

## A TOOL FOR MINE-SITE LEVEL LOCAL PROCUREMENT REPORTING

### The Mining Local Procurement Reporting Mechanism ([LPRM](#))

#### Framework Step:

#### **STEP 5 - Establish effective and transparent monitoring and evaluation systems and regularly review the collaborative strategy.**

##### **5 A.** *Host governments, industry and civil society can work together to:*

- Build on existing structures, such as the Extractive Industry Transparency Initiative (EITI) Multi-Stakeholder Group (MSG) or, where necessary, develop governance mechanisms to ensure effective and transparent monitoring and evaluation, involving relevant government bodies, extractives industry, and civil society in the design and implementation of the system, allocating clear roles and responsibilities.
- Develop an efficient and effective standardised, yet flexible and adaptive methodology, for performance measurement and reporting, generating sufficient information to assess progress on all aspects of shared value creation and inform better decision-making and monitoring, while avoiding inefficiency or complexity for companies and government agencies.

##### **5 B.** *The extractives industry can:*

- Integrate the standardised methodology and reporting procedures into internal local monitoring and evaluation system, including through existing sustainability reports where applicable and as appropriate.
- Provide reporting in as much detail as reasonably possible to better measure and manage company activities. Share available data and information as agreed with host government's authorities to enable them to make better-informed decisions to create in-country shared value.

#### Tags:

- local employment
- local supplier participation and development, including SMEs
- marginalised groups (women, indigenous people)
- skills development and upgrading
- access to credit
- shared infrastructure (transport, water, power)
- technology transfer
- innovation
- economic diversification
- Other: Monitoring and Evaluation

**Problem Statement:**

While local procurement is included in existing reporting initiatives such as the Global Reporting Initiative (GRI), and often in the various sustainability frameworks utilised by mining companies, approaches used and the level of detail collected and provided by companies varies significantly across industry and location, with few companies reporting at the level of individual mine site. Local level data tends therefore to be lacking, despite the fact that it is the level at which efforts are most needed to ensure local suppliers are included, and where companies face the most tension if local communities do not feel they have a fair share of the economic benefits of mineral extraction.

Such gaps in reporting also mean that local procurement reporting tends to be insufficient to help mining companies better manage their impacts, and for host country suppliers, governments and other stakeholders to optimise economic benefits. These gaps also represent missed opportunities to help empower local suppliers, government bodies, and other stakeholders to better target supplying opportunities.

Greater guidance is therefore required to support mining companies and host governments in actions that build on and supplement existing reporting frameworks, and to generate sufficient information to contribute to the creation of in-country shared value and sustainable development.

**Parties Involved:**

- Mining Shared Value, an initiative of Engineers Without Borders Canada (MSV)
- Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)
- Global mining sector stakeholders through a consultation process, including a Global Steering Committee
- Mining sector stakeholders in pilot countries: Albania and Mongolia (2016), and Mali (2017)

**Common ground:**

Since 2013 the Mining Shared Value (MSV) initiative of Engineers Without Borders Canada has undertaken work to measure how the world’s largest mining companies report on local procurement. Through this work, the need for increased measurement and reporting in achieving increased local procurement was communicated to MSV by both mining companies and institutions that guide mining company behaviour, such as the International Finance Corporation (IFC), and the International Council on Mining and Metals (ICMM).

Based on a number of successful initiatives to improve the impact of mineral extraction for host countries and communities through increased reporting, in 2015 the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH’s Extractives and Development sector programme, on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), partnered with MSV to create a standardised reporting framework for local procurement in the mining industry. The aim of development of the framework was to support better economic linkages in host economies through improved access to information, to better enable local actors to enter the global value chains of investing mining companies.

Through work carried out in-country, it was clear that mining sector stakeholders recognised that comprehensive local-level reporting would enable actors in a host country mining system to better meet the demands of industry. At the same time, effective, detailed and transparent monitoring and evaluation systems would also improve industry’s capacity for greater accountability, and provide clarity on key issues. More detailed local-level reporting has the potential to improve internal evaluation and helps companies to better direct spending on local procurement and local development initiatives, such as supplier development programmes.

For host governments, mine-site level data and information is also important in informing improved

policy making processes, and in the development of local procurement regulations, incentives and supporting investments. Local level data also facilitates targeted investment decisions in, for example, education and infrastructure. Having a common set of local procurement disclosures agreed upon by stakeholders may additionally assist governments in upgrading their own data collection systems to be in line with best practices, ensuring both the integrity and value of such data. Standardised local level reporting may therefore act as a foundation for government level monitoring and evaluation for efforts to increase supplying goods and services to the mining industry.

In developing the LPRM a key debate during the consultation process concerned the specific level of reporting that would help improve outcomes, while avoiding disclosures would lead to reporting “for the sake of reporting”. This concern over the “reporting burden” was shared by GIZ and MSV and one of the main goals for the LPRM was to create a standardised methodology that would prevent each individual mine site from duplicating work to create their own reporting framework. Stakeholders also recognised that improving the quality and consistency of available data strengthens the potential for collaboration and increased local procurement spending, – including, for example, the potential to crowd in funding for supplier development from official development assistance providers – and for improved transparency in both procurement and governance. The various stakeholders were therefore aligned on the value and need of the LPRM.

It is important to note that the LPRM is meant to be context specific. Stakeholders recognised that it was not possible, nor a desirable, to have a single definition of ‘local’ enforced across mine sites, given the multitude of variables that characterise different host countries and specific geographies. Therefore, in developing the tool, consensus was reached that each reporting organisation for a mine site should consult with stakeholders to clearly define their categories of suppliers, to ensure clarity within the data.

#### **Actions taken:**

The Mining LPRM seeks to address gaps in existing reporting frameworks by encouraging mine-site level data collection as a complement to company-wide reporting activity. It also aims to help standardise the way that industry and host countries approach reporting on local procurement within the mining industry. By providing guidance and by establishing a set of reliable and consistent – but still flexible – disclosures - the LPRM aims to ensure stakeholders’ monitoring and evaluation methods produce information that creates value for the mining company, its suppliers, and host country economies.

In developing the LPRM, consultations were held by MSV throughout 2016 and into 2017 with mining companies, host country suppliers, governments, civil society, and other institutions. These consultations were held via telephone and in-person interviews, in addition to workshop sessions that brought together multiple stakeholders at once. A Global Steering Committee that provided input on the tool’s development was also established by MSV and included senior representatives from mining companies, mining industry associations, external assurance providers, suppliers, government, inter-governmental organisations, financial institutions and civil society.

Following this consultation process, a resulting set of disclosures were assessed and tested by stakeholders in three in-depth pilot studies: Albania (2016), Mongolia (2016) and Mali (2017), and engaged key actors working in the extractive industries including mining companies, their suppliers, host government institutions, and civil society organizations in each country. The selected countries were at differing stages in developing their data collection and reporting systems relating to local procurement. This allowed for a representative range in the type of mines sites that were examined, including very small mining companies with under 100 employees, as well as cases where the bulk of the operations were subcontracted to another firm separate from the owner of the mine site. The three pilot countries also differed greatly in how active the government was in promoting local procurement. This was important in informing the final LPRM ensuring it was created in such a way as to be useful whether or not the government is actively and effectively promoting local

procurement.

In the tool's final form, for the reporting of a mine site to be considered "in accordance" with the LPRM, all of the required disclosures outlined in the LPRM must be reported on, with the information publicly available. That is, the information should be published in a form that allows all relevant suppliers and stakeholders of the mine-site to access and utilise the data. While the mine site actors complete the reporting, the purpose of the LPRM is to create information that empowers and informs decision making processes for all stakeholders in a host country's mining system, including industry, government, and civil society stakeholders.

Recognising the reporting burden that industry and mine-sites may face, a primary objective of the LPRM is to feed into existing reporting structures by integrating these disclosures into existing data gathering and reporting frameworks. The LPRM therefore assists stakeholders to align with and integrate comprehensive local procurement data into existing initiatives such as the GRI, IFC standards, and the Extractive Industries Transparency Initiative (EITI), as well as industry organisation frameworks, such as those of the ICMM. The LPRM therefore does not specify where mining companies report nor does it prescribe a standardised format or use of proprietary software. Mine sites are also not restricted from going beyond the level of detail required by the LPRM, and governments who require use of the LPRM remain able to implement additional reporting requirements.

LPRM-guided reporting at the level of mine site can therefore take many publicly accessible forms (such as dissemination through companies' annual reports online, a separate online document for each mine-site, mine-site specific websites), and the aim should be to integrate the disclosures into existing reporting structures and frameworks. Requirements for site-level reporting can therefore also be integrated into existing government data collection efforts, such as the requirement to submit annual local procurement plans, thereby encouraging a flexible approach to local content rather than strict adherence to and enforcement of local goods and services purchasing targets.

The goal for the LPRM is to integrate local procurement reporting best practices into existing frameworks used by the mining industry, rather than create a new secretariat or other body to collect all data. The disclosures of the LPRM allow for any actor to access the generated data simply by analysing the reporting of a given company's mine site. In this way, governments, civil society, and other actors can monitor reporting and encourage mining companies to improve their reporting, by being in accordance with the LPRM.

While the Mining LPRM does not yet cover the oil and gas sector, its disclosures could in the future be adapted for the sector following an appropriate consultation process.

**Obstacles:**

Through the pilot studies, it was evident that accessibility to data produced may become a barrier to implementation. While the LPRM provides guidance, and facilitates increased mine site level data collection, the pilot studies identified various challenges that characterise existing reporting. For example, despite the increased level of data reported by some mine sites, key stakeholders were not always able to find this information or were not able to interpret the data in a way that informed their decision-making. Such obstacles may be encountered due to technology barriers if, for example, the data is published only online in a community with limited internet access, or due to language barriers.

Relatedly, further possible barriers to implementation relate to how the data will then be used. Ideally, data produced and published in accordance with the LPRM will be used to inform prudent policy development and targeting of government resources. Its impact will depend on whether there are relevant mechanisms and systems that allow for the available data to adequately inform this policy development process. In one of the pilot countries the government had only a paper-based system for centralised records that complied reporting on key economic data. In such cases, even with increased reporting by mine sites, the use of that data to inform prudent government policy is very limited. In

addition, when companies and stakeholders fear their reporting will not be meaningfully analysed, there is the risk of rushed and/or inaccurate data. Where there are concerns about the integrity of data provided by mine sites, effective targeting of supplying opportunities will be quite difficult. Data is also central to informing business investment, such as by informing the strategic decisions of local companies in countries that host mining activity as well as financial institutions that can provide larger scale investments, and these data integrity concerns are therefore also relevant to private sector stakeholders. Increased local-level data produced by reporting is central to developing programmes to build local supplier capacity, including government programmes that aim to build up local businesses' capacity as well as programmes by civil society or bilateral aid organisations. Again, the impact on these processes of increased local level data provided through the LPRM will depend on the perceived integrity of this data and the mechanisms that utilise the available data to inform policy development processes, strategic decisions, and investment flows.

Lastly, it was clear throughout the design of the Mining LPRM that corruption is a potential barrier to successful implementation. Suppliers who have an unfair advantage in the procurement process of a mine site have the potential to have those advantages undermined by increased reporting and transparency. It was evident during the pilot studies that currently successful domestic suppliers of imported goods could feel threatened if local businesses began to produce and offer the same goods directly to mine sites. This is a challenge that will need to be addressed in these cases.

**Enabling factors:**

Development of the reporting mechanism involved a Global Steering Committee with senior representatives from different stakeholder groups, including mining companies, mining industry associations, external assurance providers, suppliers, government, international organisations, financial institutions and civil society, who provided input on the tool's development. Likewise, the three pilots conducted in Albania (2016), Mongolia (2016) and Mali (2017) involved the key actors working in the extractive industries including mining companies, their suppliers, host government institutions, and civil society in each country. This involvement of the most important stakeholders of the global mining sector, as well as the testing of the LPRM's disclosures on the ground in three countries, ensured that the final LPRM was successful in taking into account the full spectrum of relevant perspectives.

The pilot stage demonstrated the importance of the ongoing communication between mine sites and their potential suppliers. Mine sites engaged in the pilot studies that had extensive communications with their local suppliers and the institutions that support them (local government, for example), were clearly able to better target supplier development needs. Mine sites where procurement staff were based outside of the local community faced significantly more regular tension and missed opportunities to purchase locally.

In addition, formalising commitments to increase local procurement and supplier development programs proved to be an effective way to build trust and harness resources. In Mongolia for example, the fact that mine sites are required to make Community Development Agreements (CDAs) with local governments, and that these CDAs are renewed on a yearly basis, allows for ongoing dialogue and the formulation of collaborative plans to support and develop specific local suppliers. It was apparent that the Mining LPRM would be of increased value in the context of such agreements, particularly in that the LPRM has the capacity to provide a basis around which to structure agreements in cases where they do not already exist.

**Lessons Learned:**

- Forums that bring together key actors that both impact on, and have the potential to benefit from local procurement can benefit greatly from increased comprehensive local procurement data to inform planning, target setting, and strategic investments. These forums can vary from a single mining company and its primary stakeholders to national forums that have the potential to develop select industries. For example, the Oyu Tolgoi mine in Mongolia frequently holds supplier forums and other events that bring key stakeholders together. Having reliable data has proved useful for stakeholders to identify opportunities for supplier development and collaboration.
- Key institutions, including government and civil society organisations, calling for more comprehensive reporting on local procurement by mining companies will likely play a role in how quickly this reporting becomes a common industry practice. During the creation of the LPRM, as well as across the work of MSV as a whole, it was found that companies were more forthcoming with data on their procurement when requested to provide the information. Reporting was weakest when local government and other stakeholders were not actively engaging companies on the issue of local procurement. This lack of reporting created a disincentive for government action due to the missing feedback loop that would flag potential problems or opportunities for increased local procurement.
- The fact that the LPRM's completion has been generally welcomed by all relevant stakeholder groups shows the value of in-depth multi-stakeholder processes in creating new initiatives for the mining industry. In recent years, numerous new mining industry standards and frameworks have had the effect of taking the sector and its stakeholders "by surprise." As a result, achieving buy-in to these initiatives has been very difficult. By contrast, by engaging in an in-depth global and multi-stakeholder consultation process and utilising a steering committee that included representatives of important mining institutions, such as the ICMM, World Bank, and the World Economic Forum from the outset, the LPRM has benefited from the buy-in and active engagement of all relevant actors.