

STANDARDIZED REPORTING ON MINING LOCAL PROCUREMENT: WHY CIVIL SOCIETY ORGANIZATIONS SHOULD PROMOTE THE LOCAL PROCUREMENT REPORTING MECHANISM (LPRM)

POLICY BRIEF



An Engineers Without Borders Canada Venture



THE UNIVERSITY
OF BRITISH COLUMBIA



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The Mining Local Procurement Reporting Mechanism (LPRM) is a set of publicly available disclosures, structured similarly to the [Global Reporting Initiative \(GRI\)](#), to help standardize how mine sites report on their local procurement efforts and results. This brief outlines how the LPRM can be a powerful tool for civil society organisations to improve accountability for efforts to increase local procurement, facilitate their oversight role in fair and transparent procurement processes, and also to help build collaboration between mining companies and local businesses to target supplying opportunities.

INTRODUCTION

According to the World Bank, around 3.5 billion people live in resource-rich countries with significant extractive industry activity.¹ Despite the prominence of extractive industries in these countries, economic benefits for local communities and wider host economies often do not materialize as much as hoped. In many mining host countries this occurs when a large proportion of the goods used during extraction are imported, and where many services are purchased from international companies instead of local ones.

Local procurement in mining refers to the purchasing of goods or services from businesses close to a given mine site. For countries that host mining operations, local procurement of goods and services offers significant opportunity for economic development and industrialization. In the areas closest to mine sites, it can mean jobs for people in the communities most impacted by mining activity. For mining companies, utilising more local products helps them to strengthen their social licence to operate, and in the long run can lower overall procurement costs.

Procurement is typically the largest payment a mine site will make in host countries—usually more than taxes, wages, and community investment *combined*.² This is especially relevant given the fact that for many developing countries, mining can play a disproportionate role in the economy. To avoid “resource curse” outcomes, increasing local procurement is a central strategy.

THE ROLE OF CSOs IN ADVANCING LOCAL PROCUREMENT

For the purposes of this brief, civil society organizations (CSOs) are “all non-market and non-state organizations outside the family in which people organize themselves to pursue shared interests in the public domain. Examples include community-based organizations and village associations, environmental groups, women’s rights groups, farmers’ associations, faith-based organizations, labor unions, co-operatives, professional associations, chambers of commerce, independent research institutes, and the not-for-profit media”.³

There are three types of CSOs that are the most relevant when it comes to the issue of local procurement:

- 1. Natural resource governance CSOs** who advocate for improved outcomes of mining activity. Examples include [the Natural Resource Governance Institute \(NRGI\)](#), [Southern Africa Resource Watch \(SARW\)](#), and [Derecho, Ambiente y Recursos Naturales in Peru \(DAR\)](#).
- 2. Business associations** who represent current and potential suppliers to the mining industry and government. Examples include national organizations like [the Zambia Association of Manufacturers](#), and more local ones, such as a chamber of commerce for a city close to a mine site. Some countries have business associations specifically made up of suppliers to the mining industry, such as [the Mining Equipment Manufacturers of South Africa](#), and [the Mining Suppliers Trade Association](#) in Canada.
- 3. CSOs who provide training and other forms of support to small and medium enterprises (SMEs)** often as part of programmes funded by official development assistance (ODA). These CSOs sometimes have a dedicated programme for mining suppliers, such as [Private Enterprise Programme Zambia’s Mining and Mining Services Programme](#), and in other cases these CSOs work with all types of businesses in a given host country.



For CSOs focused on mining governance, the procurement of goods and services has traditionally received less attention, despite the fact that procurement is the single largest payment type in-country by most mine sites. In terms of economic impacts, these organizations have usually focused more of their attention on the collection, distribution and use of tax revenues. CSOs such as [Publish What You Pay \(PWYP\)](#) and their coalition members for example, have made great strides in pushing for transparency in these revenue payments to governments from mining companies.

Whether a host country harnesses mining for economic and social development is highly dependent on how much local procurement takes place. While CSOs should continue to focus on fair taxation of the mining sector and the prudent use of these revenues, the impacts of procurement should not be overlooked. In addition, these large payments made to suppliers – that can total hundreds of millions of dollars for a single mine site – are potential avenues for corruption and other problematic practices if overlooked.

In this regard, mining governance CSOs can play an important role in pushing both mining companies and governments to ensure that local procurement increases, and that the process of purchasing goods and services is fair and transparent. To give a sense of the scale of spending involved and the improvements to citizens' lives that can take place, increasing local procurement from a given mine site by just one percent can result in millions of dollars staying in a host economy.

For the CSOs that represent businesses, such as a national or local chamber of commerce, an important role can be played in advocating that mining companies purchase from their members, and in pushing the government for policy and infrastructure that helps member firms operate. For individual businesses, trying to engage with a mining company or the government can be a daunting task, and so industry organisation CSOs can provide a larger voice than each firm on their own.

Finally, CSOs who engage in programming to build the capacity of businesses have a major role to play in host country efforts to increase local procurement. Mining companies have limited resources of their own to spend on supplier training, and often do not have the precise skills to carry out effective capacity-building efforts. Ideally governments will engage in supplier development efforts, but they too are often limited in resources. CSOs working in capacity-building for businesses bring skills and funding that can help businesses improve their competitiveness so they can successfully supply the mining industry.

All three types of CSOs mentioned are united by the fact that their advocacy can become more effective when local procurement information from mining companies is available. The power of CSOs to advocate for that increased information cannot be understated.

TRANSPARENCY IN PROCUREMENT MATTERS: THE LPRM

The objective of the Mining LPRM is to guide mining companies to provide increased and standardized information at the mine site level. While information-sharing from mine sites on their local procurement efforts and impacts has been gradually increasing over the last decade, suppliers, governments, and other stakeholders in mining host countries continue to face a lack of available information. This lack of information undermines accountability for efforts to increase local procurement, and hinders the ability for different actors to work together to build up suppliers. Opacity in the procurement processes of mining companies also can help problematic practices such as corruption to flourish.

CSOs have an important role to play in this – they are both users of information from mining companies, and they can be advocates for increased reporting.

There are two types of information that CSOs can use to advocate for better company practices and government policy: statistics regarding how much procurement from a mine site is going to local suppliers, and practical information on mining company procurement processes.

➤ Statistical information on local procurement

What is measured is managed. Whether for CSOs advocating for improved economic benefits from mining, or for associations advocating on behalf of suppliers, it is not possible to gauge progress on how efforts are succeeding without statistics.

Many mining host countries, particularly in Africa, have been implementing requirements over the last decade that mandate mining companies make efforts to buy more goods and services locally. However, we have very little public information on the actual results of these policies. The same can be said for mining companies who have implemented new local procurement strategies and programmes, or CSOs who have carried out large supplier development programmes.

By having reliable data on the level of local procurement spending that is taking place each year for each mine site, CSOs and the public can ensure mining companies are maintaining their commitments, assess whether current efforts are producing intended outcomes, and highlight opportunities to promote further local participation. The Mining LPRM's 300 level disclosures guide mining companies to provide this statistical information.

Figure 1: Excerpt from Lundin Gold's 2019 Sustainability Report showing reporting in accordance with the LPRM 300 level disclosures

Procurement Spending			
	\$ Million		
Spending by Region	2017	2018	2019
Ring 1	7.4	18.7	17.4
Ring 2	4.3	7.4	9.7
Ring 3	0.7	1.6	1.3
Ring 4	57.6	153.4	218.9
Total Ecuador	70.3	180.3	247.3
Total International	31.9	124.7	146.0
Total	102.2	305	393.3

	Percentage		
Spending by Region	2017	2018	2019
Local (Rings 1-3)	12%	9%	7%
Total Ecuador	69%	59%	63%
Total International	31%	41%	37%

NOTE: Procurement spending includes Aurelianmenor and Aurelian Ecuador.

➤ Practical information on procurement processes

Especially in mining host countries with underdeveloped supplier bases, the procurement process for international mining companies can be intimidating. Even in advanced countries, the more information is publicly available on the procurement processes for a given mine site, the easier it will be for local businesses to target supplying opportunities. In addition, in both developing and advanced countries alike, more public information on how the procurement process works and who is responsible can help deter problematic practices like corruption.

For mining governance CSOs, information on how companies procure goods and services, helps them to determine if these processes are fair and transparent. It also helps them determine if mine sites have meaningful due diligence systems for the suppliers to help ensure they are not purchasing from businesses with problematic environmental, safety, and human rights practices.

For business associations, information from mining companies on their procurement practices helps them ensure their members understand the procurement process, and informs training they might provide. The same can also be said for CSOs using ODA to provide capacity-building for SMEs who would like to supply a local mine site. For example, if mining companies require all of their suppliers to be certified against a particular standard from the International Organisation for Standardization (ISO), training can be provided on how local firms can meet that standard.

Both types of CSOs can also use public information on procurement process as a basis for advocating that a mining company use procedures more favourable for low-capacity suppliers. There are many ways this can be done, such as unbundling of contracts and by paying invoices faster than those made to large international suppliers.

The LPRM's 200, 400 and 500 level disclosures all require mining companies provide this type of practical information that can better inform CSOs in their efforts to engage with mining companies and government policy.



HOW CAN CSOs ADVOCATE FOR USE OF THE LPRM?

The Mining LPRM is a set of disclosures that guide information sharing by mining companies for each of their mine sites. The Annex of this brief provides an overview of the six different categories of disclosures. When information is provided on all the *required* disclosures of the LPRM (100, 200, 300 and 400 level) – reporting for that mine site is considered “in accordance” with the LPRM.

The 500 and 600 level *encouraged* disclosures provide further information that mining companies can use to report on particular topics that are not always of relevance for all mine sites. For example, Disclosure 601 asks for information on what local procurement regulations a mine site is subject to, where in some cases there are no regulations for a mining company to report. Ideally mining companies will choose to report on as many of the 500 and 600 level disclosures that are relevant for them, but to provide information *in accordance* with the LPRM, only the 100 to 400 level disclosures have to be satisfied.

CSOs can advocate for increased information about procurement processes and results from mining companies by advocating for use of the LPRM in a number of ways, including:

- Directly requesting mining companies provide information in accordance with the LPRM;
- Advocating that the government require all mine sites provide information in accordance with the LPRM, as part of legislation or regulations;
- Requesting mining industry associations such as a chamber of mines or national mining association require reporting in accordance with the LPRM as a condition of membership.

For information-sharing to be considered in accordance with the LPRM, the information must be *publicly* available. However, the Mining LPRM does not dictate in what format this information must be provided. Some companies may choose to provide information in their annual sustainability reporting, while others may want to provide it on their website as part of a “For Suppliers” section. A company can also choose to make a PDF version of all the required information to print out and make available at community relations offices.

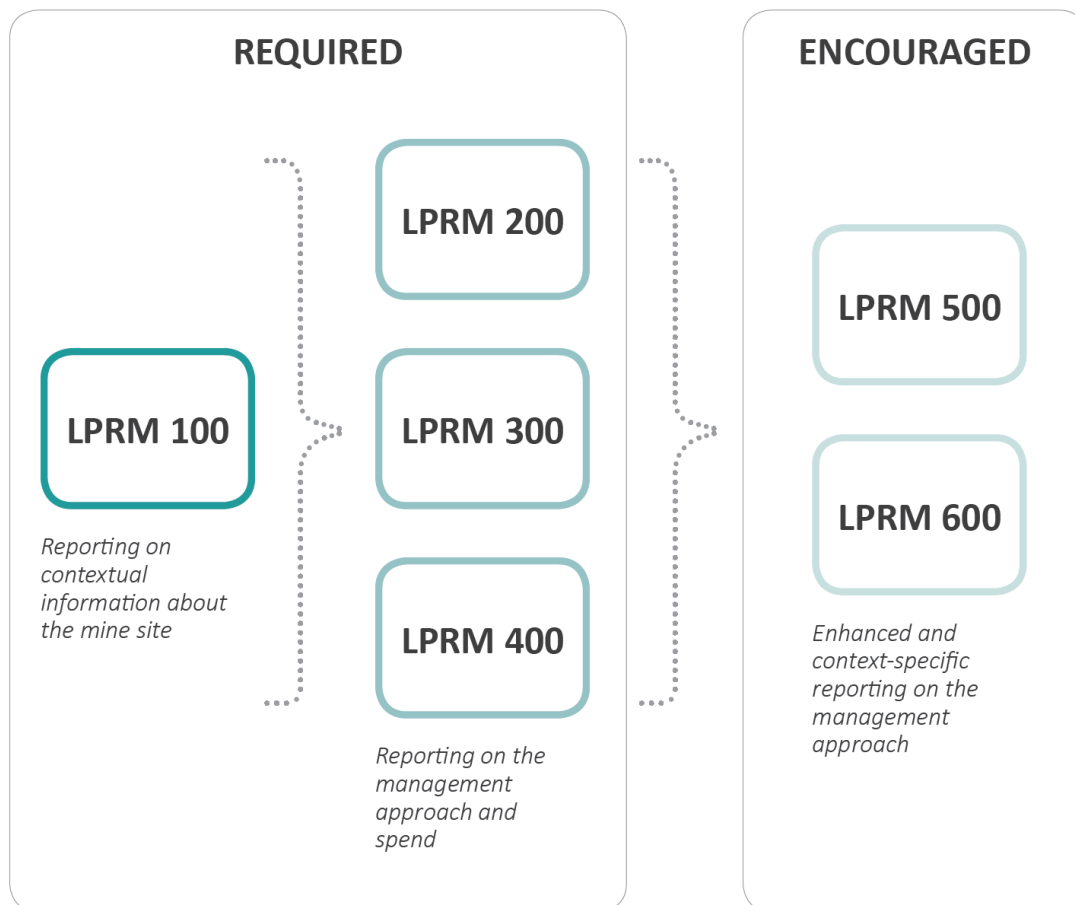
The more places the information in accordance with the LPRM is available, the more stakeholders it can inform, and the better it can create accountability. Thus, in addition to advocating mining companies use the LPRM, CSOs can also seek to have the information more widely available in order to reach the most people.

The Extractive Industries Transparency Initiative (EITI) is also an institution through which CSOs can advocate for use of the Mining LPRM by mining companies. As of March 2018, 24 countries in the EITI are already including at least some kind of information on local content in their reporting.⁴ As of 2020, the EITI Global Secretariat is exploring ways it can support member countries to encourage more transparency in extractive industry procurement processes.⁵

ANNEX: AN OVERVIEW OF THE MINING LPRM'S DISCLOSURES

The [Mining LPRM](#) is a public reporting framework that does not require any kind of software for mining companies to use. It is available in English, French and Spanish as of July 2020.

The diagram below shows that there are six categories of disclosures for the LPRM. As long as all information requested in the required disclosure is provided for a given mine site in a public manner, reporting is considered to be in accordance with the LPRM. For most CSOs advocating for use of the Mining LPRM in their country, it will likely make sense to first focus on having companies report on the required disclosures, and move on to the encouraged disclosures after that has been achieved.



The table below provides an overview of the different categories of LPRM disclosures. The full list of disclosures is provided on pages 20 and 21 of the English version of the [Mining LPRM](#).

DISCLOSURE CATEGORY	DESCRIPTION
LPRM 100: CONTEXT FOR LOCAL PROCUREMENT DISCLOSURES	These disclosures provide the context necessary for understanding subsequent disclosures. For example, reporting the number of workers at a mine site provides the context necessary for external stakeholders, such as a garments supplier, to better understand the scale of business opportunity. For the mining company, these disclosures are a starting point for managing external expectations around the scale and duration of the mining project.
LPRM 200: PROCUREMENT SYSTEMS	These disclosures focus on processes related to local procurement and require companies to report on policies and systems that support procurement from local suppliers. For external actors, this information discloses the company priorities, procedures, and points of contact related to local procurement.
LPRM 300: LOCAL PROCUREMENT SPENDING BY CATEGORY	These disclosures allow companies to measure and monitor how much is being spent on local procurement from one reporting period to the next. For external actors, this information provides a better understanding of what the mining company buys, where there are opportunities for potential and existing suppliers, and supports an informed dialogue with the mine site regarding how to increase local procurement.
LPRM 400: LOCAL PROCUREMENT DUE DILIGENCE	The purpose of these disclosures is to encourage mine sites to create and demonstrate systems that ensure they are not inadvertently supporting problematic processes (such as corruption, child labour, forced labour, and human rights abuses) among their suppliers.
LPRM 500: METHODS TO INCENTIVISE LOCAL PROCUREMENT	These disclosures cover various methods that mine sites may use to provide additional support to suppliers, but that are not advisable in every context. When companies use the methods below it is advisable to be as transparent as possible in these processes to help suppliers and other host country stakeholders navigate the procurement process.
LPRM 600: EXTERNAL COMMITMENTS AND OBLIGATIONS	The use of these disclosures is encouraged at the mine sites that are subject to particular legal or agreement-based requirements regarding local procurement and processes to increase local procurement. Providing information on these requirements helps suppliers and other stakeholders understand the context for a mine site's efforts on local procurement, and increases transparency.

The full Mining LPRM document contains reporting examples for each disclosure which can be used as examples of what reporting in accordance with a given disclosure looks like.

ENDNOTES

1. The World Bank, n.d., "Extractive Industries". Retrieved from <https://www.worldbank.org/en/topic/extractiveindustries>
2. GIZ, Engineers Without Borders, Mining Shared Value, 2017, "Mining Local Procurement Reporting Mechanism". Retrieved from <https://static1.squarespace.com/static/54d667e5e4b05b179814c788/t/5b0878caaa4a998f14195a1a/1527281903449/v2-mining-lprm-selectable-text.pdf>
3. OECD DAC, 2011, "How DAC members work with civil society organizations". Retrieved from https://www.oecd.org/dac/peer-reviews/Final_How_DAC_members_work_with_CSOs%20ENGLISH.pdf
4. EITI, 2018, "EITI and opportunities for increasing local content transparency". Retrieved from <https://eiti.org/document/eiti-opportunities-for-increasing-local-content-transparency>
5. EITI, 2020, "Services and subcontracting: Unexplored ground for transparency". Retrieved from <https://eiti.org/blog/services-subcontracting-unexplored-ground-for-transparency>

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