



312 Adelaide Street West, Suite 302, Toronto, ON M5V 1R2  
[www.ewb.ca](http://www.ewb.ca) | [info@ewb.ca](mailto:info@ewb.ca) | 416.481.3696

---

The Responsible Mining Foundation  
Barbara Strozziiaan 101  
1083 HN Amsterdam  
The Netherlands

24 March 2017

Re: Responsible Mining Index Draft Methodology

Dear Responsible Mining Foundation,

The Mining Shared Value (MSV) venture of Engineers Without Borders Canada values the opportunity to provide comments on the draft methodology of the Responsible Mining Index (RMI). MSV appreciates the goals the RMI is trying to achieve in influencing a more responsible global mining industry.

As background, MSV engages with the global mining industry to promote local procurement of goods and services. Our goal in this work is to improve the economic and social development impacts of mining activity in developing countries and regions. At the heart of our work is the belief that in order to improve the impacts of mining, as much attention must be paid to maximizing potential positive impacts, as that given to minimizing negative ones. We work with a wide variety of stakeholders, including mining companies, Canadian and other advanced country governments, industry organizations, and international development institutions including the World Bank, OECD and African Union.

Our comments are divided into two parts. The first are focused on the overall approach and methodology of the RMI. The second, are focused on the local procurement related parts of the RMI and its indicators. While we have thoughts on other aspects and indicators of the RMI, we feel it appropriate to defer to the insights of the subject-matter experts for other topics.

#### **Comments on the Overall Approach and Methodology**

MSV sees a great deal of value in systems that “rank” company behavior on responsible mining. In our own work evaluating how the largest mining companies report on local procurement, it has proved very effective to show companies how they relate to each other. In our reports, displaying companies on a table that demonstrates how each company relates to its peers has effectively encouraged many mining companies to improve their practices on local procurement. As such, the goal of the RMI to show how the 30 largest companies all perform shows great promise to affect behavior for the better.

It is also very appreciated that the RMI so explicitly has researched and referenced other initiatives that guide and measure mining company performance. The lack of research and consultation that has characterized the creation of so many initiatives has led to problems of unnecessary duplication and confusion for mining companies and stakeholders. As such, this was a very welcome part of the RMI draft methodology, including the detailed breakdown of how each component relates to other systems.

The comments we have on the approach and methodology of the RMI focus on two areas. The first is the selection of the 30 mining companies and 5 mine sites for each. The second relates to the assessment process and the required resource involved.

#### Selection of the 30 largest mining companies

The methodology is somewhat unclear as to which exact 30 companies will be chosen for this index. While it says they will be chosen “among” the largest 30 in the world by production value, it then goes on to explain it will have preference for mining companies with sites in developing countries. Having carried out studies on the world’s largest companies, our recommendation is to choose the 30 companies in a fashion that does not allow personal discretion in which ones are included. In our case we chose companies based on externally provided lists (such as the Canadian Mining Journal’s annual list of the largest 40 companies, which had its own methodology). Engaging in any selection process that does not result in an automatic list is problematic as it will result in a perception of bias in the selection of companies, which will hurt the credibility of the RMI. Therefore, we suggest picking simply the 30 largest companies, period.

That being said, deciding what are the “largest” companies brings with it its own challenges as there are arguments to be made for the various ways this could be achieved. Production value of minerals is likely to be a fair and effective method, so long as reliable data can be found. Another option could be to use total number of employees as this would be a reasonable measure of the scale of mining activity. In our experience, one caution to note is that in using the overall size of the company (rather than specific mineral production), one will end up including large conglomerate companies who have mining as only one part of their business. This led to concerns from some companies who did not feel they should be considered “mining” companies. However, while no method is perfect, whatever method is used to select the 30 companies it should be clear that the resulting list is produced without any kind of discretion.

Linked to this, the selection of the 5 mine sites also raises some pitfalls. We would recommend that again, a method of choosing these sites is chosen that will not allow problematic discretion. One option would be to simply choose the 5 largest sites by production value. If 5 sites are not chosen for each company in this or another automatic and predictable manner, there is likely to be problems with

mining companies presenting a skewed samples of their best mining sites. On the other side, if choosing companies based on publicized incidents, a skewed sample of a company's worst sites may result. We would argue that the most credibility would result with a selection process that does not allow any sort of problematic skewing of the sample for each company.

#### Assessment Process

In the draft methodology the proposed assessment process is clear and easy to understand for the most part. However, two concerns arise in our reading of it.

The first is that given there are 30 companies in the index, if we are reading the methodology correctly, it would appear that the resources required to do a full assessment of all 30 companies and 150 sites would be absolutely enormous. In-depth scans and analysis of public materials require significant staff time to be truly effective and credible. In addition, given many of the 30 largest global mining companies are Chinese or from other non-OECD member countries that have relatively underdeveloped cultures of public reporting, the time required to properly assess such companies seems quite prohibitive.

The second, is that without a process to directly engage with the stakeholders closest to the mine sites of each company, there is a significant risk that the 30 companies will end up being ranked based on their ability to engage with the RMI team and their communications abilities in general. While direct engagement with stakeholders would be very resource-intensive, without it we have a concern that companies who are able to "put on the best face" will do best in the ranking. This will also inherently disadvantage companies who do not operate in the language of the RMI assessment team.

As such, while the methodology is strong, our main comment is that the resources to carry it out should not be underestimated. If resources are available, and the direct engagement with site-level stakeholders could be assured, this certainly would be an very effective way to influence the mining industry. However, if not, there may be a need to adjust the approach, or limit the sample size for the index.

#### Comments on the Local Procurement Related Content and Indicators

The significant attention to potential positive impacts of mining is welcome in this draft methodology. Many initiatives to assess and / or rank company performance (across all sectors) have a bias towards the mitigation or prevention of negative impacts. As such, the heavy focus on potential benefits such as employment and procurement is a strong feature of the draft methodology.

The overview of pages 31 on procurement (Indicator A.2.1) is very well laid out and include the necessary components of the issue. In particular, the emphasis on the need for a multi-stakeholder

approach to increasing local procurement is vital to be included. The following suggestions are minor changes that would strengthen an already strong overview:

1. We recommend changing the wording from “The company has measures in place to ensure *equitable access* to procurement opportunities, at subnational, national and regional levels.” [italics ours] to an overall indicator description that instead focuses on if the company is making *proactive* efforts to procure from host community and country suppliers. The overall description of the indicator does a great job of laying out the case for the latter, but it must be stressed that equitable access alone will not allow low-capacity suppliers in developing countries to have a competitive ability to supply mining operations. It is a small change but one that would strengthen the case for local procurement and match the great overview provided below.
2. Page 32, 3<sup>rd</sup> line of indicator A.2.1 – change “supplies” to “goods” to match the terminology most often used by industry in our experience
3. In the same paragraph, the language should be changed from the idea of services being “imported” to services being carried out by international suppliers, as typically companies do not speak of “importing services”.
4. At the end of the indicator overview it would be worth adding more emphasis on the role of local and national procurement in strengthening a social licence to operate. While lowering procurement costs through local procurement is of course a major incentive for mining companies, social licence to operate should receive more emphasis in the current context of rising resource nationalism and conflict. Lack of local procurement is frequently cited as the underlying cause of community conflicts and significant concerns are being raised by governments (Zambia, Zimbabwe, South Africa, among others) regarding the lack of local procurement. As such, it would strengthen to overview to position social licence as being of similar weight to the goal of lowering procurement costs.

The only significant addition we would recommend for the procurement indicator is to stress the importance of measuring and reporting on local procurement. What is not measure cannot be managed properly, and the current indicator description omits attention to the need for companies to provide reliable data on what is their single largest economic impact in most cases. Of course if the Mining Local Procurement Reporting Mechanism (LPRM) is complete in time for the final methodology, it would be useful to include reference to it. For now though, adding language on the need to measure and report progress on local procurement would greatly strengthen this indicator.

The other major change we would suggest to the overall document in relation to procurement is to include procurement as one of the key site level indicators. Currently local employment (MS 2) is

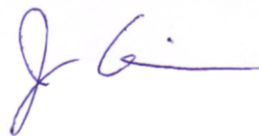
included, which makes sense given the highly visible nature of local jobs (or lack thereof) from a mining operation), but in terms of potential economic impact, procurement spending tends to dwarf revenue via employment. In most cases, a mine will spend more money on procurement than taxes, payments to workers, and community investment combined. As such, it seems appropriate to include procurement as one of the key site level indicators given it will usually be the single largest economic impact. It also benefits from being one of the simpler impacts to measure relative to the complexity of grievance measurement as an example.

The last change related to procurement throughout the rest of the document that we would recommend is to incorporate the concern over corruption in the process of in-country procurement, to the already strong section on responsible sourcing (B.9). There are significant risks of corruption during the procurement process that should be included in this section, related to behavior both by a mining company and by the host country suppliers. A mining company can engage in corrupt practices around using front companies to technically meet local content requirements without purchasing from truly local businesses. On the supplier side, local content regulations can be abused to direct procurement towards politically connected elites. A very thorough overview of these various risks is provided by the OECD's *Corruption in the Extractive Value Chain: Typology of Risks, Mitigation Measures and Incentives*, which MSV provided significant contributions to. This guide would provide the material necessary to create language to add the idea of corruption risks to the indicator on responsible sourcing.

### Conclusion and Further Engagement

We hope our comments are helpful and we look forward to seeing the final version of this methodology. If you have any questions regarding any of our ideas, please do not hesitate to reach out. Also, if you feel we can be of any assistance in crafting the final version, we are always eager to help.

Sincerely,



Jeff Geipel  
Venture Leader, Mining Shared Value  
Engineers Without Borders Canada