

A GUIDE FOR CONSULTANTS: USING THE MINING LOCAL PROCUREMENT REPORTING MECHANISM IN SUSTAINABILITY REPORTING

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 publicly available set of disclosures on local procurement which aims to guide information-sharing for mine sites on their policies, programmes, and results for what is usually the single largest potential economic impact during mining activity. Its use empowers suppliers and host country actors, and addresses gaps in current reporting frameworks allowing mining companies to demonstrate their adherence to the provisions of sustainability frameworks such as the [International Council on Mining and Metals \(ICMM\) Performance Expectations](#), and the [World Gold Council's Responsible Gold Mining Principles \(RGMPs\)](#).

This policy brief is aimed at consultants who work with mining companies on sustainability reporting initiatives. It provides consultants with an easily accessible primer on the drivers for firms to disclose information on local procurement, the strategic advantages for consultants to take up this issue with their mining sector clients, and practical guidance on how to do so in line with the LPRM.

INTRODUCTION

The mining sector is increasingly concerned with the environmental and social impacts of their operations. Companies are not only being required to comply with increasingly comprehensive regulations and sustainability standards, but they are also concerned with how their performance on environmental, social and governance (ESG) will affect their ability to seek financing. According to the [2019 ESG Sector Risk Atlas](#), which looks at ESG risks in over 30 diverse sectors, S&P Global Ratings ranked the metals and mining sector as the industry most exposed to ESG risks¹.

This has led to increasing demands from investors for sustainability reporting, which are now being accelerated as governments also pressure companies as part of regulations such as the European Union's non-financial reporting directive. There is growing pressure for similar regulations in the United States and other countries as well.

For the mining sector, the single largest economic impact of activity is the procurement of goods and services. While pressure has rightfully grown on the need for transparency in company payments to governments, as evidenced by growth of the [Extractive Industries Transparency Initiative \(EITI\)](#) and regulations from countries where mining companies are headquartered – procurement spending is actually a far larger in-country payment. Most mining companies will spend more in host countries on procurement than payments to governments, employees, and community investment combined.

Such a huge economic impact is an opportunity to demonstrate the benefits mining activity creates, and for companies to strengthen their social license to operate. On the other hand, companies who cannot demonstrate they are taking proactive efforts to purchase more from local suppliers, represent a significant risk for investors. What is more, companies in all sectors are now being criticized and facing lawsuits for problematic practices upstream in suppliers, and there have been many high-profile corruption allegations involving extractive industries where procurement was the alleged means for the activity.

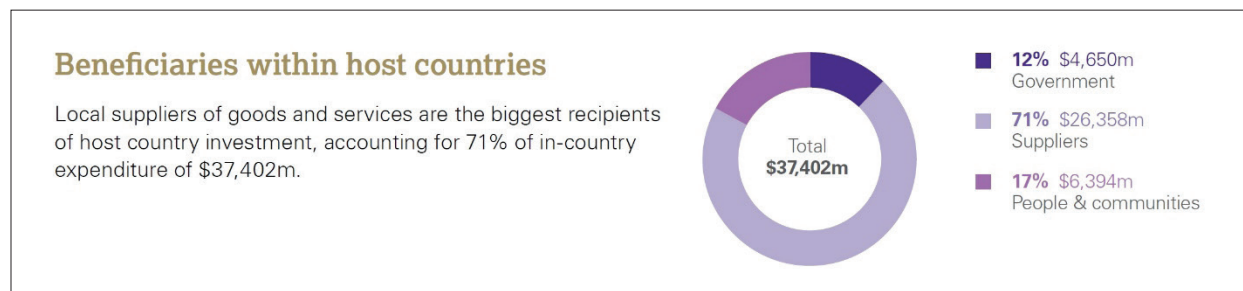
As such, mining companies can create business value by increasing the amount of information available on their local procurement efforts – both by demonstrating the value they are creating for host economies, and by showing evidence they have systems in place to prevent allegations of wrong-doing involving suppliers. This is where the [Mining Local Procurement Reporting Mechanism \(LPRM\)](#) comes into play.

THE MINING LOCAL PROCUREMENT REPORTING MECHANISM

Amidst increasing demands on the mining sector to provide information on its impacts, the LPRM consists of a series of disclosures to guide a mining company's reporting on their local procurement policies, processes, and results. Its use facilitates comprehensive reporting on local procurement spending at a site level, as well as increased detail on mining company procurement processes in order to empower suppliers, host country governments, and other stakeholders. It also guides companies towards improving their strategies on local procurement in line with global best practices, and to implement supplier due diligence systems that help prevent problematic practices and corruption risks.

Similar to how the [Global Reporting Initiative \(GRI\)](#) works, reporting for a given mine site is considered “**in accordance**” with the LPRM if all the information in the required disclosures of the framework is provided for that site. There are also *encouraged* disclosures that companies may choose to provide information for in order to further improve their local procurement practices, in a process of continuous improvement. Some of the encouraged disclosures ask for information that may not be applicable for a given mine site, such as whether it is subject to government local procurement regulations.

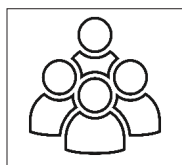
Figure 1: A breakdown of in-country spending by the mining company members of the World Gold Council, for 2013, showing that procurement is the largest payment type²



WHY SHOULD MINING COMPANIES PROVIDE MORE INFORMATION ON LOCAL PROCUREMENT?

As procurement is the single largest expenditure during most mining activity, it is a material ESG issue, and tracking and reporting on processes and impacts is crucial to drive performance.

Social license to operate benefits and risks



Purchasing goods and services from host country and community businesses is a key way to strengthen a company's social license to operate – and also a major risk if handled improperly. According to [EY's Top 10 business risks and opportunities](#)

— 2020 report, social license to operate was the number one risk for the mining industry identified by survey respondents, for the second year in a row³.

Mine sites that do not provide communities and other host country stakeholders with clear information regarding the benefits their activity creates are vulnerable to conflicts, delays and stoppages. In addition, local businesses in mining host countries themselves can be major allies – or sources of conflict for a mining operation. Local businesses who benefit from procurement opportunities have a personal interest in seeing a mining project or operation succeed. Those though, who feel they are not given a fair chance at supplying a mine site and are frustrated by a lack of practical information on how the procurement process works, can become opponents of mining activity.

The disclosures of the Mining LPRM guide companies to provide practical information to host country businesses, including how to engage with mine site procurement teams, the standards and qualifications they must meet to be a supplier, and what kind of capacity-building support may be available.

Local procurement is an increasing focus of regulation and community development agreements



A mine site's local procurement practices are material because they are increasingly the focus of regulation, and subject to community development agreements (CDAs) between companies and host communities. As early as 2013, the McKinsey Global Institute showed more than 90 percent of resource-driven countries have some form of local content legislation for extractive industries. New legislation requiring efforts for local procurement has since been added or strengthened in South Africa (2018), Tanzania (2018) and the Democratic Republic of Congo (2018). As of July 2020, Ghana, Burkina Faso and Zambia are all planning to increase such requirements, and similar regulations are now being discussed in Latin America as well.

Local procurement efforts are also part of CDAs between mining companies and host communities. In Canada CDAs are usually called impact benefit agreements (IBAs), while in Australia the term is often Indigenous Land Use Agreements. In both countries these agreements are between companies and Indigenous communities close to mine sites, but now other countries are using the approach of CDAs for agreements with non-Indigenous groups. In Mongolia for example, all mining license holders are required by the Minerals Law to have a CDA with local communities. Local procurement commitments are virtually always included in CDAs.

As such, investors and other stakeholders increasingly want to see what a company is doing to meet requirements for local procurement that they are subject to, as well as the ones that may be coming. The Mining LPRM's encouraged 601 and 602 disclosures also guide a company to provide information on what requirements a given mine site is subject to.

Supplier conduct and anti-corruption safeguards



Mining companies can no longer say they are not responsible for problematic practices that occur upstream in their suppliers. With the [Rana Plaza disaster](#) as a backdrop and a number of high-profile incidents involving suppliers to

extractive industries over the 2010s, companies that cannot demonstrate they have due diligence processes in place are at significant risk.

For supplier conduct, the ongoing Canadian court case involving Eritreans taking a mining company to court for their use of a supplier that allegedly engaged in forced labour is emblematic of the risk that companies face if they do not have due diligence systems in place. In recent years many mining companies have begun to refine their approach to this, putting in place public supplier codes of conduct for example. In addition, the United Kingdom and Australia have put in place legislation to require companies to demonstrate they have systems to prevent slavery in their supply chains.

On bribery and anti-corruption, the [OECD's Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives](#) shows the various means by which bribery and other corrupt practices can take place using procurement as a means. [Brazil's Lava Jato \(car wash\)](#) scandal involving procurement of contracts at inflated prices by the state oil company Petrobras showed these risks in stark light. As of May 2019, 31 of 41 recent [United States Foreign Corrupt Practices Act \(FCPA\)](#) enforcement actions in the oil and gas sector involved subcontractors or subcontracting processes⁴, and there is no reason to think the mining sector is immune.



Construction materials supplier, Bulqizë, Albania. Photo: MSV

WHY SHOULD CONSULTANTS CONSIDER WORKING WITH THEIR CLIENT COMPANIES TO ADOPT THE LPRM?

The LPRM is a useful tool for consultants that work with mining company clients. The LPRM ensures information-sharing on local procurement that:

- Creates information that demonstrates adherence to the local procurement provisions of major sustainability frameworks in use by the mining industry, such as the ICMM's Performance Expectations, the World Gold Council's Responsible Gold Mining Principles (RGMPs) and the Initiative for Responsible Mining Assurance (IRMA) Standard. The overlaps between the LPRM for these and other frameworks are covered in the Annex for this brief.
- Pushes mining companies to refine their approach to local procurement in line with globally accepted best practices, and ensures these practices are put in place at all mine sites a company operates.
- Empowers local suppliers and other community-level stakeholders, and builds trust and a strengthened social license to operate.
- Demonstrates meaningful contributions each mine site is making towards the Sustainable Development Goals (SDGs).

HOW CONSULTANTS CAN WORK WITH MINING COMPANY CLIENTS TO USE THE LPRM

Consultants can use the LPRM to:

- Structure sustainability report sections on local procurement, ensuring information and statistics are provided for each mine site.
- Help mining companies create "For Suppliers" or "Procurement" sections for company websites to go a step further and ensure all of the LPRM's information is available in an accessible fashion online.
- Create Mining LPRM "Factsheets" that include all of the information in the LPRM's disclosures in a brief that can be downloaded as a PDF, and given out as paper copies at community relations offices.
- Use the LPRM's disclosures as a template for a local procurement policy, or as a means of strengthening an existing policy. For mining companies that do not have an already established local procurement policy, the LPRM provides the building blocks for such a policy by asking for information on all of the key components.

ANNEX: ALIGNMENT WITH OTHER SUSTAINABILITY AND REPORTING FRAMEWORKS IN MINING

The Mining LPRM acts as a comprehensive reporting tool that creates information also required by the key sustainability and reporting guidelines in use by the global mining industry.

The following are some of the international standards and reporting guidelines commonly used by the mining industry. For each, relevant components that can be satisfied by the LPRM are provided. For example, in providing the information required by the LPRM's 301 and 302 disclosures, this would also satisfy the requirements of *GRI's Disclosure 204-1 - Proportion of spending on local suppliers*.

Framework	Components that Overlap with LPRM Disclosures
Global Reporting Initiative (GRI)	<p>GRI 103: Management Approach 2016</p> <p><i>Disclosure 103-2 - The management approach and its components</i></p> <p>For each material topic, the reporting organization shall report the following information:</p> <ul style="list-style-type: none"> a. An explanation of how the organization manages the topic. b. A statement of the purpose of the management approach. c. A description of the following, if the management approach includes that component: <ul style="list-style-type: none"> I. Policies; II. Commitments; III. Goals and targets; IV. Responsibilities; V. Resources; VI. Grievance mechanisms; VII. Specific actions, such as processes, projects, programs and initiatives. <p><i>Disclosure 103-3 - Evaluation of the management approach</i></p> <p>For each material topic, the reporting organization shall report the following information:</p> <ul style="list-style-type: none"> a. An explanation of how the organization evaluates the management approach, including: <ul style="list-style-type: none"> I. The mechanisms for evaluating the effectiveness of the management approach. II. The results of the evaluation of the management approach. III. Any related adjustments to the management approach. <p>GRI 204: Procurement Practices 2016</p> <p><i>Disclosure 204-1 - Proportion of spending on local suppliers</i></p> <p>The reporting organization shall report the following information:</p> <ul style="list-style-type: none"> a. Percentage of the procurement budget used for significant locations of operation that is spent on suppliers local to that operation (such as percentage of products and services purchased locally). b. The organization's geographical definition of 'local'. c. The definition used for 'significant locations of operation'.
Responsible Gold Mining Principles (RGMP)	<p>Principle 1 – Ethical conduct: We conduct businesses with integrity including absolute opposition to corruption.</p> <p><i>Code of conduct</i></p> <p>1.2 We will maintain a code of conduct to make clear the standards with which we expect our employees, and those with whom we do business, to comply. We will actively promote awareness of our code and implement systems to monitor and ensure compliance.</p>

Code of conduct

1.3 We will put in place controls to combat bribery and corruption in all their forms, conflicts of interest and anti-competitive behaviour by employees, agents or other company representatives.

Principle 3 - Supply chain: We will require that our suppliers conduct their businesses ethically and responsibly as a condition of doing business with us.

Supply Chain Policy

3.1 We will adopt and publish a Supply Chain Policy and support our contractors and suppliers to operate responsibly and to standards of ethics, safety, health, human rights and social and environmental performance comparable with our own. We will conduct risk-based monitoring of compliance.

Local procurement

3.2 We will promote access for local businesses to procurement and contracting opportunities generated by our operations and, where appropriate, provide capacity building support to help them improve their capabilities as suppliers.

Principle 6 - Labour rights: We will ensure that our operations are places where employees and contractors are treated with respect and are free from discrimination or abusive labour practices.

Child and forced labour

6.3 We prohibit child labour, forced labour and modern slavery in our operations and in our supply chains.

Women and mining

6.6 We are committed to identifying and resolving barriers to the advancement and fair treatment of women in our workplaces. Through our employment, supply chain, training and community investment programmes, we will aim to contribute to the socio-economic empowerment of women in the communities associated with our operations.

Principle 7 - Working with communities: We will contribute to the socio-economic advancement of communities associated with our operations and treat them with dignity and respect.

Creating local benefits

7.3 We will ensure that the communities associated with our operations are offered meaningful opportunities to benefit from our presence, including through access to jobs and training, and procurement opportunities for local businesses and social investment.

**Initiative for
Responsible Mining
Assurance (IRMA)**

Chapter 1.3 - Human Rights Due Diligence

1.3.1. Policy Commitment

1.3.1.1. The operating company shall adopt a policy commitment that includes an acknowledgment of its responsibility to respect all internationally recognized human rights.

1.3.1.2. The policy shall:

- a. Be approved at the most senior level of the company;
- b. Be informed by relevant internal and/or external expertise;
- c. Stipulate the operating company's human rights expectations of personnel, business partners and other parties directly linked to its mining project;
- d. Be publicly available and communicated internally and externally to all personnel, business partners, other relevant parties and stakeholders;
- e. Be reflected in the mining project's operational policies and procedures.

1.3.2. Assessment of Human Rights Risks and Impacts

1.3.2.1. The operating company shall establish an ongoing process to identify and assess potential human rights impacts (hereafter referred to as human rights “risks”) and actual human rights impacts from mining project activities and business relationships. Assessment of human rights risks and impacts shall be updated periodically, including, at minimum, when there are significant changes in the mining project, business relationships, or in the operating environment.

Chapter 1.5 - Revenue and Payments Transparency

1.5.5 - Anti-Corruption Measures

1.5.5.1. The operating company shall develop, document and implement policies and procedures that prohibit bribery and other forms of corruption by employees and contractors.

Chapter 2.3 - Obtaining Community Support and Delivering Benefits

2.3.3. Planning and Delivering Community Benefits

2.3.3.4. Efforts shall be made to develop:

- a. Local procurement opportunities;
- b. Initiatives that benefit a broad spectrum of the community (e.g., women, men, children, youth, vulnerable and traditionally marginalized groups); and
- c. Mechanisms that can be self-sustaining after mine closure (including the building of community capacity to oversee and sustain any projects or initiatives agreed upon through negotiations).

International Council on Mining and Metals (ICMM)

Principle 1 - Ethical Business

Performance Expectations

- 1.1 Establish systems to maintain compliance with applicable law.
- 1.2 Implement policies and practices to prevent bribery, corruption and to publicly disclose facilitation payments.
- 1.3 Implement policies and standards consistent with the ICMM policy framework.

Principle 2 - Decision-Making

Performance Expectations

- 2.2. Support the adoption of responsible health and safety, environmental, human rights and labour policies and practices by joint venture partners, suppliers and contractors, based on risk.

Principle 3 - Human Rights

Performance Expectations

- 3.4 Respect the rights of workers by: not employing child or forced labour; avoiding human trafficking; not assigning hazardous/dangerous work to those under 18; eliminating harassment and discrimination; respecting freedom of association and collective bargaining and; providing a mechanism to address workers grievances.

Principle 9 - Social Performance

Performance Expectations

- 9.2 Enable access by local enterprises to procurement and contracting opportunities across the project life cycle, both directly and by encouraging larger contractors and suppliers, and also by supporting initiatives to enhance economic opportunities for local communities.

Responsible Mining Index Framework (RMI)**A – Economic Development**

A.02.1 The company has systems in place to ensure its operations develop procurement opportunities for suppliers at national and supranational levels.

- a. Has systems in place to ensure its operations identify opportunities for, and barriers to access to, procurement from suppliers at national and/or supranational levels?
- b. Has systems in place to ensure its operations develop strategies and plans to develop procurement opportunities for suppliers at national and/or supranational levels?
- c. Systematically tracks the implementation of these strategies and plans?

A.02.2 The company tracks, reviews and acts to improve its performance on national and supranational procurement.

- a. Tracks and discloses data, against targets and across successive time periods, on its national and supranational procurement, showing proportions and amounts spent?
- b. Audits and/or reviews the effectiveness of its measures taken to develop procurement opportunities for suppliers at national and/or supranational levels?
- c. Takes responsive action, based on the findings of these audits and/or reviews, to seek to improve the effectiveness of its measures taken to develop procurement opportunities for suppliers at national and/or supranational levels?

D - Community Wellbeing

D.04.2 The company has systems in place to ensure its operations develop local procurement opportunities, including for women.

- a. Has systems in place to ensure its operations develop strategies and plans to develop local procurement opportunities?
- b. Has systems in place to ensure its operations actively include women in these strategies and plans?
- c. Systematically tracks the implementation of these strategies and plans?

MS - Mine-site-level Indicators

MS.02 Local Procurement

- a. Does the company publicly disclose the amount of money it spends on goods and services from the local province/state?
- b. Does the company publicly disclose the types of goods and services it sources from the local province/state?
- c. Does the company discuss with local communities the targets of its programmes for local procurement?

ENDNOTES

1. Baker McKenzie, 2019, *Introduction to Environmental, Social and Governance (ESG) considerations for the mining sector: reporting obligations and investor expectations*.
2. World Gold Council, 2013, *Responsible gold mining and value distribution, 2013 report and Responsible gold mining and value distribution, 2013 data: A global assessment of the economic value created and distributed by members of the World Gold Council*.
3. Ernst & Young, 2019, *Global Risk Report 2019*.
4. Extractive Industries Transparency Initiative (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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