



News

Making a Sustainable Difference

Investor engagement can make a positive difference to poor mining communities



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The Democratic Republic of Congo contains 70% of the earth's cobalt, 60% of its coltan and is the world's fourth largest producer of copper - commodities that are central to efforts to mitigate climate change, and to transition to a clean energy economy. The DRC has been described as having "more potential than any other African nation, more diamonds, more gold, more navigable rivers, more fellable timber, more rich agricultural land."¹

It is also home to one of the world's poorest populations and has suffered as much as it has benefited from its wealth of resources. The DRC was named as the largest source of mining related human rights abuse allegations, accounting for almost two thirds of complaints across Africa². Mining has contaminated soil and groundwater, impoverished local communities that have been displaced and had an alarming impact on the environment³.

Investors in companies that mine in the DRC risk the wrath of the ESG rating agencies, and it would be easy to swerve potential criticism and avoid such exposure altogether. The net result of such a collective strategy by public market investors, would be to allow the investment to be picked up by private companies with less transparency, or foreign governments, many of which have dubious human rights records of their own.

Our approach is to invest in mining companies which operate in countries such as the DRC whilst engaging and actively pushing executives to improve the impact they have on local communities and the environment. Mining is not only about mitigating negative impacts; it is about maximising positive ones. Whilst this benefits the local community, it is also good for shareholders for the following

reasons:

- The 'licence to do business' is increasingly important in a world where supply is constrained and host countries can choose who they are willing to work with
- The financial impact of a hostile local community is borne through strikes, protests and withdrawal of mining rights
- Better disclosure of steps taken to improve the impact of mining on local communities can shift the culture of an organisation to one that is less likely to be hindered by regulatory fines and operational restrictions
- There should be a long-term financial benefit to utilising the skills of local businesses rather than importing these products from overseas

There are many good examples of positive impacts. Barrick Gold's Kibali mine in the DRC has led to in-country investment of around \$4bn, including \$1bn in taxes and royalties and \$191m on infrastructure and community support. This includes investment in schools, clinics, water sources and sporting facilities. The company has enabled the establishment of farms producing maize, cocoa trees, poultry and livestock. They have set up vocational and technical education teaching skills such as carpentry, welding and masonry and a women's leadership programme. Thanks to the upgrading of the road to the town of Aru, the journey time has reduced from several days to just a few hours

Whilst individual reports of successes are to be welcomed, what the investment industry is missing is a way to objectively assess community impact. Disclosure on community projects is generally poor and reporting on measurable outcomes is non-existent.

We have proposed to the boards of the three mining companies we own in our fund, specific actions that would improve transparency, enable shareholders to hold management to account and ultimately encourage greater focus on community impact.

We continue to have ongoing discussions with executive teams and heads of sustainability at Anglo American, Barrick Gold and Glencore. Our objectives are shown below, albeit they are tailored in each company's case. Overall, progress is being made in the right direction, but the pace of improvement needs to accelerate.

The current industry fashion is to ringfence these conversations as sustainability engagements. In reality they are no different from conversations encouraging a more prudent balance sheet, cleaner accounting or better remuneration policies. In all instances we are making the case for long term investors, often against the voices of short-term traders or the silence of the passive and quant funds.

Inevitably, somewhere within the hundreds of mines operated or owned by the three mining companies in our portfolio, a poor decision will again be made in relation to a local host community. When it does, our efforts to hold management to account and demand improvements will win us no friends with ESG rating agencies. What it might achieve is a growing awareness among senior executives that a significant body of shareholders are paying attention and expect them to do better.

Mining companies have the potential to destroy the lives and the environment of the communities in which they operate. However, the mining industry as a whole has an opportunity to demonstrate that it can have a positive impact on host communities such as those in the DRC. We expect those companies that can best demonstrate this to deliver the best long term financial returns.

Building on industry expertise within bodies including the Initiative for Responsible Mining Assurance, and our sister company Regnan, we have advocated for improved disclosure by the mining companies we own. Whilst there are notable successes, such as the progress that Anglo American have recently reported in implementing relevant third-party assessments across a number of mines, the road ahead is long. With a well-resourced team and a 28-stock portfolio, we're fortunate to be able to dedicate so much time to engaging with companies, something which we believe sets us apart from our peers.

J O Hambro UK Opportunities Fund mining community relations objectives:

1. Companies should undertake and report local community engagement surveys
2. Reporting on results from grievance mechanisms should be improved
3. Community health assessments should be undertaken and disclosed
4. Levels of local procurement and employment should be defined and disclosed on a country level basis
5. Levels of community investment should be defined and disclosed on a country level basis
6. The results of mine site rehabilitation programmes should be disclosed

¹ Blood River, Tim Butcher, 2007

² Business & Human Rights Transition Mineral Tracker

³ Gasana J819 Assessment of the impact of mining on the environment and health in DRC (Democratic Republic of Congo) Occupational and Environmental Medicine 2018;75:A250.

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