

The value created by increased reporting and information sharing for mining local procurement - Case study of Oyu Tolgoi

BACKGROUND

In 2017, the Mining Shared Value initiative of Engineers Without Borders Canada, in partnership with the German Federal Ministry for Economic Cooperation and Development (BMZ) through GIZ, released the Mining Local Procurement Reporting Mechanism (LPRM). The Mining LPRM is a set of publicly available disclosures to guide company reporting on procurement – in most cases the single largest payment a mine site makes each year. Structured similar to the Global Reporting Initiative (GRI), the disclosures of the LPRM were tested in three in-country consultation processes to test the feasibility and utility of the potential requested information being provided by mine sites. Carried out over 2016-17, the three countries involved were Albania, Mongolia and Mali. In the August 2016 visit to Mongolia, Mining Shared Value met with the Oyu Tolgoi mine and its stakeholders.

The purpose of this case study brief is to demonstrate the value created when mine sites report in detail on their approaches, programs and results of local procurement efforts – both for the mining company itself and the host economy. The Oyu Tolgoi mine arguably has the most detailed reporting system in the world when it comes to the issue of local procurement. In essence the Oyu Tolgoi mine already reports “in accordance” with the Mining LPRM, and this brief demonstrates the value created for companies considering using the LPRM to structure their disclosure on local procurement, as well as how such reporting helps local stakeholders.



LOCAL PROCUREMENT AND REPORTING AT OYU TOLGOI

Oyu Tolgoi is a Rio Tinto-managed mine jointly owned by Canadian mining company Turquoise Hill and the Mongolian government. Located in the South Gobi Desert, it is one of the largest copper deposits in the world. Several settlement communities with small populations in the thousands lie within a couple hundred kilometres of the mine, in addition to hundreds of families living a traditional land based herding lifestyle throughout the region. Meeting the needs of operations, community development, and its investment agreement obligations, Oyu Tolgoi’s commitment to the development of a quality local supply chain is clearly a strategic focus of the company.

This focus on local procurement is most evident externally through the company’s detailed reporting available online. The Oyu Tolgoi website’s “Procurement” section provides an incredible level of detail on its procurement policies and results. It allows current and potential suppliers to understand the procurement process, access an Expression of Interest listing, and to download policies such as Oyu Tolgoi’s “Supplier Code of Conduct”. All information is available in both Mongolian and English.

On the quantitative side, Oyu Tolgoi provides a useful breakdown of where its procurement spending goes, both by types of suppliers and by broad categories of goods and services. While most mine sites globally who report on local procurement only break down spending between what is procured in-country and what is from international suppliers, Oyu Tolgoi provides three categories to break down in-country spending. This level of detail allows for a much deeper understanding of its economic impacts across the country – and the linked social license to operate that comes with being able to demonstrate benefits to stakeholders. In addition, because the mine provides a breakdown of major spend categories, stakeholders are better able to understand where supplying opportunities lie – and also where they are impractical.

Below, the procurement spend report is provided as of April 2018. In this report, procurement spending is broken down by region, category of spend, annual targets, and monthly updated percentages towards each category's procurement target.

2018 Spend Targets and Actuals



Spend Family	Total		In Country			National			Southgobi		
	Total Estimated Spend 2018, m\$	Total Spend 2018 YTD, m\$	Target, %	Spend YTD, %	Spend YTD, m\$	Target, %	Spend YTD, %	Spend YTD, m\$	Target, %	Spend YTD, %	Spend YTD, m\$
Construction	\$ 4.1	\$ 6.6	99%	100%	\$ 6.6	99%	100%	\$ 6.6	0%	4%	\$ 0.3
Fuel and Lubricants	\$ 54.4	\$ 34.4	100%	100%	\$ 34.4	100%	100%	\$ 34.4	0%	0%	\$ 0.0
Fixed Plants & Equipment	\$ 65.2	\$ 21.9	75%	66%	\$ 14.4	49%	39%	\$ 8.5	0%	0%	\$ 0.0
Logistics	\$ 13.8	\$ 7.3	100%	100%	\$ 7.3	99%	99%	\$ 7.2	92%	95%	\$ 6.9
Mobile Equipment	\$ 66.5	\$ 38.6	97%	98%	\$ 37.9	70%	79%	\$ 30.4	36%	38%	\$ 14.6
Repairs and Consumables	\$ 74.6	\$ 34.5	88%	88%	\$ 30.3	71%	67%	\$ 23.1	21%	22%	\$ 7.6
Production Consumables	\$ 38.1	\$ 18.6	89%	98%	\$ 18.1	87%	98%	\$ 18.1	55%	36%	\$ 6.6
Services	\$ 105.1	\$ 56.8	87%	87%	\$ 49.4	76%	78%	\$ 44.6	27%	27%	\$ 15.3
Total	\$ 421.7	\$ 218.6	87%	91%	\$ 198.5	73%	79%	\$ 172.8	24%	23%	\$ 51.3

Oyu Tolgoi spend report as of April 2018 (<http://ot.mn/spend-report-en>)

This level of detail on procurement spending provides useful information for the company to use in its implementation of the South Gobi Supplier Development Policy which aims to “[work] wherever possible, as a first preference, with those Suppliers classified as South Gobi by definition”. A dedicated strategy and the data with which to engage local government and local stakeholders in a coordinated approach towards a common goal has helped lead to a marked increase in the amount of goods and services procured locally. In numbers, this has amounted to \$USD 66 million in 2015, up from \$USD 0.5 million in 2010, as reported on the company's website.

All of this information is provided on the Oyu Tolgoi website. This is buttressed by frequent communication via social media and, additionally, in-person events. For example, through Oyu Tolgoi's Twitter feed, alerts of supplying opportunities are provided as well as monthly information sessions for current and potential suppliers.

Tweet from Oyu Tolgoi, May 14, 2018
(<https://twitter.com/OTMongolia/status/995952948692713472>)

The commitment to transparency through reporting on local procurement is parallel to the proactive and engaged approach the company undertakes to support supplier development generally. Several components make up the company's approach to capacity development. These include increasing access to finance and adjusting internal procurement procedures to provide preference for local suppliers, both large and small, while ensuring they meet technical and safety specifications. One successful example of a business supplying Oyu Tolgoi is the story of Khanbogd Khurd (described below).



Khanbogd Khurd is a local success story and example of Oyu Tolgoi supporting the growth of local businesses. Mr. Naranbaatar started in 2006 as a driver with the mine. Using this knowledge of the work and the mine's needs, Mr. Naranbaatar started with a small investment of seven buses and grew his business slowly. Access to capital was not difficult and buses are relatively cheap. However, it was the Oyu Tolgoi procurement team's hands on approach with new local suppliers that was instrumental in growing Khanbogd Khurd. Typical to many small businesses, there was a learning curve on how to run a business, navigate the tendering process, pay taxes, and manage human resource issues. An initial small contract gave Khanbogd Khurd the opportunity to demonstrate its potential and build experience. By working with the supplier and providing constructive feedback through monthly in-person meetings and on-site audits of the business, the Oyu Tolgoi team provided the necessary support to the supplier. This allowed Khanbogd Khurd to meet Oyu Tolgoi's requirements, to build experience to now take on larger transportation contracts, and to become one of the largest employers in Khanbogd with over 100 employees.

BENEFITS FOR OYU TOLGOI AND HOST ECONOMY STAKEHOLDERS FROM INCREASED INFORMATION SHARING

During Mining Shared Value's visit to the Oyu Tolgoi mine site in 2016, the team met with procurement, sustainability, and community relations staff from the company, as well as a wide variety of local stakeholders including local suppliers. It was very clear that there was a wide agreement on the value of this transparency and information sharing from the Oyu Tolgoi mine.

For procurement and community relations staff at Oyu Tolgoi, it was conveyed that being able to provide information with this level of detail, particularly when it comes to what kinds of goods and services are being purchased, allowed reasonable expectation setting for local businesses and government. It was clear from interviews with suppliers that the openness of the procurement team at Oyu Tolgoi was appreciated and that there was a strong understanding of the processes and policies in use during purchasing.

Mining Shared Value also met with the local soum (district) and aimag (province) level governors. The governors and their economic development officers stated that the information shared by the mine site was helpful in structuring their own programming and budgeting, largely because the reporting helped them to understand current and future opportunities.

In both cases, one of the central reasons for these benefits was the use of Cooperation Agreements – a type of community development agreement (CDA) as they are generally referred to globally. Because these agreements are revisited on an annual basis to set out provisions including local procurement and supplier development, the frequent and detailed communications from the mine site helps inform these negotiations. In addition, because Oyu Tolgoi is able to communicate in detail its procurement needs, the reporting helps the site work with the local government to identify the right targets for supplying opportunities and match the agreement's provisions to those.

RAISING THE BAR ON TRANSPARENCY FOR MINING PROCUREMENT IN MONGOLIA AND BEYOND

This case study has shown how one mine site has created value for itself and the host country it operates in through providing detailed, accessible, and frequently updated information on its local procurement practices and results. In many ways, it can be said that Oyu Tolgoi used the Mining LPRM before it even was launched. As such, Oyu Tolgoi has raised the bar in Mongolia as to what a mine site can accomplish in providing information on local procurement, and this has provided a model which heavily influenced the disclosures of the LPRM.

It is hoped that this case study will encourage other mining companies to provide the information encompassed in the Mining LPRM's disclosures. This common set of disclosures prevents individual mining companies from having to "re-create the wheel" when setting up their own measurement and reporting systems, and the data empowers host country suppliers, governments, and other actors to make better decisions in their efforts to supply goods and services to mine sites.

For more information about the Mining LPRM and how you can use it in your work, please contact Jeff Geipel (jeffgeipel@ewb.ca) or Janne Kaiser-Tedesco (janne.kaiser@giz.de). Download the Mining LPRM at: www.commddev.org/mining-local-procurement-reporting-mechanism.

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