

Reporting on Local Content in the Context of EITI

The objective of this note is to address the interest of different stakeholders in increasing transparency around local content, describe potential benefits and challenges in wider disclosure of local content practices, and lastly provide some preliminary recommendations to countries that wish to include local content as part of the post-compliance EITI agenda.¹

Potential benefits and challenges of increasing local content transparency

Extractive industry companies spend a significant amount on suppliers.² Increasing the transparency and accountability around these expenditures and the procurement of goods and services, potentially as part of a post-compliance EITI agenda, could help drive the process and create incentives for companies to buy locally. It would also help companies maintain a “social license to operate,” and ultimately broaden the debate around the impact of extractive industries among government, civil society, and private stakeholders.

Challenges in reporting on local content include the lack of uniformity of data and reporting, i.e. definitions, availability of data and materiality (all suppliers or just top spend), confidentiality issues, and the cost-benefit of including it in already capacity-constrained environments. These are described below:

- *Uniformity of data/definitions:* One of the main challenges in reporting on local content is the variety of definitions used by companies, governments, IFIs, etc. Traditionally company reporting and regulations focused solely on local supplier registration. There is however currently a trend to expand this definition to focus on how much value the supplier is actually adding to the local economy, based on the following elements:
 - Participation of citizens in ownership, management, and employment
 - Extent of value-addition taking place locally, or actual expenditure that remains in the local economy
 - Geographical location of core facilities/infrastructure and registration (national, regional, local-local)
- *Availability of data:* In the case of local content, the data is not readily available and by no means uniform (see above). The data on local employment, location and value-addition are usually provided by the supplier to the mining company,³ which then ideally reports to the regulator (through a Local Procurement Plan). Reporting on an industry level would require significant effort by companies to provide the uniform templates, and in some cases new ways

¹ The Extractive Industry Transparency Initiative (EITI) covers the payments made by mining companies to host governments. It is currently exploring the addition of other topics along the EI-value-chain, among them the issue of local content.

² Rio Tinto recently reported that they spent 43% of revenues on suppliers (compared to 16% on taxes). Only a small part of this goes to “local” suppliers, but using a tougher definition of value-addition, Newmont Ghana recently estimated that 17 % of expenditure on goods and services for the Ahafo project went to Ghanaian-owned businesses (Ghana Chamber of Mines, 2012).

³ Except for the case of value-addition, which can also be estimated by the mining company

of reporting and verifying supplier data. The data would also be much less precise than that of revenues, and sometimes qualitative.

- *Confidentiality*: Companies are generally wary of making information on suppliers and contracts public, since they are often competing for the same suppliers. Gains in terms of increased transparency and “social license to operate” could help address this challenge.
- *Cost-benefit*: There is also a question as to the resources needed on a country level to broaden the debate on extractive industries and include local content in a post-compliance EITI agenda. Significant efforts would have to be made to develop systems and capacities to verify the information. This would have to be weighed against the need to build capacity of suppliers, for example.

Current reporting practices

Most local content reporting initiatives are based on mining company “spend” on different “categories of suppliers.” These categories are determined by a combination of the elements mentioned above. The Global Reporting Initiative (GRI) Mining and Metal Sector Supplement⁴ for example defines locally-based suppliers as those “based in the same geographic market as the reporting organization (i.e. no trans-national payments to the suppliers are made).” The majority of ICMM member companies uses GRI for sustainability reporting and is audited by an external firm, including on requirements related to stakeholder consultations. GRI methodology however merely recognizes that the indicator above has been included, i.e. it does not enable aggregation, or comparison between countries and companies.

Some companies categorize suppliers along a spectrum on each of the elements above (i.e. participation, value-addition, and geography). For example, Newmont Ghana – and increasingly other Ghanaian mining companies through the Ghana Chamber of Mines – are starting to categorize suppliers based on participation and geography as “foreign,” “locally-registered/internationally-owned,” “regional,” “national,” and “local-local.” Yet another way of categorizing suppliers is through a combined matrix, i.e. a company with high % local participation, but low % local value-addition, might be categorized as “local importer,” while one with substantial local value addition but limited local participation might be categorized as a “locally-based foreign manufacturer.”

Recommendations

All major stakeholders, including the traditional EITI participants, seem to agree of the need of better reflecting value-added to the national or local economy, and creating better quality reporting systems. Civil society is asking for more transparency related to tendering processes and the issuance of contracts for suppliers. Their concern is to maximize benefits to the local communities in terms of employment and income-generating opportunities. The following are a few recommendations to countries and that wish to include local content as part of the post-compliance EITI agenda:

⁴ GRI MMSS includes among its economic performance indicators (market presence aspect) an indicator for “policies, practices, and proportion of spending on locally-based suppliers at significant locations of operation” (EC6).

- **Multi-stakeholder discussions:** Explore using the EITI MSG – perhaps with the inclusion of procurement managers from the mines and supplier representatives – to discuss the issues of definitions, categories of suppliers, materiality, data availability and confidentiality, and cost-benefits of broadening the agenda to include local content. Please note that as discussed above, systems and measurements vary widely from company to company, as does the importance of confidentiality. Limited training might also be appropriate to bring all stakeholders to the same level of knowledge.
- **Reporting:** The government would need to share the current reporting template (i.e. local procurement plan) and if not included already, explore the possibility of companies reporting on “spend” on different categories of suppliers and on supplier development efforts, and perhaps also include a measurements of indirect and induced employment.
- **Disclosure:** Disclosure of the information gathered in the reports would be a first step to increase transparency related to local content. This could be done on an aggregated level, as well as on a company by company level. If several companies are active in the same region of the country, aggregation on a regional level might also be useful. This would feed into the post-compliance trend towards EITI sub-national reporting.
- **Verification:** A second step would be for the MSG or the government to hire an independent auditor to verify the reporting – essentially doing the job of the regulator – and a public report could be produced and disseminated. Reconciliation beyond this would be difficult.
- **Dissemination and policy agenda developed:** The audited reports could be annexed to the regular EITI reports, or could be produced as a separate report. They should be distributed widely and recommendations developed to strengthen policies and capacities of extractive industry companies and suppliers, and of civil society organization and communities. Other government agencies and local authorities/supporting institutions involved in SME and private sector development should be invited to participate to enable follow up and accountability.