

The State of Measurement & Reporting for Local Procurement in Mining in Africa

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Executive summary

Governments in Africa are increasing local content regulations on mining that encourage or require local procurement of goods and services by investing companies. However, not all types of 'local' procurement are the same. Policies that support local production of goods rather than simply reselling imported goods, for example, create far more economic and social benefits. Currently, most governments' local procurement regulations do not adequately take this into account, and few companies give a breakdown of their local procurement spending to help host countries target the most beneficial supplier opportunities. This policy insight overviews current information sharing on local procurement from mining companies, shows increasing requests for this type of information in sustainability standards and governance frameworks, and gives examples of governments and companies beginning to be more sophisticated in their collection and reporting of data.

Introduction

Pressure on African governments to demonstrate positive economic benefits from mining activity continues to grow. One of the most important dimensions of this is the effort to increase *backward linkages* from mining activity to host economies – that is, the procurement of goods and services. In most cases, procurement is the single largest spend a mine site will make – usually more than taxes, payments to employees and community investment combined.¹

Increasing backward linkages is a major focus of the African Mining Vision, agreed to by all African heads of state in 2008 and ratified in 2009.² With each new change to mining legislation on the continent, governments are increasingly intervening in this issue, with regulations encouraging, incentivising or outright requiring procurement of goods and services from domestic suppliers. Multiple countries, including Tanzania (2018), South Africa (2018) and the Democratic Republic of Congo (DRC, 2018), have implemented stricter requirements over the last few years. Zambia, Kenya and Mali are in the process of creating such new rules.

Have these policies actually worked? The reality is that it is hard to tell, because measurement is scarce and publicly available data even harder to find. While many mining companies are gradually increasing the amount of information they provide on local procurement practices and results, there is still a long way to go before the information being reported can be meaningfully used to steer policy and government investments.

1 For indicative figures, see World Gold Council, *Responsible Gold Mining and Value Distribution*, 2013 Data (London: World Gold Council, 2014), which shows that across the member companies, 71% of all in-country spending went to procurement.

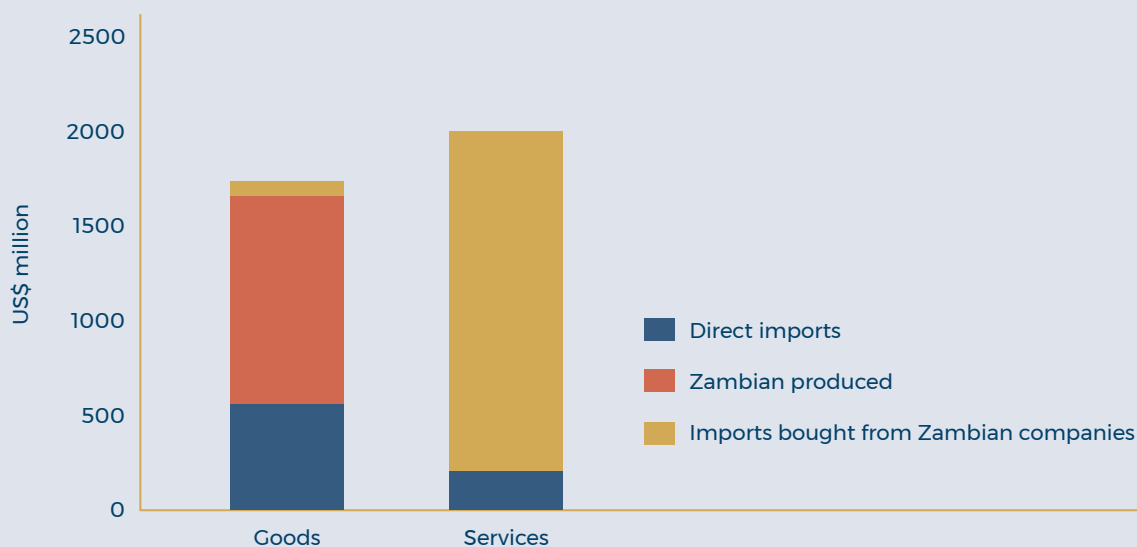
2 AU, *African Mining Vision* (Addis Ababa: AU, 2008).

This paper provides a state of play on the actual measurement of success in local procurement regulations across Africa, and provides recommendations for policymakers, industry, civil society and other stakeholders who influence whether local procurement actually happens.

Not all local procurement is equal in economic benefit

As a starting point for the need to measure and report on the outcomes of local procurement strategies, it must be stressed that not every dollar spent on 'local' procurement is the same. While many mine sites will state that as much as 90% of their total procurement spending goes to national suppliers, such figures often obscure the reality of actual economic and social benefits created by that procurement. Many of these suppliers are actually importers of goods that resell them to mines with a mark-up. In other cases, service providers are international firms that have simply registered an office in the host country, with the majority of work being carried out by expatriates.

Figure 1 A breakdown of mining local procurement spending in Zambia, 2012



Source: Zambia Chamber of Mines and International Council on Mining & Metals, *Enhancing Mining's Contribution to the Zambian Economy and Society* (London: ICMM, 2014), 66

In 2014 the Zambian Chamber of Mines showed leadership in trying to better understand the economic impacts of its members and, partnering with the International Council on Mining and Metals, examined in detail the nature of procurement spending on goods and services. The results were illuminating. While the participating companies reported spending 80% of procurement for goods on local goods, the study estimates as much as 95% of those were imported. Only \$87 million out of \$1.75 billion went to locally manufactured goods. The picture for services was much better, although a sizable portion was still carried out by foreign companies with a local office.³ These statistics show in stark terms that if the goal of policy is to create meaningful economic growth, employment and tax revenue, we need to look beyond the total spend figures provided by companies and break it down into categories that represent different levels of local participation and value addition.

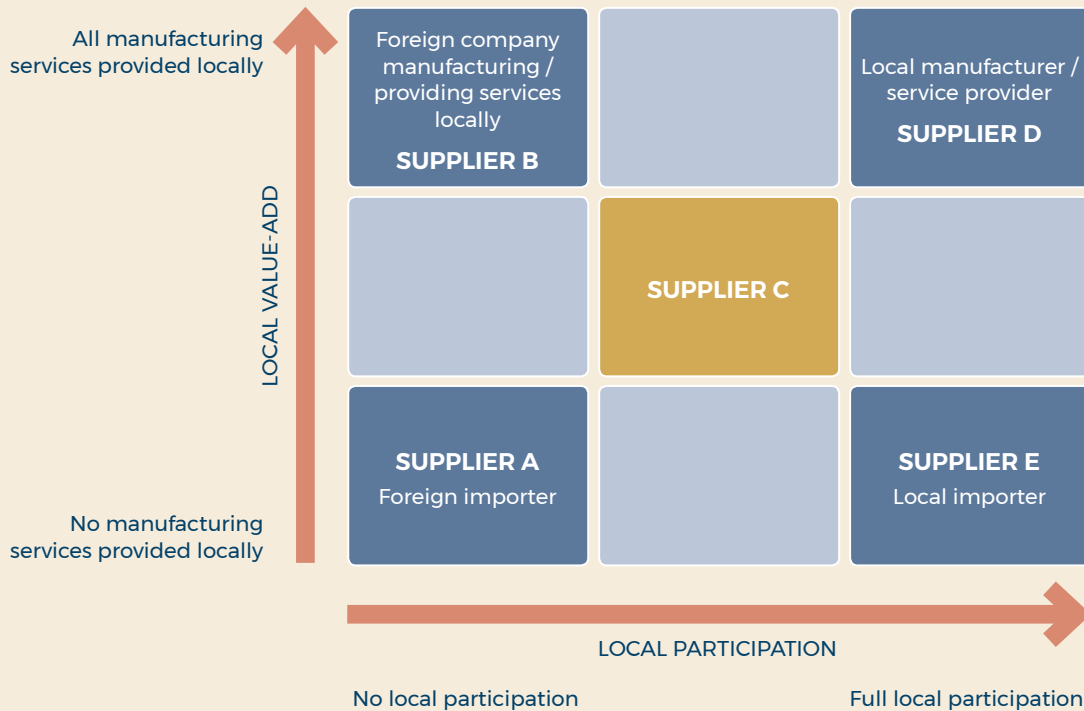
While this may seem to be only a concern for host country governments and their citizens, this also affects the mining companies themselves. In using their total local procurement spending – which includes imported goods and services carried out by international companies – they will overestimate the benefits they are creating for host economies. Such overestimates are likely to lead to tensions with government regulators, and problems for their social licence to operate in host communities.

The World Bank's [A Practical Guide to Increasing Mining Local Procurement in West Africa](#) provides a useful matrix to show the range of suppliers that can supply a mine site, and where the most value is created for host economies. It makes the point that 'Supplier D' (in the upper right square in Figure 2) is the ideal type of supplier that government and industry strategy should target. If, however, most of that value of procurement spending is going to businesses like suppliers 'A' and 'E' on this framework, neither the government nor mining companies will be able to generate meaningful economic benefits for the host country's citizens.

However, many African governments currently do not have policies that are fit for purpose. Many of the regulations only place requirements on the local *procurement* of goods and services, not their actual in-country production. In Ghana, for example, the 2012 regulations on mining (in the process of being updated at the time of writing in May 2020) require that a list of goods and services be procured in the country. This list is set out by the Minerals Commission and has 28 products on it. Mining companies that do not buy these products from Ghanaian suppliers are fined (although there are many current disputes where companies are refusing to pay the fines on the grounds that the products are physically not available to purchase). However, goods on this list count even if they are imported and resold by a Ghanaian business. For example, if a local business in Ghana imports personal protective equipment from Asia and then resells that to a mine site, this procurement counts as being in compliance.

³ Zambia Chamber of Mines and International Council on Mining & Metals, *Enhancing Mining's Contribution to the Zambian Economy and Society* (London: ICMM, 2014), 66.

Figure 2 Framework for categorising suppliers



Source: World Bank, *A Practical Guide to Increasing Mining Local Procurement in West Africa* (Washington DC: World Bank, 2015), 24

Tanzania ‘completely forbids provision of any type of services by an international service provider to mining setups in Tanzania if the same does not feature at least a 20% equity stake owned by Tanzanians’.⁴ However, whatever share of ownership is Tanzanian, whether goods are produced in-country or services are carried out by expatriate employees is not covered by this regulation.

South Africa is an exception. Its 2018 Mining Charter says, ‘A minimum of 70% of total mining goods procurement spend (excluding non-discretionary expenditure) must be on South African manufactured goods.’⁵ South Africa’s mining industry has argued this is an unrealistic target for various reasons. Given ongoing power shortages and other problems facing the country’s ability to manufacture goods, that target may be thought too high. However, at least with the South African approach there is a focus on this production dimension. This is not to advocate the target approach that South Africa is using, but rather to say that whatever approach is used by government – percentage targets or a list

4 Breakthrough Attorneys, “Mining Law Update: Unpacking the Mining (LocalContent) Regulations, 2018 and the Mining (Local Content) (Amendments) Regulations, 2019”, February 28, 2019, <https://breakthroughattorneys.com/mining-law-update-unpacking-the-mining-local-content-regulations-2018-and-the-mining-local-content-amendments-regulations-2019/>.

5 Government of South Africa, *Broad-based Socio-economic Empowerment Charter for the Mining and Minerals Industry* (Pretoria: Government of South Africa, 2018), 22.

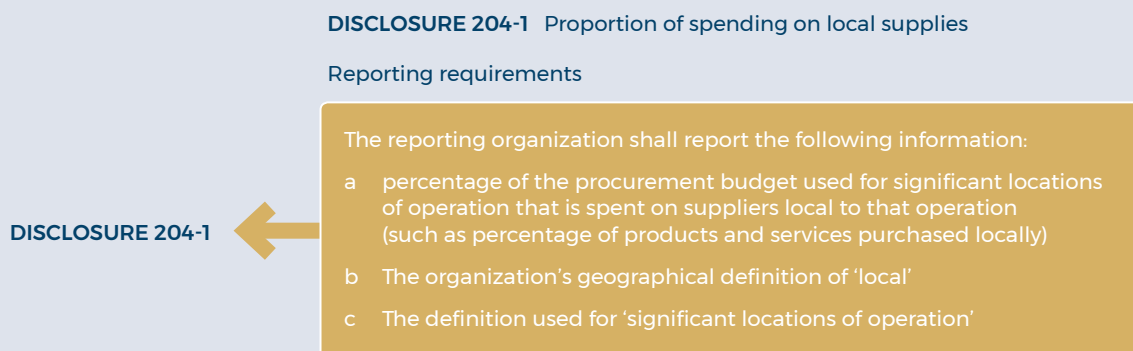
approach like Ghana's, for example – that it be used informed by this understanding that policy interventions should focus on the better kinds of local procurement.

Without companies' providing detailed information on what types of suppliers they are buying from in terms of actual value addition, and what types of goods and services they purchase, it is difficult for governments to make fully informed interventions that will create increased employment and tax revenue.

Corporate best practices: Room for improvement

On the mining industry side, there is some progress in terms of companies gradually doing more measurement and reporting of their local procurement impacts. Most of the largest mining companies operating in Africa use the [Global Reporting Initiative \(GRI\)](#) to structure their sustainability reports, and its Disclosure EC9 asks companies to provide the percentage of procurement spending that goes to local suppliers. While admittedly from a low baseline, there has been a steady increase in the number of companies that are providing at least some statistics on the proportion of spending that goes to local suppliers.⁶

Figure 3: GRI's Disclosure 204-1



Source: Global Reporting Initiative, *GRI 204: Procurement Practices 2016* (Amsterdam: GRI, 2018), 7

However, there is a long way to go before the data being provided by mining companies is detailed enough to help inform policy. Even when mining companies provide data on local

⁶ See Mining Shared Value's assessments of Canadian and global mining company reporting on local procurement from 2014, 2015 and 2017, which demonstrate a gradual increase in reporting on local procurement across the mining industry.

procurement, the information tends to be limited. The [Responsible Mining Foundation](#) evaluated 38 of the world's largest mining companies for its [2020 Responsible Mining Index](#), and found only '[a]bout half of the companies track and publicly disclose some information on their spending on national or supranational procurement, though the information provided is normally very limited'.⁷

Part of the problem is that unless a government chooses to require companies to use the GRI and meaningfully enforces this, it remains entirely voluntary how well companies use it. While many companies claim to provide the information of GRI Indicator 204-1, many do not actually provide the information for each individual mine site, as they are required to by the framework. Companies commonly do not define what 'local' means, and the proportion of spending on local suppliers is supplied on a company-wide basis, rather than disaggregated by site. In addition, sustainability reports come out well into the following year, from as early as April to as late as September or October. This means information does not come in a timely fashion to spur accountability for government policy and company efforts.

In theory, many governments are indeed collecting some information on procurement efforts and spending, but there are few examples where it is clear the government is fully using such information. Ghana's mining regulations, for example, require that mining companies produce five-year local procurement plans, which they have to report on each year. Zambia's regulations have a similar clause. However, because this reporting is provided to the government and not publicly available, suppliers, civil society and other stakeholders cannot determine if the government is using the information effectively to inform policy and investments – if at all.

Finally, few mining companies operating in Africa provide any kind of breakdown in terms of imported versus produced goods, and whether services are provided by domestically owned and staffed service providers, or by branches of international firms registered in country. The main exception is South Africa, where black economic empowerment laws in place since the early 2000s mean mining companies (and other companies) have had to track procurement, employment and other criteria in terms of social transformation targets.⁸ As such, some mining companies are able to produce at least some data that distinguishes between types of suppliers, although how much is released publicly is another matter.

7 Responsible Mining Foundation, "Responsible Mining Index 2020, Results: Economic Development", <https://2020.responsibleminingindex.org/en/results/thematic/315>.

8 See Hogan Lovells, "BBBEE for Doing Business in South Africa", December 2017, <https://www.hoganlovells.com/en/publications/bbbee-for-doing-business-in-south-africa>.

Early signs of progress to build on

Despite the data shortfalls discussed above, there is promising progress in terms of both industry and international government frameworks asking for more of this information. There are also examples of leadership from companies and countries that African governments can look to for models.

First, on the industry organisation side, the World Gold Council's Responsible Gold Mining Principles (RGMPs) launched in 2019 require that its company members have a public supply chain policy, and in the guidance for companies it advises them to disclose figures for local procurement. The RGMPs even suggest companies consider disaggregating this by gender.⁹ The Initiative for Responsible Mining Assurance's Standard for Responsible Mining, launched in 2018 with the support of mining giant Anglo American, also asks companies to provide site-by-site figures on local procurement, as well as other practical information for suppliers in its Guidance Document. These developments in the mining sector are echoed in the oil and gas sector. The international sustainability body for oil and gas, IPIECA, recently released the fourth edition of its Sustainability Reporting Guidance for the Oil and Gas Industry, which recommends companies provide their expenditure on locally sourced goods and services.¹⁰

Finally, in order to encourage mining companies to empower host country governments and suppliers with more information, in 2017 Mining Shared Value launched the Mining Local Procurement Reporting Mechanism (LPRM), in partnership with the German development agency GIZ, as a framework to help companies structure their reporting on a site-by-site basis. In 2019 Ivanhoe Mines, operating in South Africa and the DRC, became the first company to report using the LPRM, and at least one more company operating in Africa will use it in 2020. While only the LPRM of the above reporting frameworks encourages companies to differentiate between different levels of value addition, the fact that major industry organisations and standards are increasing demands for data provides a strong foundation to gradually seek more detailed information.

What is more, while the Extractive Industries Transparency Initiative (EITI) current standard does not include local procurement as a requirement for reporting,¹¹ many EITI countries are starting to collect and report this information. Senegal, for example, in its Reconciliation Report for 2018 data, released in December 2019, includes a breakdown of local procurement spending, as well as how many local and international suppliers each company is using.¹² The EITI Global Secretariat is now planning to gauge interest in piloting

9 World Gold Council, *Guidance on Implementing and Assuring the RGMPs: Supplement to the Assurance Framework* (London: World Gold Council, 2019), 10, 19.

10 IPIECA, *Sustainability Reporting Guidance for the Oil and Gas Industry*, 4th ed. (London: IPIECA, 2019), 6.31-6.33.

11 Under the 2019 standard, there are some areas of the standard where companies could provide data, and state-owned enterprise extractive industry companies are encouraged to share information on procurement practices and results.

12 ITIE Senegal, *Rapport de Conciliation 2018* (Dakar: ITIE Senegal, 2019), 184.

disclosure on procurement and suppliers among member countries,¹³ so more countries are likely to follow Senegal's lead.

Finally, for the first time we are starting to see mining companies actually reporting a rough breakdown of their spending in terms of types of goods. Rio Tinto's Diavik Mine in Canada's Northwest Territories breaks down its procurement spending into 11 categories, and then shows how much for each goes to three categories of suppliers ('Northern Indigenous', 'Other Northern', and 'Southern' – referring to suppliers in Canada's provinces). While these categories of goods and services do not directly show levels of value addition, they do help stakeholders understand the scale of opportunities for different types of products and where genuine local participation is most realistic. With such information, suppliers and governments can better understand the potential supplying opportunities they can best target. While such detailed policy-relevant reporting is not yet common in Africa, these governments have models they can consider in terms of encouraging and requiring companies to provide this information.

Thus, while most mining companies operating in Africa currently do not provide the kind of data on local procurement that can meaningfully help government make policy, global governance and sustainability frameworks are aligning to pressure and help companies to do so. Companies operating in Africa, as well as the governments that regulate them, also have models to turn to for structuring reporting requirements.

TABLE 1 PROCUREMENT SPENDING BY THE DIAVIK DIAMOND MINE

Spending by category and priority group (\$ millions)					
Category	Northern Indigenous	Other Northern	Total Northern	Southern	Total
Community relations	\$5.1	\$0.1	\$5.2	\$0.1	\$5.3
Construction	\$0.2	\$0.0	\$0.2	\$13.0	\$13.2
Consumables	\$23.4	\$124.6	\$148.1	\$40.2	\$188.3
Financial	\$0.0	\$13.0	\$13.0	\$8.4	\$21.4
Freight, cargo, transport	\$25.0	\$18.6	\$43.6	\$2.4	\$14.9
Human resources	\$0.1	\$1.0	\$1.1	\$0.8	\$1.9
Other	\$0.5	\$0.2	\$0.7	\$0.0	\$0.7
Outsourced labour	\$88.7	\$8.5	\$97.2	\$26.8	\$124.0
Passenger transport	\$7.4	\$0.3	\$7.7	\$0.0	\$7.7
Professional services	\$8.0	\$3.1	\$11.1	\$11.8	\$22.9
Telecommunications	\$0.0	\$1.1	\$1.2	\$3.6	\$4.8
Total spend	\$158.4	\$170.7	\$329.1	\$107.1	\$436.1

Note: Broken down by meaningful categories of suppliers, which show where value is actually retained, and by broad product categories showing the scale of procurement opportunities

Some totals may not add up due to rounding

Source: Rio Tinto, Diavik Diamond Mine: 2018 Sustainable Development Report (London: Rio Tinto, 2019), 8

¹³ Extractive Industries Transparency Initiative, "Services and Subcontracting: Unexplored Ground for Transparency", February 28, 2020, <https://eiti.org/blog/services-subcontracting-unexplored-ground-for-transparency>.

Conclusion

What is measured is managed, and for African mining host countries to get local procurement right, in alignment with the goals of the African Mining Vision, they will have to get more serious about using data from the mining sector. This policy insight has shown that measuring and reporting on local procurement need to move beyond simply collecting the aggregate spending on procurement in-country, as such figures obscure the amounts going to suppliers that create the most employment. While local content laws requiring local procurement by mining companies are multiplying, current regulations are not necessarily encouraging the right kind of backward linkages. In order for governments to make policy interventions and investments in the infrastructure that support suppliers, they need baseline data that gives a more sophisticated breakdown of the types of goods and services mine sites are buying, and where procurement dollars are going in terms of local participation. Although most mining companies operating in Africa are not providing this data, there are signs of progress. Not only do more standards ask for this data, but there are also reporting frameworks and company examples that governments can use to model the information they need. The next step is for governments to require accessible, public data on procurement spending, as a means of empowering suppliers and building accountability for all actors seeking to increase local procurement.

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Cover image

Students train at the training school run by Glencore, an Anglo-Swiss multinational commodity trading and mining company, at Mopani Mines on July 6, 2016 in Mufulira, Zambia. The mine employs about 15,000 people (Per-Anders Petterson/Getty Images)

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