017; see Table 1). The figures for local procurement for 2015 and 2016 were 64 and 79 per cent respectively. This however lags behind other Goldfields operations quite significantly, with average group operations for Goldfields local procurement spend sitting at 94 per cent of total procurement expenditure.

While the figures for Goldfields local procurement in Ghana are lower than other regions that the group operates in, the company has been recognized as a leader in local procurement in Ghana. In 2018 the company won two awards at the Ghana Procurement and Supply Chain Awards, one for Excellence in Procurement and Supply Chain (Mining) and the other for Local Content and Supplier Development (Ibrahim 2018). While in recent years Gold Fields Ghana has been a leader in local procurement, it has begun to articulate shifts in procurement strategy. The firm has now begun to emphasize host community procurement in the country. Gold Fields Ghana's host community procurement spend for 2017 was US$71 million or 13 per cent for the year, exceeding the companies target of US$61 million. The company announced its intentions to reset targets for procurement spending for 2018–20 (Gold Fields Limited 2017).

Table 1: Goldfields local and host community procurement: 2014-17, %

		Local (in-country) procurement			Host community procurement			
Region	2017	2016	2015	2014	2017	2016	2015	2014
Peru	90	89	87	88	7	8	7	5
Ghana	85	79	64	72	13	7	9	6
Australia[1]	99	99	97	99	79	71	66	69
South Deep	100	100	100	100	18	14	10	9
Group	94	92	85	91	45	38	35	39

Source: adapted from Gold Fields Limited (2017).

In 2016, Gold Fields Ghana entered into a development agreement with the Ghanaian government in relation to its re-investment in the Tarkwa and Damang mines. The company subsequently presented plans to reinvest US$1.4 billion in the Damang Mine between 2016–24 and has switched operations at Tarkwa from owner-operator mining to contractor operator mining. However, the Development Agreement did not explicitly deal with local procurement; instead the focus was on corporate tax rates and royalties paid to the Ghanaian government. Under the Development Agreement the corporate tax rate for the company was reduced from 35 per cent to 32.5 per cent. The Development Agreements have received push back from civil society and trade unions with Third World Network Africa alleging that the development agreement is illegal as it contravenes a number of existing laws (Third World Network 2016).

4 Local procurement in Tanzania's gold mining industry: policy, performance and South African mining investments

4.1 Mining in Tanzania

Tanzania is one of the fastest growing countries in sub-Saharan Africa. Its growth rates have averaged between 5–7 per cent over the last decade (AFDB 2016). Yet the country's development indicators remain poor and there is significant pressure on the country's nascent mining industry to contribute meaningfully to the state's industrialization and development initiatives.

Mining in Tanzania dates back to the pre-colonial era when Arab and local traders mined and sold the country's natural resources including gold, copper, iron, and salt. Despite this long history, mining has played a comparatively smaller role in the industrial development of Tanzania than in other resource-rich African economies, including Ghana. Mineral rents constituted less than 1 per cent of GDP between 1990–2003. However, this has grown steadily since 2004 (World Bank 2015). There are a number of different estimates of the contribution of Tanzanian mining to GDP, with the Tanzanian Chamber of Mines figure sitting at 3.7 per cent in 2013, and the World Bank's figure in the same year differing quite substantially at 6.4 per cent. Gold is Tanzania's most abundant mineral. Tanzania is Africa's third largest gold producer and the sector contributed US$1.4 billion to exports in 2016 (Turok and Smith 2017). Gold currently accounts for 36 per cent of total exports and 90 per cent of total mineral exports (Elbra 2017).

The Tanzanian government aims for mining to reach a 10 per cent contribution to GDP by 2025. Recent trends indicate that it may reach that goal as the industry experienced an estimated 8.5 per cent growth in 2017, up from a 3.09 per cent increase in 2016 (Deloitte 2017). Yet it is not mere growth that the government is after, but broader economic transformation. While Tanzania's economy is expected to achieve a progressive and positive growth rate of 6.6 per cent in 2019, that growth is not broad-based and developmental. Poverty rates remain high; 28.2 per cent of Tanzanians are impoverished and the country's poor infrastructure (hard and soft) and low productivity continue to frustrate poverty alleviation efforts. There is thus a profound and, one might even say militant, effort on the part of government to ensure that the mining industry contributes to the restructuring of Tanzania's economy and toward realising concrete developmental outcomes.

4.2 Mining policy in Tanzania

Literature on minerals governance in Tanzania reveals that the industry has a history of regulatory neglect. Julius Nyerere's *Ujama* policy, which called for the nationalization of the country's mines, failed to deliver on its developmental policies. Yet after a period of mismanaged nationalization efforts came an equally unproductive era of mass deregulation and privatization in the form of structural adjustment. Needing to return to international financial institutions (IFIs) for development assistance throughout the 1990s meant a consolidation of neoliberal reforms, as can be seen in the Mining Act of 1998 and then by the Mining Regulation of 1999. Since the passing of the 1998 Act, multinational mining firms have played a dominant role in Tanzania's mining industry. Yet this has not resulted in development. Indeed, during the liberalization period of the 1990s Tanzania GDP per capita fell 0.2 per cent on average and experienced an average inflation of 23 per cent (Elbra 2017).

Elbra (2017) notes that the liberal reforms in the mining sector boosted investment in Tanzania but has been accompanied by a significant resistance from mining communities and local NGOs. These groups argue that too much power has been handed over to multinational companies with often devastating results for those affected by mining. There is evidence informing this resistance. For example, Makene, Emel and Murphy (2012) argue that mining activities are having detrimental effects on people, livestock and the environment. The authors maintain that, rather than distributing some of their profits into local communities, mining corporations are overwhelmingly concerned with off-shoring these to shareholders. Moreover, the Tanzanian (central) government has done little to channel the resource royalties and rents they receive from mining companies into improved services and development projects in mining regions. These rents are also miniscule in comparison with the profits earned by multinational corporations (Curtis and Lissu 2008).

Persistent criticism of state mining policy, along with persistent poverty in the country, resulted in the passing of the Mining Act of 2010. The act placed limitations on the rights of foreign mining firms operating in Tanzania, allowed the Minister of Energy and Minerals to negotiate an equity stake in a mine, limited the granting of development agreements to projects worth more than US$100 million, changed the calculation of royalty rates to gross sales value rather than net sales, limited the size of prospecting licenses and required local procurement and listing on the Dar es Salaam Stock Exchange (Elbra 2017). Mining firms responded negatively to the legislation, which demonstrated the government's formal shift away from the structural adjustment period. However, the industry's contribution to GDP has been steadily rising since the law was amended (Elbra 2017).

Tanzania's current administration has proven to be even bolder and has begun to force through ambitious legislation to turn the mining industry into a catalyst for broader economic transformation through increasing revenues, beneficiation and local procurement. Since the John Magafuli administration assumed control of the presidency in 2015, the country has made a number of amendments to the laws governing natural resource extraction. In March 2017, the Ministry of Energy and Minerals placed a ban on the export of mineral ore from the country to ensure value addition of minerals produced in the country (Deloitte 2017). In the same year the state introduced several new amendments to increase state and local mining revenue. The Finance Act of 2017 increased all royalties in the gold, copper, silver, and, platinum sectors from 4 per cent to 6 per cent. The Written Laws (Miscellaneous Amendments) Act 2017 now requires all mining and special mining license holders to grant government at least 16 per cent free carried interest in the capital of their companies and to acquire (in total) up to 50 per cent of the shares in a mining company.

Whether the ban on exports of mineral ore from the country was a prudent policy initiative has yet to be assessed. The Bank of Tanzania quarterly economic bulletin for the fourth quarter of 2018 showed that gold production decreased to 10,422.4 kilograms from 10,798.4 kilograms recorded in September 2016. The value of procured gold also went down by 6.5 per cent to US$345.6 million during the year ending in September from US$369.6 million recorded in September 2016.

Nonetheless, the state has also made local procurement a priority of its new policy portfolio. In 2018, the Mining (Local Content) Regulations 2018 set out extensive requirements for mining, and mining-related companies, to procure a number of services and goods from locally owned companies. These include the retention of locally-owned banking, insurance and legal services. Mining companies were given only three months to comply (Materu 2018).

It is encouraging that local content has assumed such a prominent place in policy frameworks. In the Preliminary Provisions of the Mining (Local Content) Regulations 2018, it is clear that the Tanzanian government recognizes the critical importance of procurement and beneficiation to the national economy. Yet the fact that these regulations are only being introduced in 2018 is testament to the laggard approach to minerals governance in Tanzania.

4.3 Local procurement in practice in Tanzania

Poor policy development has led to poor results regarding local procurement and a low basis from which to secure more meaningful value addition in the future. Hanlin and Hanlin (2012) note that local procurement in Tanzania has been undermined by the problem of 'lock-in' where lead firms choose short-term efficiency over potential long-term benefits of procuring locally. These firms have a supply chain practice that favours outsourcing to specialist and often foreign contractors, particularly in construction.

Of the several criteria used to assess changes in local content, employment and 'goods and services' are among the most widely used. In terms of employment, Lange and Kinyondo (2016) note that the number of expatriate staff in international mining companies has shown little reduction in recent years, suggesting that little effort is made to replace foreign staff with local workers. When foreign staff have been reduced they find that it has more to do with the closure of large-scale mines. The statistics in goods and services also paint a bleak picture. Given Tanzania's poor industrial base, it faces significant challenges to develop the capabilities required in order to service its mines. Local suppliers cannot meet quality and standard requirements and many local companies find it burdensome to comply. Other barriers include a lack of access to credit, a bureaucratic business climate, and systematic bias towards local businesses that are politically connected and not necessarily business competent (Lange and Kinyodo 2016).

Reporting on procurement figures, moreover, is difficult to evaluate. Lange and Kinyodo (2016) note 'enormous discrepancies' in statistics provided by the private sector and those provided by the state. This discrepancy leads to disputes between firms and government; while government insists that mining companies are not meeting their procurement obligations, those companies use their own figures to insist otherwise. This will continue in the absence of official and clear-cut guidelines for determining what constitutes local procurement.

Having said this, there is one success story worth mentioning, namely catering. In 2007, all Tanzanian mining companies used overseas caterers. By 2016 however, a Tanzanian-owned firm provided catering to four of the largest mines in the country. Lange and Kinyodo (2016) attribute the success to the local firm's quality service and competitive price, a model that will need to be followed if others are to achieve the same.

Lange and Kiyondo (2016) tell us that mining companies themselves have gradually made efforts to strengthen local content — both to improve relations with the government, for general branding purposes, and in a move to save costs after gold prices started declining in 2012. Yet it remains to be seen whether companies can adequately respond to government regulations and whether the Tanzanian state can deliver on the capacity necessary for competitiveness. Substantial resources, both private and public, will need to be directed towards training and capacity-building and the development of local supply chains. We consider below what role South African gold mining investment in Tanzania can play in this.

4.4 South African gold mining and procurement in Tanzania

AngloGold Ashanti operates its largest gold mine, Geita, in Tanzania (AGAI2017: 89). Geita is mined as a multiple open-pit and underground operation. It is planned that the mine will continue to operate as a mixed open-pit and underground operation until the mineral resource is exhausted. However, as discussed in greater detail below, operations at Geita currently operate 'under a cloud' due to increasing friction between AngloGold Ashanti and the Tanzanian government, related to the latter's ambitious and stringent policy changes in the minerals sector.

In the previous section, AngloGold's 'first-mover' strategy with regards to its sustainability reporting was discussed. As with its operations in Ghana, AngloGold Ashanti produces comprehensive reporting on its community and social development impact and insists that it is in compliance with the Tanzanian government's legislative requirements. It currently runs a Geita Development Plan as a five-year initiative beginning in 2015 that is aimed at improving community livelihoods and employment. Most of this work is related to agriculture and simple manufacturing, like shoe-making and embroidery. AngloGold is eager to emphasize that this project is in line with the United Nations' (UN) Sustainability Goals (SDGs) (AGA 2017).

AGA's reporting on local procurement is equally impressive and in accordance with the company's procurement policy mentioned in the chapter before. The poor formulation of minerals governance has led to historically low levels of procurement in Tanzania and this was deliberately noted by AGA. Attempting to pre-empt government policy, AGA launched its own procurement drive in Tanzania, consistent with its strategic objective as a 'first mover.' In 2014, it launched a local procurement project at the Geita Mine targeting an increase in procurement from Tanzanian domiciled and owned companies from 22 per cent in 2013 to 25 per cent by the end of March 2015. AGA estimated that meeting this target would increase the mine's local procurement by over US$10 million. In addition to this, AGA committed to working with the top five global suppliers contracted to Geita to increase their own spend within local communities. According to AGA, benefits of US$10.3 million were secured in 2014, with commitments to increase spend to US$22.7 million in 2015 and US$27.8 million by 2016 (AGA 2014).

AGA reported success in the project's first year, with 'an increase of US$412,000 in contract coverage and order placement with local majority shareholding companies had been generated and a further US$4.1 million of potential business was out to tender with contract placement anticipated thereafter' (AGA 2014). Yet in more recent reporting a significant dip in the ratio of procurement spends in relation to total procurement spend is illustrated (AGA 2017):

2013: 84%

2014: 75%

2015: 60%

2016: 68%

2017: 68%

While AGA has developed sophisticated and impressive procurement planning, Hanlin (2011) notes that the reality on the ground may offer a different view to company reporting. Hanlin notes that local suppliers have little opportunity to interact with procurement officials due to the segregation of the Geita mine from the town and thus feel that they are being excluded from business opportunities. Internal payment approval processes are cumbersome and have led to problems to do with financial exposure for local suppliers. The celebrated initiatives by AGA that purport to nurture local suppliers are in fact tailored to community development projects instead. And finally, procurement decisions related to global contracts are determined in South Africa at AGA head office in a manner that effectively excludes local markets (Hanlin 2011). Furthermore, there are a number of studies that, as highlighted above, have demonstrated mining's negative impact on the environment.

Thus, despite efforts made by AGA in the development of its own procurement initiative, the Tanzanian government remains persistent in its demand for results. As their private governance efforts failed to halt the development of Tanzania's stringent amendments to its minerals policy in

2018, AGA has taken a more direct and critical approach to its engagement with the government. Tanzania's policy changes were explicitly mentioned in the Sustainability Report of 2017:

> In Tanzania, rapidly implemented legislation that is perceived as discriminatory against foreign mining groups and in favour of local operators was experienced, along with greater government control of private sector activities. Additionally, more stringent local listing and ownership requirements, changes to the mining code, the signalling of intent to change stability agreements, banning of ore exportation, and stringent scrutiny of financial and operating practices were observed. In response, the company initiated and maintains engagement with high-level government officials to facilitate mutually-beneficial outcomes. (AGASD 2017: 78)

In July 2017, AGA launched arbitration proceedings with the government in response to legislative changes. AGA is seeking to ensure that the Geita mine is not affected by changes to the government's minerals policy. The government stance, however, does not appear to be changing. Disputes surrounding Tanzania's laws have thus continued into 2018 and 2019.

Table 2 summarises this assessment of AngloGold Ashanti in Tanzania while providing a comparison to Ghana, discussed previously.

Table 2: AngloGold Ashanti in Ghana and Tanzania: a comparison

ANGLOGOLD ASHANTI	TANZANIA	GHANA
Nature of relationship	Increasing friction over policy changes by government. AGA challenging Tanzanian minerals policy in court.	Relatively strong relationship. Government's aggressive stance to minerals regulations has been accepted.
Sustainability reporting	'First Mover' strategy; comprehensive reporting on community & social development; claims to adhere to UN Sustainability Goals.	'First Mover' strategy; comprehensive reporting on community & social development; claims to adhere to UN Sustainability Goals.
Reporting on local procurement	Launched its own procurement drive. Local suppliers, though, feel excluded from business opportunities. Payment approval processes are cumbersome leaving local suppliers exposed. Global contracts determined in South Africa which excludes local markets.	Worked with government and international advisory bodies on local procurement legislation. Government has contested firm's impressive procurement spend statistics and argue that local value addition remains frustrated by companies exclusion of local markets.

Source: authors' compilation.

5 The way forward: lessons and recommendations

This study has evaluated efforts to pursue minerals-based industrialization in Tanzania and Ghana. In particular, we considered legislation and performance in relation to local procurement in the gold mining sectors. Both Ghana and Tanzania have moved away from a *laissez-faire* free-market approach to minerals sector governance and have each formulated ambitious industrialization plans. Both countries believe that mining can play a significant role in realizing broader economic transformation and diversification. Indeed, Ghana and Tanzania have made positive strides in drafting and implementing broader minerals legislation and local content requirements in particular. South African gold mining investments are impacted by this shifting policy landscape.

Yet it is interesting to note the formal acceptance of ambitious minerals governance by South African firms. Both AngloGold Ashanti and Goldfields, for example, report increasing local procurement spend in recent years and have demonstrated commitment to improving their contributions to local value addition.

Notwithstanding positive legislative movements and private sector acceptance of minerals governance, there are a number of salient factors to consider as fundamental to maximizing the potential of local procurement in the gold mining industry and the role that South African investment can play in securing this. This chapter summarizes lessons learnt in this study and proposes discrete recommendations for policy makers in Ghana, Tanzania, and South Africa.

5.1 Capabilities and pragmatic planning

Obvious impediments to local procurement include a lack of local quality control and the price competitiveness of local suppliers in relation to their foreign counterparts. These issues are given prominence in our literature survey and were emphasized during our consultations with South African industry. The reality is that the capabilities to produce high-value added mining inputs is not readily available in lowly industrialised economies such as Ghana and, in particular, Tanzania. As a result, a situation of 'lock-in' can occur, where precedent excludes local businesses from consideration in procurement decisions (Hanlin and Hanlin 2012).

This is not, however, reason for despair. To embark on an industrialization path, countries should develop a realistic and systematic plan to upgrade their capabilities and secure entry into the mineral value chain on the path of least resistance. There is great potential for small- to medium-sized local business to produce niche inputs and take advantage of opportunities resulting from mining investments. A government strategy to maximise this potential must strike an appropriate balance of pragmatism and ambition.

As discussed in previous chapters, there has been significant progress in government legislation on this score in recent years as resource-rich economies take a more proactive role in seeking greater backward linkages from mining. Ghana, however, is at a more advanced stage than Tanzania in developing a path to deepening local procurement in its gold mining industry. As Appendix 1 in Chapter 2 illustrates, the Ghanaian government has produced a list of items that have the potential to attract greater local procurement. This effort however has taken several years, with the input of foreign international research bodies and private sector cooperation in the form of the Ghana Chamber of Mines (2018). A similar process will need to be followed and undertaken in Tanzania.

Local content requirements have not been traditionally enforced in Tanzania's gold mining industry, leading to disappointing results and a vacuum in which private companies, AngloGold included, have attempted to assert leadership in the formulation of future policy. As discussed in the previous chapter however, the Magafuli administration has taken a bullish approach to minerals governance, with the recent development of stringent local content requirements. These have gone beyond what is comfortable for local business. Whereas AngloGold Ashanti has praised the Ghanaian government for the manner in which legislative reform has progressed in recent years, it has expressed concern at the pace and militancy of reform in Tanzania.

This is in part due to the failure of the company's private governance strategy to marshal legislation in favourable directions. But there is some legitimacy in AngloGold Ashanti's concern as to the lack of clarity and detail within the new legislation. Moreover, the government's emphasis on securing increases of royalties and taxes may inhibit the long-term developmental potential of the industry and only guarantee an unproductive rent seeking arrangement for the politically connected. The state should not, however, be deterred in its aim to advance a more robust minerals policy. As was the case in Ghana, time and resources will need to be devoted to a rigorous examination of the local gold mining industry and the capabilities of potential local suppliers.

There is a basis from which to pursue these initiatives. Previous procurement success stories have come largely in the absence of government support and due in significant degree to private sector initiative. In addition, AngloGold Ashanti has committed to work with their foreign suppliers to ensure skills transfer and raise the capabilities of local business. These activities will need to be supported by government and, more importantly, evaluated in terms of their objective contribution to local value addition.

The enhancement of local capabilities is certainly a foundation stone of the drive to increase local procurement. Both Ghana and Tanzania are on the path to improving in this regard, with the latter a few steps behind the former but equally, and perhaps even more, motivated to pursue an assertive local content policy agenda. However, a more fundamental issue, having to do with policy definitional clarity, is apparent.

5.2 The definition of local procurement and broader policy considerations

As noted in the introduction to this study, local procurement is difficult to define. This lack of clarity has dire consequences. The absence of a broadly agreed upon and coherent definition of local procurement exacerbates problems related to 'fronting' and the blurry distinction between local procurement and local value addition. As the literature and our consultations with government officials and industry confirms, certain local businesses in Ghana and Tanzania are set up as suppliers of local goods and services. However, these goods are in fact imported. In such cases there is usually an additional mark up in prices as well as attempts to exclude goods genuinely manufactured within the country.

A lack of conceptual clarity results in additional issues. While it is encouraging that private sector companies report local procurement statistics, it is often difficult to evaluate actual developmental potential if there is no agreement between the firm, civil society and the state about what exactly constitutes value-enhancing procurement. This incongruence has led to disputes between government and the private sector on the depth of the latter's developmental contribution. As discussed in Chapter 1, AngloGold Ashanti's reporting on its procurement contributions has done little to convince Ghanaian state officials that the company is making a significant social impact and should therefore be excluded from complying with new stringent legislation. Such disputes would be tempered if stakeholders were operating from consistent and coherent measurements and definitions.

This study made use of a growing literature on the phenomenon of private governance in the minerals sector (Elbra 2017). It was noted that private companies' sustainability reporting must be seen as part of a broader commercial strategy. Depending on the firm in question, a strategy can either be geared towards ensuring political and social stability for mining operations, or, as in the case of AngloGold Ashanti, to secure a 'first-mover' status to attain a 'seat at the table' for the formulation of future government policy. Indeed, our consultations with AngloGold Ashanti officials and our review of their sustainability literature, reveals the significant emphasis the firm places on this facet of their strategic business practice (Turok and Smith 2017; Turok et al. 2016).

While it is certainly positive that companies like AngloGold Ashanti are being made to respond to community pressure and developmental ambitions, governments, researchers and civil society agents should be cognisant of the commercial imperative underlying its motivation on this score. Companies have a commercial incentive to inflate procurement figures and emphasize social development compliance. However, independent research- as referred to in the previous chapters- has often contradicted firms internal reporting. Sensitivity to this issue should be heightened where state institutions and legislation have not been adequately formulated or are in the process of formulation. These considerations once more highlight the importance of state leadership, in partnership with independent researchers, international advisory bodies, and local civil society, in the drafting of consistent, coherent and systematic minerals policy. In terms of local procurement, government must take the lead in defining and enforcing a clear definition that would minimize potential disputes and contestations with the private sector.

We submit that local procurement legislation must contain the following definitional elements, as summarized neatly by the World Bank.

1. Preference should be given to companies where there is significant participation from local citizens across all areas of ownership, management, and employment.
2. Preference should be given to companies which demonstrate higher levels of local value addition.
    a. For manufactured products this means companies that are involved in local manufacturing activity (i.e. where the majority of their products are being 'substantially transformed' locally) rather than importing/trading activities.
    b. For services this implies companies where the majority of the service is undertaken, managed, and controlled locally rather than provided from elsewhere.
3. Geographically, preference for a company which is located in the same country as the mine i.e. national takes precedence over regional (World Bank 2012; World Bank 2013).

In finding ways to encourage foreign suppliers to engage with local firms, it is important to address the constraints that prevent them from doing so in the first place. Typically, these relate to issues of standards identified elsewhere in this report: MNCs are reluctant to invest in assisting local suppliers with upgrading technologies and capabilities in order to meet international standards. At the same time local suppliers may be similarly reluctant to take on the risk of upgrading without guarantees of adequate compensation. Government policies to support this process are therefore needed. These may take the form of investments in upgrading technological capacities through capital investments, skills transfers or expert assistance in standards compliance. Another crucial factor is that of matchmaking; mining companies and tier 1 suppliers (as identified in Figure 1) may be reluctant to absorb the high costs of identifying firms that are able to meet their supply-chain needs.

While quotas and other requirements play an important role, they are not on their own sufficient to ensure that local content is increased. Regulations need to be supplemented by enforcement mechanisms (like those integrated into the Ghanaian legislation) as well as by proactive mechanisms. One example, championed by John Sutton, are local content units. Sutton (2014: 1) argues for an administrative body, reporting to government, that 'encompasses the twin functions of negotiating with multinational companies on local content, and bringing forward the capabilities of potential domestic suppliers via an Enterprise Development Centre'.

In terms training and capabilities building, Östensson suggests that training should be focused on management training as opposed to process upgrading i.e. 'that an understanding of business management must precede upgrading of technical processes' (2017: 8). Training processes should take an integrated approach in which upskilling is continual i.e. while people may be trained for low skilled jobs to begin with, these should be expanded over time through development programs. As with all local content policies, training and capabilities programs should be designed in dialogue with mining firms, Tier 1 contactors, local suppliers and local communities to be responsive to the needs of all stakeholders.

We suggest that these recommendations should be expanded and local procurement legislation be articulated within a transformative and coherent macroeconomic and industrial policy. Minerals governance must be attuned to the real and often devastating costs of mining. One cannot have a mature policy on maximizing backward linkages without attending to issues concerning mining-related displacement, environmental degradation, and civil conflict. In addition, local procurement will only realise its full developmental potential if there are complementary and supportive economic and social frameworks in place. The latter will ensure that the benefits accruing from local procurement are widely dispersed. For example, a local firm may benefit from securing contracts with local gold mines due to favourable legislation, yet at the same time may be involved in exploitative labour practices. This occurred in Tanzania in 2015. The very same catering company that was referenced as a procurement success story in the previous chapter was found to be paying its unskilled labourers a poverty wage with no benefits. This case illustrates how local content, in the absence of a broader commitment to economic transformation, may simply empower local business owners with little benefit accruing to employees.

There is a vast literature that maintains that minerals-based industrialization is dependent, therefore, on a capable developmental state that is able to steer economic activity to benefit the broad population. Both Tanzania and Ghana have taken positive steps in this direction. However, there is vast scope for improvement, particularly in Tanzania. While it is clear that these governments are following the principles articulated in the broader literature on minerals-based industrialization and local procurement in particular, practical implementation is lagging. With regards to the latter, the private sector, AngloGold Ashanti in particular, has positively and formally acknowledged that 'fronting' is a major issue undermining local value addition. More broadly, there is an acceptance of the legitimacy of the state to pursue interventionist minerals policies, even while firms are ready to resist when they consider certain initiatives to threaten their business operations.

5.3 South Africa in Ghana and Tanzania

At first glance it might seem that there is a tension between promoting South African regional interests and increased local procurement in the mineral sector. In resource-rich African economies, Hanlin (2011) has noted that mining companies in the first phase of the mining life-cycle are predisposed to making procurement decisions on precedent due to standardization requirements. This has made it such that foreign multinationals dominate initial and subsequent rounds of procurement, excluding both local and regional (South African) businesses. South African businesses, however, have been more successful in the construction and long-term phases of mining projects. In Hanlin's (2011: 7) words:

> The combination of the advancement and the ability to operate regionally of the South African sector combined with a very low manufacturing capacity regionally, outside of South Africa, creates a situation whereby there is little incentive for the large mining operations to take risk and engage in local procurement, which would serve as investment in the development of indigenous capacity, when they can easily deal directly with the manufacturers, innovators, service providers attuned to their needs in South Africa.

Yet as this study has revealed, much has taken place since Hanlin published these words. Since 2012 there has been significant and increasing pressure on mining companies to engage in local procurement across all facets of the mining business. Thus, the 'lock-in' that Hanlin and Hanlin (2012) observed in 2012 may be less severe in contemporary times, leaving opportunities for local and South African companies in various phases of the mining life-cycle.

In addition, recognition about the low capabilities in lowly industrialised economies such as Ghana and Tanzania, suggest that there is not necessarily a long-term conflict of interest between South African producers and their peers in these countries. Indeed, as foreign mining suppliers are increasingly being encouraged by both private mining companies and local governments to mentor potential local suppliers and engage in capacity training and skills transfer, the position of South African firms in the value chain can be leveraged for medium- and long-term local value addition. In another study we have already pointed to the potential that South African developmental finance institutions such as the Development Bank of Southern Africa (DBSA) and the Industrial Development Corporation could have in promoting such strategic and catalytic soft and hard infrastructure spending across the continent (Turok et al. 2018). Regional hubs of specialization can also be supported by the South African government, in partnership with the South African and regional private sector.

South Africa is the most industrialized economy in Africa. That industrialization, moreover, has been based on the minerals sector and the manufacturing capabilities that emerged after the discovery of gold and diamonds and into the twentieth century (Fine and Rustomjee 1996). There is thus a profound scope for policy capacity transfer between South African government and their Tanzanian and Ghanaian peers. For example, as Tanzania embarks on its ambitious minerals policy agenda it will need capacity to undertake an examination of the procurement opportunities in its gold mining industry. The South African government and researchers could form part of a collaborative effort to undertake such an initiative, imitating the work undertaken by multiple partners in the formulation of Ghana's local procurement list.

Such efforts would need to be articulated within a bilateral or regional agreement. Yet this already falls within the South African government's stated regional industrialization ambitions. We are not calling for South Africa to 'lead' African industrialization and dictate industrial policy to its neighbours. Rather, we encourage South Africa's participation in a regional industrialization plan based on the strengths of Africa's resource rich economies. Indeed, such a plan would also need to come with commitments from South Africa's trading partners. Tanzania and Ghana, for example, may facilitate South African exports into the country, particularly with regards to capital equipment, as South Africa's market share in a strategic export declines relative to European and other businesses across the continent. As Hanlin (2011) notes, South Africa should be a natural supplier of mining capital equipment to its neighbours:

> With such a strong pool of expertise in the mining sector South Africa should be expected to monopolize such service provision to other African nations, however, again the pre-determination of manufactures and products based upon precedent provides a deviation from the expected often leading to South African manufacturers and suppliers being effectively excluded from the procurement process.

If regional procurement incentives can be built into legislation, along with requirements of these firms to nurture local suppliers, it could present a win-win scenario that would catalyze regional industrialization. Once more, however, this would need to be articulated within a broader regional development and trade plan, working out existing arrangements between the countries and the region.

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Appendix 1

Ghana local procurement list

As mentioned earlier in this paper, the development of Regulations LI 2173 was part of a collaborative project between the IFC, The Minerals Commission and the Chamber of Mines. Part of this collaboration was the development of a broad National Supplier Development Programme for the Mining Industry beginning in 2010. This project initially identified 28 mining inputs that could be sourced locally. However, this list was not followed through into regulation. Instead, an initial list of 8 items was produced in 2014. An extra eleven items were added in 2015 (Chamber of Mines 2018: 2)

Initial list 2014:

1. grinding media
2. heavy duty electrical cables
3. high density polyethylene (HDPE) and polyvinyl chloride (PVC) pipes
4. general lubricants
5. quick and hydrated lime
6. retreading of tyres
7. explosives (emulsion)
8. cement and cement products/grout

Initial list 2015

1. bolts and nuts
2. crucibles
3. plastic sample bags
4. calico bags
5. bullion boxes
6. chain lining fencing, wire netting, barbed wire
7. conveyor rollers
8. metal/PVC core trays
9. overalls and work cloths
10. haulage services
11. catering services