

A GUIDE FOR GOVERNMENTS ON THE MINING LOCAL PROCUREMENT REPORTING MECHANISM (LPRM)

POLICY BRIEF



An Engineers Without Borders Canada Venture



THE UNIVERSITY
OF BRITISH COLUMBIA



Canadian International Resources
and Development Institute

© 2020 by Mining Shared Value, Engineers Without Borders and the University of British Columbia, Canadian International Resources and Development Institute (CIRDI).

Project Team:

Conceptual direction: Jeff Geipel, Kyela de Weerd, Tatiana Alarcon - Mining Shared Value, Engineers Without Borders; Dr. Priya Bala-Miller, CIRDI
Research assistance: Riya Sirkhell and Citlali Cruz
Publication design: Olena Soldatova
Copy-editing: Munisha Tumato

Acknowledgments:

The LPRM was created by the Mining Shared Value initiative of Engineers Without Borders, commissioned by the German development agency GIZ through its Extractives and Development sector programme. It is a fully public tool that can be used by any actor carrying out reporting for a mine site. The LPRM was created with guidance from a Global Steering Committee that included, among others, representatives from the ICMM, the World Bank, the Natural Resource Governance Institute, and an Indigenous supplier organization. This policy brief is a joint effort through CIRDI's Learning and Knowledge Mobilization team and the EWB's Mining Shared Value Initiative.

The material in this publication is copyrighted. Quoting, copying, and/or reproducing portions or all of this work is permitted provided the following citation is used:

Geipel, J., de Weerd, K., Alarcon, T., Sirkhell, R., Cruz, C. 2020. *A Guide for Governments on the Mining Local Procurement Reporting Mechanism*. Policy Brief: Mining Shared Value, Engineers Without Borders and the Canadian International Resources and Development, University of British Columbia. Vancouver: Canada.



An Engineers Without Borders Canada Venture

Mining Shared Value
Engineers Without Borders Canada
<http://miningsharedvalue.org/>
jeffgeipel@ewb.ca



University of British Columbia
Canadian International Resources and Development Institute
www.cirdi.ca
info@cirdi.ca

The Mining Local Procurement Reporting Mechanism (LPRM) is a set of publicly available disclosures that standardize mining company site-level reporting on local procurement efforts and results. This brief explains how host country governments can use the Mining LPRM to collect better data on mining sector procurement of goods and services, to inform better policy towards increasing the potential economic benefits of extraction.



INTRODUCTION

Procurement is the single largest payment type by most mine sites – usually more than payments to governments, workers, and community investment *combined*. When mine sites purchase goods and services from local suppliers in host communities and the wider national economy, it helps create jobs and additional tax revenue, and improves a country's balance of trade. Increasing local procurement is a central method for governments to help ensure economic and social benefits result from mining investment and activity.

For this reason, mining host countries have been implementing policies to require efforts by companies to increase their procurement from domestic suppliers. Such regulations to increase backward linkages are usually part of wider local content policies that attempt to increase domestic participation in the mining value chain, and often also include regulations on local hiring and in-country processing of mineral outputs (forward linkages).

However, while governments, civil society and the mining industry itself have increasingly recognized the value of transparent and standardized reporting of revenue payments to governments through initiatives such as the [Extractive Industries Transparency Initiative \(EITI\)](#), information on mining sector procurement practices and figures remains difficult to access. Some governments do require reporting from mining companies on their procurement spending – such as Ghana, Tanzania and Australia – but information required varies wildly across different countries, usually lacks key policy-relevant information about the procurement process itself, and is rarely public.

This is one of the key reasons the Mining LPRM was launched in 2017, created by [the Mining Shared Value initiative of Engineers Without Borders](#) in partnership with [GIZ GmbH](#), with financial support from Germany's Federal Ministry of Economic Cooperation and Development (BMZ). If detailed site level information on mining company local procurement processes and results is available, it will help governments better manage their efforts to build up suppliers, and to deter problematic practices.

Countries who have introduced or increased local procurement regulations for the mining sector in the last decade:

Argentina (Salta Province)
Australia
Democratic Republic of Congo
Ghana
Guinea
Kazakhstan
Mali
Saudi Arabia
Sierra Leone
South Africa
Tanzania
Zambia

Figure 1: The EITI in Senegal is showing leadership by including data on local procurement from both mining and oil and gas companies. In the annual EITI reconciliation report for 2018, figures are provided for how much procurement spending went to national versus international suppliers, for each extractive industry company.¹

Annexe 6 : Données sur le contenu local (Effectifs, Masse salariale et Fournisseurs) - Sociétés minières

Entreprises	Effectifs	Permanents	Contractuels	Hommes	Femmes	Masse salariale (en FCFA)	Nombre Fournisseurs	Cumul Paiements Fournisseurs en 2018 en FCFA
SOCOCIM	Nationaux	330		303	27	6 081 312 325	567	64 568 550 953
SOCOCIM	Non Nationaux	9		9	0	212 569 119	240	32 549 051 675
SGO	Nationaux	309	1 009	1 201	117	14 727 054 180	267	87 395 850 722
SGO	Non Nationaux	86	2	85	3	1 707 587 510	228	22 050 719 958
CDS	Nationaux	746		678	68	4 785 920 000	242	45 102 451 831
CDS	Non Nationaux	8		8	0	253 916 000	164	43 358 807 965
DANGOTE	Nationaux	253	463	676	40	4 192 163 432	307	17 997 789 985
DANGOTE	Non Nationaux	19	31	49	1	1 477 982 648	95	34 931 467 813
GCO	Nationaux	723	167	779	111	7 181 452 253	372	53 575 845 356
GCO	Non Nationaux	62	0	59	3	2 045 496 689	220	15 133 716 668
PMC	Nationaux	244	0	195	49	2 160 890 000	195	45 078 743 224
PMC	Non Nationaux	53	0	52	1	4 382 360 000	111	12 639 283 734
COGECA	Nationaux	399		378	10	1 028 036 952	285	19 996 846 625
COGECA	Non Nationaux	11		11	0	70 361 027	55	4 468 534 725
ICS	Nationaux	1 564		1 511	53	13 872 286 074	621	55 642 973 786
ICS	Non Nationaux	56		56	0	2 541 967 152	453	247 222 094 659
SOMIVA	Nationaux	130	227	258	99	914 402 350	110	15 793 688 968
SOMIVA	Non Nationaux	4	0	3	1	233 862 795	27	837 779 267
AGEM	Nationaux	55	53	51	4	526 579 594	137	1 611 930 260
AGEM	Non Nationaux	5		5		422 274 687	8	227 014 665
SMC	Nationaux	26	13	39	0	685 251 851	22	483 777 883
SMC	Non Nationaux	0	0		0	0	3	47 529 117
SEPHOS	Nationaux	103		95	8	n/c	131	1 900 321 486
SEPHOS	Non Nationaux	1		1	0	n/c	14	134 824 497
AIG	Nationaux	12	3	10	2	171 688 854	n/c	n/c

BDO LLP

184

ITIE SENEGAL

Effective policy relies on proper data

Governments need a detailed understanding of mining company procurement practices to understand how best to approach regulations. Beyond informing direct mining sector regulation, this data can also ensure government spending on infrastructure, vocational training and other services are better informed. Without detailed information on the current nature of mining sector procurement, unrealistic policies or poorly designed initiatives can arise, such as supplier development programs that do not consider the current procurement processes of a given mining company.

It is important to note that most mining companies around the world currently do not share detailed information on procurement policies and practices in a public manner. Key material such as procurement department contact information, supplier codes of conduct, and documents outlining bidding processes and selection criteria play a crucial role in ensuring participation by local suppliers. When this information is not available to governments in a public manner, this increases transaction times, as time and resources have to be spent requesting this information from mining companies.

Finally, and perhaps most importantly, *what is measured is managed*. The only way to determine if a government's strategy on local procurement is working is for there to be effective measurement and reporting of how much procurement spending is going to national suppliers. Having public statistics on mining sector local procurement helps build accountability for all actors seeking to increase how many goods and services are sourced from local suppliers.

Transparency in mining sector procurement processes deters corruption and other problematic practices

A single large-scale mine site will typically spend 100s of millions of dollars each year on goods and services. This is a huge potential lever for economic and social development, but it is also a major risk for corruption and other problematic practices. The OECD's [Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives](#), explains several ways in which corruption can occur in mining sector procurement, including:

- "Bid rigging" where suppliers that would normally be expected to compete, secretly conspire to raise

prices or lower the quality of goods or services procured through a bidding process;

- Undue favouritism of suppliers, where a mining company favours one supplier over other competitors on non-market grounds – potentially due to that supplier's political ties;
- Circumventing local procurement regulations through the use of front companies, where a foreign company uses a locally registered firm to participate in the bidding process, even though the local partner does not have the capacity to deliver on the awarded contract.²

These practices and others like them can undermine government goals of creating competitive local suppliers for the mining sector, raise procurement costs (potentially lowering corporate taxation due to lowered profits), and in general hurt the operating environment for small and medium enterprises (SMEs) seeking to be suppliers.

When more information on mining company procurement processes is in the public view, it helps to provide a level playing field for all suppliers and deters problematic practices by individual actors who rely on an obscure procurement process to carry out such activities.

Publicly reported information on local procurement helps mining companies attract investment

Finally, investors are now increasingly requesting assurance from mining companies that they have systems in place both to prevent corruption in their procurement processes, and that they do not purchase from suppliers with unethical behavior.

Environmental, social, and governance (ESG) ratings agencies are beginning to inquire about mining companies' policies and processes to prevent these problems. Companies that have robust and public documentation to prove they have the right systems in place, such as effective supplier codes of conduct for example, are scored higher in these ESG ratings. Higher rated companies will have better access to investment, and this is a growing trend that will only intensify in the future.

As such, the more information mining companies provide on their procurement processes and due diligence procedures in a given country, the more likely that company will be able to attract further investment to expand their activity in a host country.

INCREASING AND STANDARDIZING INFORMATION WITH THE MINING LPRM

The LPRM is a publicly available set of disclosures that request qualitative and quantitative information from mining companies about how they approach local procurement, and how much spending is going to local suppliers. It has three key objectives, which support governments in their goals to increase local procurement of goods and services by hosted mining companies:

- I. Improve internal management in mining companies to create more benefits for host countries and to strengthen their social license to operate.
- II. Empower suppliers, host governments, and other stakeholders with practical information that helps them to collaborate with mine sites.
- III. Increase transparency in the procurement process to deter problematic practices such as corruption.

Governments play a crucial role in establishing expectations of mining company behavior, both in terms of their local procurement efforts, and what kind of information they provide to the government and wider public. Through establishing use of the Mining LPRM as a norm in the mining sector, host country governments can raise the prominence of local procurement as a key issue, create information to inform their policies, and increase accountability.

The LPRM advances:

- **Standardization:** The LPRM allows for comparability between mine sites and companies regarding local procurement efforts and results, helping host countries gain a clearer and more objective picture of performance;
- **The effectiveness of requirements by providing specificity:** Many governments require different types of efforts from mining companies to advance local procurement, such as supplier development programs and the creation of local procurement plans. Mining company use of the LPRM creates more specific information on what activities they are carrying out as part of their efforts to comply with regulations;
- **Company accountability to meet commitments:** By requiring the release of annual, public procurement spending figures, companies face increased accountability from governments, communities, and other stakeholders seeking to improve the economic benefits from mining.

HOW GOVERNMENTS CAN USE THE LPRM

Governments in mining host countries have several options to increase information-sharing from mining companies using the LPRM. They can:

- Encourage or incentivize use of the Mining LPRM by investing mining companies and industry association such as a chamber of mines;
- Require use of the LPRM by large-scale mining companies as part of legislation or regulations;
- In EITI countries, agree with extractive industry companies and civil society members of the multi-stakeholder group (MSG) to use the LPRM as the means of collecting information on local procurement from each site. As of March 2018, there were already twenty-four EITI countries collecting some type of information on local content³, and use of the LPRM allows each country to collect comparable information, avoiding conflicting reporting requirements across different jurisdictions.

Collecting information for each mine site is only the start of better management of local procurement through the LPRM. Having all mining companies report in accordance with the LPRM provides a government with a comprehensive picture of the current state of local procurement, as well as what efforts are taking place at each site to support suppliers.

Once this information is available in the public domain, governments can use this information to introduce or refine policies and regulations regarding local procurement, as well as those regarding the wider operating environment for SMEs. They can also create multi-stakeholder institutions to promote local procurement and support suppliers, such as a “local content board” to regularly meet and utilize LPRM created information to source policy recommendations and target supplying opportunities for particular goods and services.

What about oil and gas?

The Mining LPRM was created specifically to guide reporting by mining companies, but local procurement is just as important an issue in many countries that host oil and gas extraction. As with the mining sector, many countries have implemented regulations in the past decade requiring oil and gas companies do more to buy local goods and services, including Nigeria and Brazil.

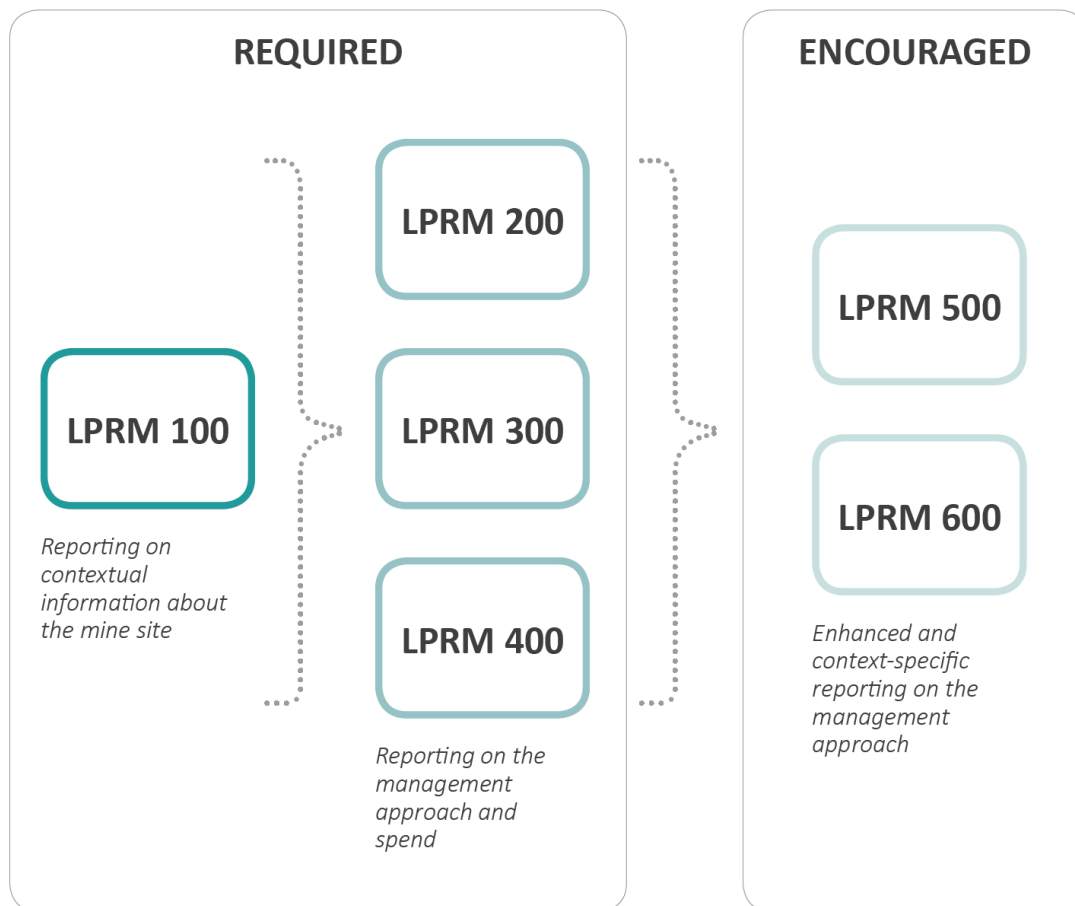
All of the quantitative and qualitative disclosures of the Mining LPRM would be equally relevant for use by companies engaged in oil and gas extraction. The primary difference would be that for oil and gas, what exactly is considered a “site” may vary more widely than in mining. As site-level reporting is so crucial to inform policy and to empower stakeholders, the Mining LPRM’s disclosures could be used by oil and gas companies after agreeing with government on how they would like to define sites.



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 October 2020.

The diagram below shows that there are six categories of disclosures for the LPRM. As long as all information requested in the required disclosures is provided for a given mine site in a public manner, reporting is considered to be in accordance with the LPRM. A government wishing to require use of the LPRM by mining companies as part of regulation can choose whether to mandate reporting on both the required and encouraged disclosures, or only the required disclosures.



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. EITI Senegal, 2019, "Rapport de conciliation 2018". pp. 184-195. Retrieved from <http://itie.sn/wp-content/uploads/2019/12/Rapport-ITIE-SENE-GAL-2018-CNITIE-Version-finale.pdf>
2. OECD Development Centre, 2016, "Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives". pp. 57-19. Retrieved from https://www.oecd-ilibrary.org/development/corruption-in-the-extractive-value-chain_9789264256569-en
3. EITI, 2018, "EITI and opportunities for increasing local content transparency". Retrieved from <https://eiti.org/document/eiti-opportunities-for-increasing-local-content-transparency>

Photo credits:

Cover: Mine supervisor is conducting an inspection at a mine site. Photo: Adobe stock
P.1: Drilling equipment and tools. Photo: Adobe stock
P.4: Oil pump station. Photo: Adobe stock

Developed by:

Mining Shared Value
Engineers Without Borders Canada
<http://miningsharedvalue.org/>
jeffgeipel@ewb.ca



An Engineers Without Borders Canada Venture

University of British Columbia
Canadian International Resources and Development Institute
www.cirdi.ca
info@cirdi.ca

