



Meeting in Mineral Resource Authority of Mongolia – Senior Officer D. Sagaraadorj, MSV Program manager John Kielty and GIZ IMRI expert Ch. Oyun-Erdene;

## LOCAL PROCUREMENT IN MONGOLIA: “ALL THE PIECES ARE IN PLACE”

*The concept of local procurement reporting is quite new in Mongolia and a Canada-based organization, the Mining Shared Value initiative of Engineers Without Borders, has taken up a project to develop the practice on the ground. Taking turns to answer questions, Jeff Geipel, Venture Leader, and John Kielty, Project Consultant, explain to MMJ what they plan to do and how that would benefit Mongolia’s mining sector.*

### **What is Mining Shared Value? And what is the local procurement reporting standard you are working on in Mongolia?**

**John:** Mining Shared Value (MSV), a venture of Engineers Without Borders Canada (EWB), works to increase local procurement by the global mining industry so that host countries gain more economic and social benefits from mineral extraction. Since 2012, MSV has promoted the positive benefits of local procurement through projects such as researching procurement from Aboriginal businesses in Canada, examining how local content regulations in Sub-Saharan Africa affect company behaviour, as well as acting as a founding member of the World Bank’s Extractives for Local Content Development Community of Practice (CoP).

It was our annual report to measure how Canada and the world’s largest mining companies publicly report on local procurement that led to our current project with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH to support the creation of a measurement and reporting initiative for local procurement in the mining industry.

The need for a reporting system for local procurement in mining stems from the current lack of depth in commonly used reporting frameworks. Existing reporting systems like the Global Reporting Initiative (GRI) exist and do encourage reporting on local procurement, yet the details required are not extensive, and the information created does not fully empower mining companies and host countries to better manage the procurement process. Importantly, this new reporting system we are creating will be designed to work with existing standards like the GRI so as to not create a reporting burden for companies.

### **You’ve recently been in Mongolia. How is the project progressing and how is the reporting standard being developed?**

**Jeff:** The project is progressing well and through extensive consultation we have developed a draft standard which we are testing in several very different environments where mining takes place including Mongolia, Albania and Mali. In each of these pilot countries we are meeting with a wide range of stakeholders including mining companies, local and national governments, civil society organizations, chambers of commerce, mining associations and others. ▶

The feedback collected from these one-on-one and group interviews will assist in creating a reporting standard that is useful for companies to include in their existing reporting practices and for external stakeholders to understand the local procurement practices at a particular mine site. Ultimately, the end result will allow for a well-informed dialogue between stakeholders and will help set reasonable expectations on all sides. Similar to the intention of the Extractive Industries Transparency Initiative (EITI), a standardized reporting framework will allow for increased transparency and cross-comparisons between mining operations and host countries.

**What result do you expect from the implementation of the standard?**

**John:** When the reporting standard for local procurement is completed later this year, it will be available for use by any mining company around the world to report on their local procurement activities.



Local SME visit and meeting: “Turlon bakery” of Bayankhongor province – I. Batdelger, Director of ‘Suldet tenger’ cooperative, B. Naranbayar, Manager of Chamber of Commerce of Bayankhongor, MSV and GIZ IMRI team



Main meat producer of Bayankhongor province – “Jargalant Khuns” LLC

For mining companies, having more information about their procurement activities can provide opportunities to identify cost savings through increased purchase of goods and services from local, regional or national businesses. It will also help them increase local economic benefits, and this will help companies develop and maintain their social licence to operate.

While the standard can be used voluntarily by mining companies anywhere in the world, the standard can also be adopted as a requirement for reporting that companies provide to governments, or as a condition of membership in mining industry associations.

For external stakeholders, such as government, chambers of commerce, existing and potential suppliers, and communities, more information about what mining companies are buying can provide the basis for informed discussions to increase and monitor economic benefit sharing, identify strategic areas for supplier investment, and facilitate increased coordination among stakeholders to engage mining companies.

**When do you expect the standard to be implemented in Mongolia? How can Mongolia use this standard for its benefit?**

**Jeff:** The reporting standard can be taken up by mining companies as soon as it becomes available at the end of 2016. Any mining company in Mongolia can use the standard and would be able to include local procurement reporting as part of its regular reporting activities, such as in its annual mine and environmental plans as well for following up on their obligations in community development agreements. These existing reporting mechanisms provide an opportunity for local and national governments to collect information that can support policies and planning for local and national economic development.

**What are the challenges and opportunities of local procurement in Mongolia?**

**John:** Mongolia is a big country with a small population. Therefore, maximizing the economic benefits of mining requires extensive communication and coordination. With a relatively small market size and competition from Chinese and other suppliers, it is vital the country effectively targets goods and services they realistically can supply competitively. Many goods and services are already available in aimag and soum centres, but the information about what mining companies need isn’t readily available. Mining companies tend to have offices in UB and operations in the field, so the regular access for aimag and soum governments to mining companies isn’t there.

When particular goods and services are not available locally or even in Mongolia, mining companies may not see the potential to reduce long term costs and build positive ties with the communities through investing in new and growing local businesses. Greater communication on mine site needs and what enabling factors are helpful for local businesses can lead to increased cooperation to identify opportunities to shift supply chains closer to where mining takes place.

**Comparatively speaking, with your experience of other countries, how do you rate the local procurement situation in Mongolia? How can we improve this?**

**Jeff:** While the economic benefits from mining may be not be currently maximized, Mongolia is in a very good position to increase the amount of what companies buy in the regions where they operate and across the country. All the pieces are in place for stakeholders to work with mining companies to increase their local and national spending. Aimag and soum governments are keen to engage mining companies and make use of the community development agreements as a vehicle to promote local business. Where business councils and chambers of commerce are in place, they want to promote their members’ business to the mining industry. With increased information, all stakeholders can speak the same language around what mines need, which can facilitate conversations about how the government and the business community in Mongolia can target those needs. ■