



Australia's Trade and Investment Relationships with the Countries of Africa

An illustration of the role Australian mining companies can have on the sustainable development goals in Africa and as a platform to drive the Government's Economic-Diplomacy Strategy further through an integrated approach.

Base Resources Limited's Submission to the Foreign Affairs, Defence and Trade References Committee of the Australian Senate.

18 August 2017

Australia's Trade and Investment Relationships with the Countries of Africa

The Kwale Mineral Sands Project - An illustration of the impact an Australian mining project can have on the achievement of sustainable development goals in an African country and its potential as a platform to drive the Government's Economic-Diplomacy Strategy further through an integrated approach.

Introduction

Headquartered in Perth, Base Resources ("Base") or ("the Company") is an Australian and UK-listed resources company (ASX and AIM: BSE). Its flagship development is the Kwale Mineral Sands Project in Kwale County, 50km south of Mombasa in Kenya.

A US\$310 million investment, construction at the Kwale Project was completed at the end of 2013 and the first bulk shipment of ilmenite departed from Mombasa in February 2014. The mine is currently producing in the order of 450,000 tonnes of ilmenite; 85,000 tonnes; and 34,000 tonnes of zircon each year.

The Kwale Mine is significantly boosting revenue for the Government of Kenya and Kwale County and is set to deliver significant revenues in tax and royalty payments over the life of the mine, together with considerable indirect taxation, direct and indirect employment and other economic benefits.

Already the mine has and continues to create significant opportunities for local economic development – through a focused local employment programme and procurement of goods and services from local vendors. The Company is also investing heavily in a variety of community livelihood enhancement programmes and social infrastructure in Kwale County, demonstrating its commitment to responsible and sustainable development.

As Kenya's largest mining operation, representing close to 60% of the value of Kenya's total mineral output, the Kwale Mine has also been officially endorsed by Kenya Vision 2030 as Kenya's flagship mining project.

Some Recommendations for the Australian Government

To effectively induce economic growth and prosperity in Africa through the extractives sector to Australia's national advantage, there is both a need and an opportunity for an integrated approach between Australia's private and public sectors – both government to government and a three-way partnership including the private sector at county and community levels.

At the government to government level there is a clear need for capacity building in the administration of extractives by utilising the many decades of Australian experience. Critical to this is fostering an understanding of and building expertise in governance and mineral economics, providing consultative

advice on policy, legislation and regulation and balanced fiscal regimes to create a competitive, stable and predictable regime that will attract investment into exploration and development. For the long-term protection of host government reputations, community benefits derived from natural resources and companies prepared to risk investing in them, there is an urgent need to exert diplomatic pressure to counter excessive resource nationalism of the kind recently witnessed in Tanzania.

Australia possesses an abundance of expertise across the extractives spectrum that can be harnessed to fill competency gaps by providing expert advisors embedded in host government departments, allocating scholarships for African government technocrats to study in Australia and assisting with economic analysis that establishes the optimum government revenue framework that maximises national economic advancement.

At the local level, shared value and inclusive business should be incentivised by the Australian government. This will encourage the adoption of the mutual benefits objective as a new standard across the industry. When tied to a programme such as DFAT's Business Partnerships Platform, these incentives could also be further supported by a commitment to providing technical support for development projects through Australian government staff, universities, sector associations such as AAMEG and the Australian Cotton Association, not-for-profit organisations and NGOs. Such collaborative arrangements between investor, government and NGO funding contributions are hugely beneficial in upping the scale of sustainable community livelihood enhancement projects and accelerating progress towards achieving development goals.

Base's livelihood programmes, focused on uplifting communities from basic subsistence agriculture to sustainable commercial farming enterprises, provides a spectacularly successful example of the benefits of marshalling and pooling of resources in this manner.

Structured training programmes tied into mining projects can help overcome skills shortages. Building these programmes early in project development is essential as a demonstration to local communities that their opportunities to participate are considered a high priority by the proponent. This commitment can define the tone of the relationship between a mining company and the communities in which they operate and help in securing their social license. Companies should be encouraged to provide for this in their investment costs and this is where the Australian government can participate through either funding support or by providing expertise.

There are a number of short-term players in the implementation of mining projects that should also be encouraged to participate in building mutual benefits for local communities. Many of these companies such as engineering consultancies, construction contractors and other high-level expertise are also critical in developing the Australian brand, either through community development or in-situ training programmes and the Australian Government could play a more active role in raising awareness amongst them.

Delivering Sustainable Development Outcomes

*Base recognises that achievement of its long-term goals is dependent on building relationships with the communities in which it operates by establishing a balanced flow of mutual benefits. **This strategic objective informs the Company's Communities Policies and approach to delivering sustainable development outcomes.***

This is achieved through a structured and integrated community engagement approach. By understanding community impacts during the design, construction, operational and ultimately decommissioning of the mine, sustainable solutions to a broad range of community issues and priorities have been formulated.

Guided by the policy based on working together in a way that allows broad participation of affected people and demonstrating Base's long-term commitment to deliver real, tangible and sustainable benefits, the Company's social management systems were prepared to achieve this objective.

Through its Community Development Management Plan – prepared with full stakeholder participation – and aligning with the Kwale County Integrated Development Plan, Base pursues four key sustainable development objectives – social infrastructure, livelihood enhancement programmes, health programmes and education and training.

Social Infrastructure

Provision of social infrastructure formed the initial focus of the programme. This was driven by the need to provide for communities resettled from the mine site and to ensure that the needs of surrounding communities were catered for.

In response to these requirements, the Company built two schools, a social hall, a clinic and two boreholes at the host resettlement site. Work on clearing drainage channels and expansion of the road network to accommodate the growing population in the area is also underway.

In the vicinity of the mine site a further two schools were constructed along with a substantial health centre and three boreholes.

In addition, an ambulance was donated to the local referral hospital.

More recently a maternity wing was constructed at a hospital near the Company's port facility and a blood bank partly funded as an upgrade to the local referral hospital.



Livelihood Enhancement

To improve living standards and provide livelihood opportunities, the Company has embarked on establishing long-term, sustainable livelihood programmes centred on elevating communities out of subsistence farming to commercial agricultural enterprise.

This programme currently covers cotton, potatoes, sorghum, maize and soybean and this year involves over 1,000 farmers and cooperative groups. In collaboration with partner organisations, Base is coordinating and partly funding provision of inputs, training, agronomy services and market linkages.



Other enterprises that have been initiated include poultry rearing and beekeeping.

As part of its enterprise development initiative, the Company is also supporting business and finance training for these communities through schemes as the Village Savings and Loans Associations.

Health Programmes

Base's programmes are designed to complement the Kwale County Health Strategic Plan. Current initiatives are aimed at improving health delivery at the various levels and tackling common health issues identified by the community during the Health Impact Assessment.



Community health units provide the first level of health care with trained volunteer health workers providing basic primary healthcare such as hygiene, sanitation, maternal and child health. Each health worker is responsible for 30 households.

Assistance to expand the Community Health Worker ("CHW") programme has been provided through funding for training and logistical support. Five health units

have been established in the neighbourhood of the mine and port and 183 CHWs trained covering 31 villages.

The Company also assists health authorities with logistical support to enable them to run programmes such as polio vaccination campaigns and jigger eradication.

Education



In addition to constructing and equipping a number of schools, the cornerstone of Base's education assistance programme is now the annual award of scholarships to needy secondary and tertiary level students of promise who would otherwise be denied an opportunity to fulfil their potential.

Training

Base runs structured skills transfer and training programmes that, not only cover its own employees, but also external groups including graduates, interns, apprentices, high school students and local community groups. This not only benefits Base, its employees and communities, but also other employers looking for work ready trades people and graduates.



Investment in training and development programmes, aimed

at sustainable transitioning to and upskilling of Kenyan employees, is funded from a budget allocation of around AU\$ 850,000 per year, demonstrating the Company's commitment to rapid skills transfer.

Promoting Achievement of Sustainable Development Goals

Through its operations and community, environmental and training programmes, Base is contributing significantly towards attaining a broad spectrum of the Sustainable Development Goals ("SDG") in its sphere of influence.

Poverty Eradication

Recent socio-economic household surveys were conducted in Kwale County; in 2014 (n=3,349) and 2015 (n=3,567)¹. They entailed a range of themes including demographics, socio-economic status of households, health status and water sources. Household composition, dwelling characteristics, assets, sanitation and health, and drinking water data was used to map households' multidimensional welfare changes between year 2014 (baseline) and 2015.

Figure 1 presents the results of the survey in the form of a heat map measuring the change in the welfare index from 2014 to 2015. Overall, between these years, 7% more households found wage labour, while sanitation access improved by 4% and people's dwellings saw a rise in improvements including 3% more households installing solar panels.

The most significant welfare improvements, indicated in blue, were seen in the areas surrounding Base's mining lease – a clear testimony to the success of the Company's employment policy and community investment programmes coinciding with the establishment of mining operations and ramping up of its community programmes.

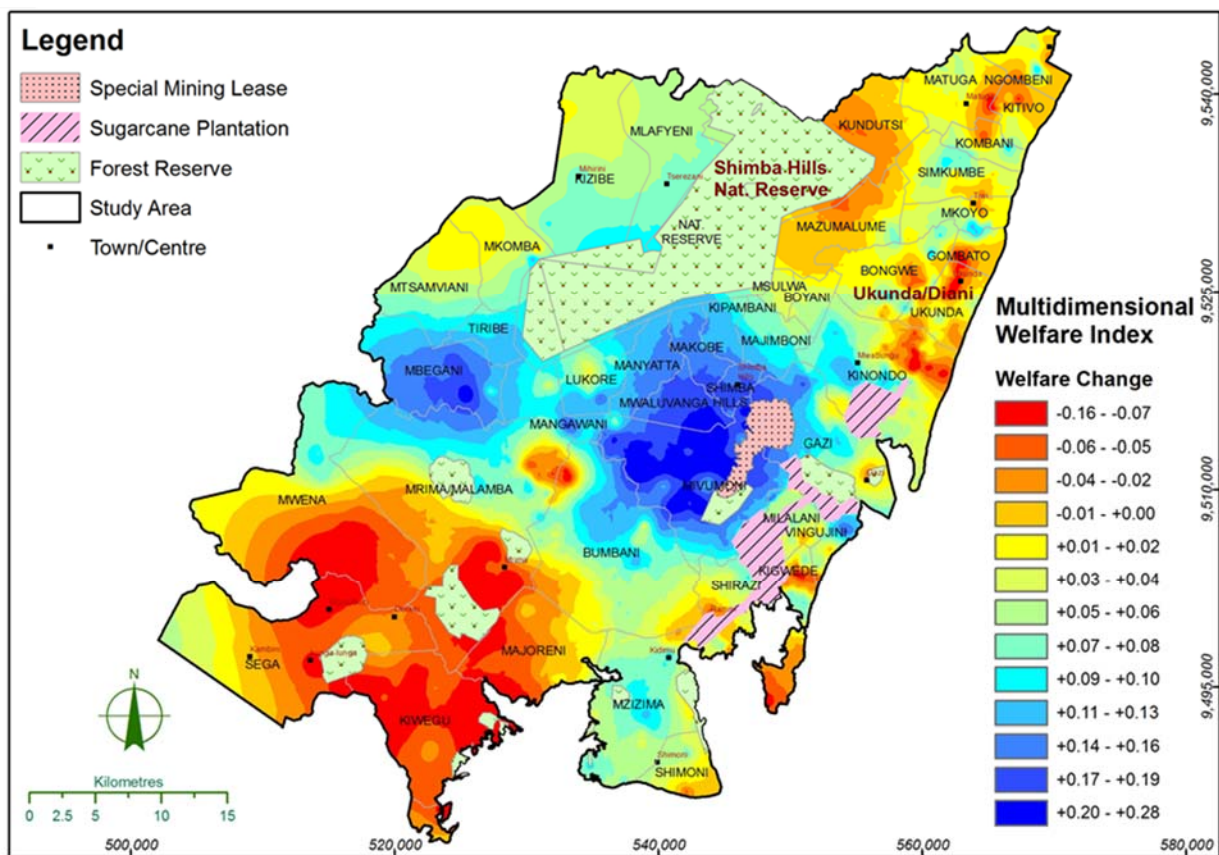


Figure 1: Changes in Multidimensional Welfare Index in Kwale County – 2014 to 2015

¹ Katuva J (2017) PhD Research Findings – Policy Brief February 2017: Poverty Transitions in Kwale County. Oxford University, UK.

Ending Hunger



Base is committed to working with communities to improve living standards and provide sustainable livelihood opportunities. This is delivered by implementing a variety of community projects based on agriculture and animal husbandry – principally through reviving the cotton industry in Kwale and introducing commercial scale potato and sorghum cultivation and poultry keeping. Interventions are implemented by organising farmers' groups and cooperatives, provision of inputs and expertise in collaboration with local agricultural authorities, assistance with land preparation and creating market linkages for produce.

Good Health

Community health programmes have been implemented in a number of innovative ways in conjunction with local health authorities. These include training and assistance with the roll out of the Kwale County primary health initiatives in local communities, building additional capacity in the health sector by constructing classrooms and providing water supply at the local medical training college.

The Company's social infrastructure programme has contributed to a number of key facilities across the region, including construction of two health centres, a maternity wing, supplying a 4X4 ambulance for the local hospital and Kenya's first county based blood bank to improve health services delivery.

Quality Education

The Company contributes to quality education in several ways. In terms of educational infrastructure, it has built 4 schools and upgraded numerous other learning institutions. To date scholarships have been awarded to over 900 needy secondary and tertiary students. External training programmes provided cover apprenticeships, graduate learnerships, internships and artisan skills for neighbouring communities.



At the primary level, Base also works with local organisations to improve life skills at an early age through sports based interventions. These provide effective solutions to behavioural challenges faced in rural areas and improve school attendance and, subsequently, result in better grades and future prospects.

Gender Equality

Base's community programmes are designed to empower local women by building on their participation in livelihood development and financial decision making in their families. Poultry keeping has seen an increase in women's incomes, which manifests itself in more direct family based socio-economic improvements when compared to men's contributions.

The Company's health and education programmes also feature gender specific components to improve women's rights and opportunities.

Clean Water and Sanitation

To ensure provision of clean water for its neighbouring communities, the Company has constructed and equipped a total of 13 boreholes. Additionally, 4 villages are regularly supplied with clean water delivered by road tanker.

Support for regional studies in the use of innovation in improving water supply to rural communities² through smart technology further emphasises the value the mining industry brings towards achieving the SDGs.

Decent Work and Economic Growth

The Company is committed to maximising employment opportunities to local communities by giving preference to project affected applicants and those residing in the immediate environs of the mine and assigning progressively lower priorities to those living further away. Reflecting this commitment, 65% of all those currently employed at its work sites originate from within Kwale County.



Base directly employs 650 people. Flowing down from this are nearly 1,400 indirect jobs supported in the Company's supply chain through the purchase of local goods and services. Additionally, consumer spending generated by the direct and indirect employees support an additional 1,400 induced jobs. Thus the mine is responsible for a total of nearly 3,450 jobs, or has generated a further 4.3 jobs for every direct employee.

To accelerate local economic benefits the Company has implemented a broad-based training programme to upskill its local employees to achieve rapid transfer of skills in accordance with its succession planning commitments, which will see the expedited reduction in expatriate staff. Furthermore, training objectives also target local youth to equip them to contribute to a rapidly growing local economy.

² <http://www.smithschool.ox.ac.uk/research-programmes/>

Industry, Innovation and Infrastructure

The Kwale Mine represents the first modern, large-scale mining development in Kenya and the first industrial venture in Kwale County. As part of the development, several significant legacy infrastructure components constructed by the Company will remain to serve the local communities beyond the life of the mine, amongst them being an 8.4 million cubic-metre water storage dam, a borehole system supplying good quality groundwater from a deep aquifer with robust hydrogeology, a 14km 132kV power line and substation, a sealed road accessing the mine and serving the local community, and a 100,000-tonne storage shed and ship loading facility currently serving as the mine's export terminal.



As found by E & Y in its independent study on the economic output of the Kwale Project, 33% of the total capital expenditure of US\$320 million was spent with Kenyan suppliers and contractors, which also generated 1,300 local jobs and US\$8 million in tax. Now in operation, the mine spends US\$37 million annually, 84% of the total, on non-labour inputs from Kenyan suppliers. This represents a significant local content spend and acts as a stimulus to the economy, generating indirect and induced jobs and additional taxation revenue.

Climate Change, Life on Land and Life Below Water

In accordance with its Environmental Policy, Base is committed to achieving sustainability and biodiversity objectives by locating facilities in a manner that minimises disturbance to critical habitats and impacts to threatened species, achieving a net positive biodiversity outcome and protecting and conserving biodiversity and maintaining ecosystem services.

In pursuit of these objectives, Base has initiated a range of environmental projects.

The biodiversity and conservation programme exploits opportunities for improving conservation outcomes in and around the mine area, a key component of which is the establishment of a biodiversity corridor within the mining lease. A former wetland that had remained dry for many years was re-established and now provides a renewed habitat for both floral and faunal species of conservation importance.

The rare and threatened flora propagation research programme, based on an indigenous trees nursery that has now propagated almost 80,000 trees, targets species of conservation interest for use in rehabilitating and re-vegetating areas impacted by mining operations.



In maximising resource efficiency, the waste recycling programme, founded on the principal of Reduce-

Reuse-Recycle, produces furniture for both internal use and to equip local schools.

Working with partner organisations, conservation groups and environmental experts, the Company is creating awareness amongst host communities and local schools of the importance of protecting the environment, preventing pollution, conserving biodiversity and living in an environmentally responsible manner.

Elements of Base's routine environmental monitoring programme include - noise, dust and background radiation measurement, meteorology, surface and ground water quality analysis and amphibian, reptile, floristic and macro-invertebrate monitoring.

SDG Partners

In pursuing SDG outcomes, Base works with the following partners – the Government of Kenya, Kwale County Government, National Environmental Management Authority, Water Resources Management Authority, World Wildlife Fund, Kenya Forest Service, Kenya Wildlife Service, National Museums of Kenya, Oxford University, Kwale County Natural Resource Network, Little Sports Organisation, DFAT, DEG, FMO, Aga Khan Foundation and GIZ.