

How mining can support economic growth

The local procurement reporting mechanism (LPRM) – a tool for strengthening the local economy in the mining industry

The global mining, oil and gas sectors together spend around 1 trillion USD annually on procurement of goods and services. Mining companies' in-country expenses are usually dominated by the procurement of goods and services, accounting for approximately 70 percent of total spending (World Gold Council 2014). This portion usually surpasses total spending on taxes, wages and community investment combined. Thus, procurement presents an important opportunity for local economic participation and benefit.



By awarding more supplier contracts to local businesses in mining host countries, the local economy is strengthened through increased local business capacity, formalization, and job creation that can then be used to target opportunities in other sectors (also known as horizontal linkages). Community expectations of meaningful economic participation in mining activity continues to grow around the world. Commonly, when these expectations are not met, the risk to social license – often translated into substantial financial cost - to mining companies is high. Community tensions and opposition to a mine's presence can cause project delays, and in some cases even violent conflicts.

The mining industry must standardize their approach to procurement processes as weak local procurement opportunities are often characterized by a lack of data regarding current and future procurement demand of a

mining company, as well as insufficient information about the procurement process itself. This makes it difficult for local suppliers and host governments alike to harness opportunities with strategic investments and conducive policy environments. This is where the **Local Procurement Reporting Mechanism (LPRM)** comes in.

What is the LPRM?

The LPRM is a publicly available reporting standard for companies in the extractive industry to provide information on local sourcing. It addresses the gaps in current reporting frameworks and helps to standardize discussions around local value creation between mining companies and national, regional, as well as local governments. The new availability of data helps to create transparency and to more effectively coordinate the efforts of various stakeholders and donors. Thanks to the LPRM, governments and local enterprises have the chance, some of which for the first time, to receive reliable and comparable information on procurement processes and the products and services demanded by the mining sector.

Based on that data, the necessary legal framework, local production and training measures can be better aligned with this demand.

The LPRM contains 13 required and 9 encouraged disclosures, the following box shows an extract:

What types of information does the LPRM cover?

Required disclosures:

- Context for local procurement disclosures
- Procurement systems
- Local procurement spending by category
- Local procurement due diligence

Encouraged disclosures:

- Methods to incentivise local procurement
- External commitments and obligations

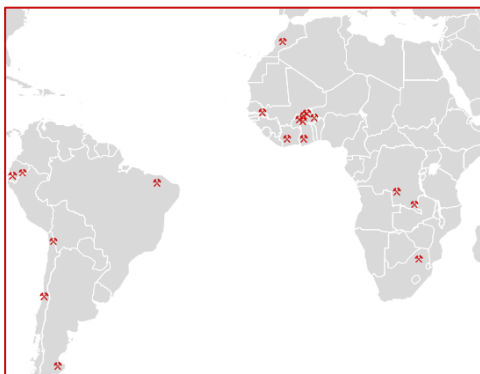
The success story of a reporting standard

By sharing information on their procurement process and local value creation, mining companies lay the foundation for a fact-based and well-informed decision making by the public sector and host country suppliers. At the same time expectations are better managed and can thus help prevent conflicts over unmet expectations in the long term.

Since 2015, the German development cooperation has been supporting the design and establishment of the LPRM. The LPRM was created by the *Mining Shared Value* (MSV) initiative of *Engineers Without Borders Canada*. Over the course of one and a half years, a team of MSV experts consulted with governments, companies and civil society organizations to align on a standard with a range of requirements, which was launched in 2017.

Who is using LPRM?

As of September 2021, eight companies have reported in accordance with the LPRM (Aya Gold & Silver, Ivanhoe Mines, Lundin Gold, Golden Star Resources, Endeavour Mining, New Gold, Yamana Gold, and Solaris Resources). These companies are using the LPRM to report on a total of twenty sites in twelve countries across Africa, South America and Canada). Several more companies are expected to adopt the LPRM in 2022.



Locations of mines in Africa and South America using the LPRM for their reporting

Since its release in 2017 not only companies, but also key organizations of the extractive sector have provided support

for the LPRM, which brings the LPRM credibility and reputation. The *Initiative for Responsible Mining* (IRMA) aligned its standard's guidance with the LPRM. The *Responsible Gold Mining Principles* of the *World Gold Council* harmonize with the LPRM, as well as the *Responsible Mining Index* methodology - both partly due to input from MSV. Furthermore, the *Extractive Industries Transparency Initiative* (EITI), the *International Council on Metals and Mining* (ICMM), and the *International Petroleum Industry Environmental Conservation Association* (IPIECA) have all hosted MSV to present the LPRM in webinars.

Case study Senegal:

Senegal is showing leadership in the EITI. Starting in 2019 Senegal began including data on national versus international procurement by both mining as well as oil and gas companies as part of the country's EITI reporting processes. In 2020, the Senegal EITI increased its information requests to the companies, and used several of the LPRM's disclosures including: Disclosure 201 (policies on local procurement), 204 (procurement processes), 301 (categorization of suppliers), 302 (detailed breakdown of procurement expenses) and 402 (anti-corruption measures during procurement).

MSV is now working with EITI Senegal and the global EITI Secretariat to support other countries seeking to include local procurement in reporting to use LPRM disclosures. With this, countries that choose to include local procurement in reporting are aligned in what information is included.

"With the use of the LPRM in the context of EITI reports, companies have been invited since 2019 to report information on jobs, payroll and payments to suppliers. The publication of these data has resulted on the one hand in raising the awareness of entrepreneurs, women and young people on the opportunities available to them, on the other hand in informing the decision-making of public authorities in order to put in place the appropriate regulatory frameworks favoring the development of the local content."

EITI National Secretariat Senegal, 2021

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Registered offices
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Friedrich-Ebert-Allee 32
53113 Bonn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15
E info@giz.de
I www.giz.de/en

Author/Responsible/Editor, etc.:
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You can find the LPRM here:



https://rue.bmz.de/includes/downloads/GIZ_EWB-MSV-MINING_LPRM-July-2017.pdf

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