



# Critical factors for sustainable social projects

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## Synopsis

Sustainable development is currently an extremely relevant concept worldwide, especially in developing countries like South Africa. Mining and metals companies are also directly affected by the sustainable development agenda. The Mining Charter's requirements as well as new legislation (Mineral and Petroleum Resources Development Act) expect, among others, for mines to support infrastructure and poverty eradication projects in the communities surrounding the mines. The aim of this paper is to, against the background of a qualitative study of mining communities in the North-West Province of South Africa, put forward some critical factors for the sustainability of social development projects in the mining sector.

## Introduction

Sustainable development is currently an extremely relevant concept worldwide, especially in developing countries like South Africa. Mining and metals companies are also directly affected by the sustainable development agenda. Sustainable development in the mining sector was initially focused on the economic sustainability of the mining companies; with the subsequent pressure from the environmentalists, this concept was extended to include the impact of mining operations on the environment. An example of such a definition is reflected by the following statement:<sup>1</sup> 'Using the economic engine by mining to build an economy that survives and is better off after the end of the mining.'

However, this narrow definition has expanded to include political, educational, psychological and social dimensions. Taking account of this wider perspective of the concept, it can be defined<sup>2,3</sup> as including social and economic progress, which ensures human development and during which the basic needs of the present are satisfied. Future generations are not compromised by the definition because each generation must use its own capacity to satisfy its needs.

Communities surrounding South African mines are in most cases synonymous with

social problems that include poverty, disease, unemployment, adult illiteracy, poor housing, family disorganization and uncontrollable migration, despite efforts by some mining companies to redress these.

Ongoing revisions to the environmental, social and corporate governance frameworks for the sector, as well as the Mining Charter's requirements, are creating new threats, but also opening up new opportunities<sup>4</sup>. More specifically, in terms of the communities, regulation 46 (c) iii of the Mineral and Petroleum Resources Development Act<sup>5</sup> require mines to support infrastructure and poverty eradication projects in line with the Integrated Development Plans (IDPs) of the area in which the mine operates and major labour sending areas.

The aim of this paper is to put forward some critical factors for the sustainability of social projects in the mining sector. The basic characteristics of sustainable development in mining, as stated by John Strongman from the World Bank, provide a useful point of departure when talking about social projects. These characteristics are as follows<sup>6</sup>:

- Financially viable
- Environmentally sound
- Socially responsible
- Effective governance
- Long-term community value.

Furthermore, at least two of South Africa's development challenges, namely poverty and unemployment, must serve as the basic framework when prioritizing and initiating social projects<sup>7</sup>.

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## Methodology

The methodology for this paper entails two research procedures, namely the historical procedure as well as the survey procedure. With regard to the historical procedure, a thorough literature review of relevant sources such as the Internet, books, journals, newspaper articles, as well as applicable documents from institutions such as the World Bank, the United Nations, the Chamber of Mines of South Africa and the International Council on Mining and Metals (ICMM), was undertaken. The survey procedure was based on a qualitative study of mining communities in the North-West Province of South Africa. Data collection methods included focus groups and personal interviews to enable the respondents to express their opinions and experiences fully without being limited by structured questions. Focus groups (8–12 people) and interviewees were selected purposely to take account of gender, race, migrant or local status, age and specific interest groups, such as business people as well as developmental project personnel<sup>8</sup>. Other sampling methods included: snowballing using mining staff, community members and government/NGO officials and convenience sampling. The researchers conducted thirty focus group interviews and forty personal interviews. The interviews with the respondents were translated where necessary and transcribed. The translated version supplied information that was qualitatively interpreted by the researchers. A more theoretical (rather than a practical) approach—that is the interpretation of written sources (literature control)—was used as the basic point of departure for the analysis and interpretation of the results.

In terms of the community projects set up by the mine, community members expressed that these were not sustainable and most had either failed or were surviving on a hand-to-mouth basis. Some of the reasons put forward for this included:

- ▶ Lack of project planning, specifically in relation to the development of a comprehensive business plan as well as marketing
- ▶ Projects were set up without full consultation with community members, consequently community members felt that they had little control of the projects
- ▶ The mine lacks sufficient knowledge about communities' strengths and weaknesses in relation to project management; as a result, most projects were 'stranded' and left to run independently too early
- ▶ Poor infrastructure in terms of transport, communication systems (e.g. telephones, Internet, etc.) and information to run a project efficiently.

Against the above-mentioned background and observations by the researchers which confirm the above, at least ten critical factors for the sustainability of social projects were identified by the research. The authors attempted to 'translate' these factors into practical applications. The importance of identifying the practical applications is that it enables mining personnel charged with the responsibility of community development projects, to use the guidelines in the implementation of the projects effectively. The benefits are that these factors allow for appropriate identification of needs, strengths, weaknesses and conflicts within communities that are crucial to project successes. In a sense,

running a social project is like baking a cake: the right combination of ingredients will result in success and too little or the wrong combination guarantees a flop.

The factors are:

- ▶ Background study
- ▶ Focus
- ▶ Communication
- ▶ Ownership
- ▶ Partnership
- ▶ Business plan
- ▶ Implementation (positive and practical)
- ▶ Evaluation (motivation and redirection)
- ▶ Ongoing training
- ▶ Ongoing support

## Factors ensuring the sustainability of projects

### Background study

In order to ensure eventual success and sustainability, a thorough study of the basic social and economic landscape is essential. From the onset it is assumed that effective governance and the concept of best practice is in place throughout the project. More specifically, the background study should include:

- ▶ Identification of the potential stakeholders, for example: communities, NGOs and the government
- ▶ Determine existing structures that are already in place to accommodate the project (to avoid reinventing the wheel)
- ▶ Analyse the social capital as well as the environment
- ▶ Identify community needs (in terms of poverty and unemployment but also in terms of specific projects)
- ▶ Assess previous projects to learn from the past
- ▶ Ensure full commitment from senior management to the project (it would ensure that the project forms part of the core business)
- ▶ Ensure that financial commitment has been given (this financial facet must be transparent to all involved)
- ▶ Ask what the long-term community value of the project is going to be.

### Focus

Consolidating resources and social capital have proved to be more successful: rather have one successful project than ten failing and incomplete projects. Lack of focus and failing to complete projects demotivate community members whose self-worth is already low because of their poor economic status.

### Communication

According to the World Bank and International Finance Corporation's report<sup>9</sup>, the importance of good communication between the company and the communities cannot be overemphasized. Companies should begin early, be open and give lots of information. Companies should make use of the media that are available to them. The most effective and most cost-effective include local radio advertising using all the languages. This is the least discriminative because it includes people who cannot read. Posters in key areas such as clinics, shops and village centres are also effective. It is essential to

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have a clear mission for the project. There should be a group of senior managers dedicated to these tasks. Communication and support must be spread wider, within the company and relevant government departments. Furthermore, it is important to understand the hierarchy within the community structures when communicating to prevent offending people, for example tribal leaders.

### Ownership

With regard to ownership, make sure the company as well as the community and other involved parties buy into the project. Without ownership you will not get commitment. Ownership is achieved when there is effective communication<sup>10</sup>. World Bank and International Finance Corporation suggested in its report that local communities are generally at a profound disadvantage when negotiating with large mining companies. It often takes considerable effort and several years before they can be considered to be true partners. In the interim, higher-level governments should fund NGOs or other institutions to provide advice and training to the local community members.

### Partnership

It would be naïve to talk about partnerships without talking about power<sup>11</sup>. Garvey and Newell argue that mainstream approaches to corporate social responsibility underestimate the importance of power in the relationship between corporations and the communities in which they invest, which limit their applicability to many developing country contexts in particular. Over the last decades the relationship among corporations, government and communities has changed. Globalization, deregulation and privatization have shifted away from the 'command and control' regulatory role of the state to the informal, voluntary and corporate 'self-regulation'<sup>12</sup>. The impact of this has been that corporate organizations, especially transnational corporations, are able to wield more power than most developing countries' governments because of their financial and global clout. The result of this is that communities, especially those associated with the extraction industry, have found themselves in a more vulnerable position because their closest ally (the government) may not be in a position to support them because of international pressures. Generally, communities are vulnerable in negotiation because they are disadvantaged in the factors that are prerequisites for strong partnerships. According to Murphy and Bendell<sup>13</sup> these prerequisites include:

- Media and public concern and company vulnerability to these
- An organized civil movement with enough finance, commitment and adequate level of competence
- Genuine commitment of all parties to the partnership process.

Cornwall<sup>14</sup> argues that power dynamics continue to be important, even once a supposedly equal place at the table has been negotiated. There are issues of agenda setting and partnerships suggest that all agendas are accommodated. This assumes a position of leverage on behalf of the community with the capacity and confidence to participate effectively. It also overlooks the strategies that can be employed by the powerful to control the agenda and frame

the issues in ways which deny spaces for opposition. If not handled well, this issue can frustrate any possibility of equal and satisfactory partnerships. For an effective strategy there needs to be both change within powerful institutions, such as the state and corporations, to respond to call for accountability and participation and also within affected communities, if they are to take advantage of opportunities for increased representation.

In addition to power issues, much emphasis on partnerships and negotiation is apolitical. In the South African context it would be irresponsible to ignore the impact of the legacy of apartheid. Given the regular political and power struggles between government and corporate organizations in the media, it would appear that although the state apparatus of apartheid has been dismantled, the principles still linger in industry. In the mining industry this is reflected by the two worlds that exist between the corporate organizations and the communities that surround them. Change has come for the few black middle classes, but for many South African blacks the dream of democracy has turned into a meaningless apparition of self-determination<sup>15</sup>. There needs to be a change of mind-set in both the communities and the corporate organizations in how they relate to each other in the new dispensation and a letting go of historical and traditional ideologies.

In practical terms, and more generally, it is important in social projects to involve different levels of government as well as NGOs to make sure that there is no duplication and to optimally utilize the resources available. In this partnership it is important that a clear split of responsibilities is made as well as the appointment of the project coordinator and or a steering committee. Meetings should include representatives of all parties and minutes must be taken to ensure continuity and facilitate future reference. Translators must be made available to ensure equal access for all community members.

According to strategy<sup>16</sup>, the government has responsibility to support the development of small, medium and micro enterprises (SMMEs). Cronjé *et al.*<sup>17</sup> found that in the setting up of social projects in the mining sector there is a serious need from both the communities as well as the mine management to get different levels of government departments involved. In practical terms, regular forums involving all the partners must be set up. Obviously the venues of these meetings should be accessible to all parties.

At this point it is important to warn that when diverse cultures come together for collective effort in a project, culture shock could be experienced. Sohmen<sup>18</sup> argues that acculturative stress, which can be defined as job-related stress that is exacerbated by cultural differences such as diverse assumptions, values and beliefs among participants, can be an impediment to the success of the project.

Some positive actions that can be taken to minimize acculturative stress are outlined below:

- As stated above, the communities should be involved in strategy and policy development and project delivery
- Ensuring that the community representatives are represented on the steering groups and management structures can facilitate a partnership, rather than commissioning agency approach
- Improved but realistic contracts should help to clarify roles and responsibilities;

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- ▶ Set a framework for monitoring and more professional ways of working and ensure clearer accountability
- ▶ Training needs are paramount. This is for all sectors and all levels of staff
- ▶ Mine Management and government officials must be more visible in the communities to increase exposure and understanding of community issues.

### Business plan

The nature and scale of mining enterprises can make it difficult for mining personnel to be efficient decision makers for the smaller community projects. For example, in the mining industry the market and quality of the product is already determined; in addition the demand for the product is dependent on world markets, which cannot be influenced by one operator. Whereas the medium or small scale community projects require a different approach because it is demand led, therefore requires a creative marketing strategy, which is not necessarily a skill required in mining. This is an important issue to consider when initiating community projects as external project and marketing executives may need to be employed to achieve sustainable projects.

A good business plan will have clear attainable goals, and would give an indication of what resources are needed for the project to succeed. The resources identified must include operational infrastructures such as transport and appropriate storage space for both raw materials and produce (such as perishable agricultural produce). In addition, checking and control systems should be built in to ensure the smooth running of the project.

The choices of project proposals need to reflect the social capital. Agricultural projects, although they are popular and potentially sustainable, tend to suit the older population. Although women appear prepared to work in most positions, the youth would benefit from projects that have career development potential. The black youth are looking to have

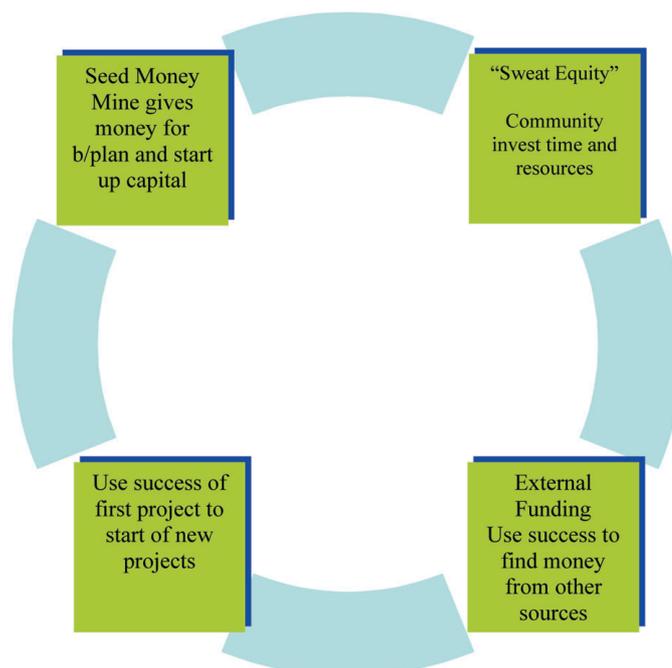
white-collar employment like their white counterparts, instead of the never-ending manual work that their fathers have had to endure.

Business plans do not necessarily have to be initiated by the mining company, but must include all partners. This means community members must be competent in preparing project proposals and plans. Funding a project should not only be the mine's responsibility; there are many other organizations that can assist with the funding of such projects, for example the Industrial Development Corporation of South Africa, Escom Development Fund, the Ackerman Foundation, etc. In this regard, the World Bank and International Finance Corporation<sup>19</sup> suggest that a company should constitute only the seed capital for a community development programme. This initial investment should form part of a broader financial strategy funded through other means.

### Implementation

Implementation of the project should follow the business plan and any changes to the business plan should be discussed and explained to all parties to prevent mistrust and accusations of fraud. Prepare the project participants for hiccups and maintain the positive attitude by regular communication and positive reassurance. Don't be afraid to start small. In this regard, Schumacher's approach<sup>20</sup> to development differs from that of the growth/mass production orientation of many development economists. Intermediate technology envisages economic growth, but of a sort that leads back to the real needs of man, and also to the actual size of man. Man is small and therefore small is beautiful. The flywheel effect of Jim Collins<sup>21</sup> can be useful in the implementation stage; although it is hard to start, it gets easier as momentum grows.

Diagrammatically the flywheel effect can be illustrated as follows:



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## Evaluation

Evaluation of the project in general and targets specifically is critical and must involve senior management and all other parties. This is a time where the parties affected are given an opportunity to feed back as a group and a chance to put forward ideas for improvements or change of direction. It is also an opportunity for motivating each other and evaluating the project strategy. Take note that dates set for evaluation at the business plan stage must be adhered to, to prevent continuous postponement that can lead to loss of interest and absenteeism. It is also best practice at this stage to make use of independent observers and auditors.

## Ongoing training

Despite initial training where necessary, ongoing training should be provided by the government, NGOs and the mining company as part of a holistic economic strategy.

Historically, local community members have been disadvantaged in terms of apartheid and the employment in favour of migrants<sup>22</sup>. The impact of this is that the local population has a limited work culture, which is reflected by their attitudes to work, for example the rate of absenteeism. Training in work habits and the strengthening of values such as productivity, reliability and self-development are essential<sup>23</sup>. It is also important to take account of different training needs in terms of gender, age and ethnicity.

## Ongoing support

Despite stating under Business Plan (see above) that the mining company must provide the 'rod and not the fish', ongoing financial and management support are crucial for the sustainability of the projects.

Quite a number of community projects set up on behalf of the community by the mining companies have failed because of lack of markets and poor management. In order to overcome this, the World Bank and International Finance Corporation have found that the most successful projects were those where the local communities (often gradually) provided many of the goods and services needed by the mining companies; in some cases, the mining companies played an active role in enhancing the quality of the goods and services their suppliers provided. Proactive policies and training with respect to mine employment, non-mine employment and the provision of goods and services are obviously of major importance.

## Conclusion

In conclusion, the success and sustainability of social projects can be measured by the applicable characteristics stated by Strongman (see Introduction). The most important question to be asked (and answered), still according to Strongman, is: 'What long-term community value will the project bring?'

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## First half 2005—iron ore statistics

The UNCTAD Iron Ore Trust Fund summarizes the global iron ore market in the first half of 2005:

The iron ore boom continues but the pace of production increase slows down somewhat. In the first half of 2005 global production reached over 616 Mt, an increase of 6.8% compared to the first half of 2004. Thus, the strong growth rate that has prevailed since 2002 is maintained, albeit at a slightly lower level than in 2004.

Exports also increased to reach 338 Mt.

China continues to drive the increase in iron ore demand. Imports in the first half of 2005 were 131.3 Mt, a 34% increase. Chinese growth continues at the same rate as in the first half of 2004. The rate of growth in domestic iron ore production has doubled to over 12% in the first half of 2005 compared to the same period in 2004, and reached 81.7 Mt. In addition to the officially reported figures, there are large quantities of unreported iron ore produced in China.

Iron ore producers have been able to keep up with growing demand. Australian production in the first six months of 2005 was 129 Mt compared to less than 115 Mt in the same period in 2004. Iron ore output of Brazil was 124 Mt. Among the second tier producers, Ukraine, Venezuela, South Africa and Sweden also increased production. Exact Indian figures were not available but it is estimated that Indian production for all of 2005 will increase by more than 10%. Several iron ore projects have been speeded up and logistics bottlenecks have been eliminated. New projects, both greenfield and brownfield, are continuously announced. While some of the new projects are planned to enter into operation over the next year or two, it is probable that supplies will remain relatively tight over the next year at least. For the longer term, a large number of new projects has been announced, and if all of them are realized, an oversupply situation could develop towards the end of the decade. This would be the case in particular if Chinese demand fails to grow at the same rates as in recent years.

Based on statistics for the first six months and available country figures for more recent

developments, total world production for all of 2005 is projected to reach above 1 250 Mt. This will be a fourth consecutive new global production record. Exports are also likely to reach a new record figure approaching 700 Mt for all of 2005.

Based on expectations that global steel consumption will remain relatively strong, iron ore prices are likely to rise again in 2006, although not by as much as in 2005 (71.5%). The price increase is more likely to be on the same order as in 2004, or 15-20%.

The above conclusions are based on the UNCTAD Iron Ore Trust Fund's recently published statistical update. The update, which includes data for the first half of 2005 for iron ore production, trade and freight rates, supplements the report *Iron Ore Statistics* published in September 2005. This report is recognized as the source of the most up-to-date and comprehensive information on the iron ore market. The statistics are produced by the United Nations Conference on Trade and Development (UNCTAD), which administers the Trust Fund, in co-operation with the Raw Materials Group in Sweden.

The update is available separately in Excel form from UNCTAD at a price of USD\$ 200, or together with the report *Iron Ore Statistics*, at a price of USD\$ 1 000.

For more information, please contact Mr Olle Östensson of UNCTAD, or Mr Magnus Ericsson of the Raw Materials Group. See contact information below.

To order a copy of the report, please contact Mr. Olle Östensson or Ms. Amélie Zethelius Mermet, UNCTAD, Palais des Nations, CH-1211 Geneve 10, Switzerland, Tel: 41 22 917 57 61 or 917 57 63, Fax: 41 22 917 0509, E-mail: [ironore@unctad.org](mailto:ironore@unctad.org)

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