A practical guide to increasing mining local procurement in West Africa

February 2015
Acknowledgements

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See also www.worldbank.org/extractiveindustries.

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Foreword

Sub-Saharan Africa, and West Africa in particular, continues to be an important destination for mining foreign direct investment. About 60% of the world's discoveries of mineral resources in the past 10 years lie in non-OECD countries, and 25% of these in Sub-Saharan Africa. The West Africa region is already an important producer of gold, bauxite, and hosts a number of large iron ore projects. If this resource sector could be used to underpin broader economic development, these countries' prospects would be transformed.

Local content has emerged as one of the main tools to avoid enclave developments, create skills, and develop a domestic industry and diversification. As such, local content includes both skills and the hiring of local workforce, and the purchasing of locally produced goods and services. The use of specialised inputs, the technological complexity of the resource sector, restrictive business conditions, such as difficulties in accessing finance, lack of relevant skills, and timing and information asymmetry, typically constrain efficient supply from the domestic or regional markets. As a consequence, the skilled labor and a large share of the value of goods and services used in mining projects are often imported.

This 2015 version of the Practical Guide to Mining Local Procurement in West Africa addresses questions that are commonly asked by governments, companies, and citizens in the region. How do we define and measure local procurement? Do we create a specific policy or legislation to encourage mining companies to buy more locally? If so, what do these look like, and what has led to successful outcomes in other countries? Do we pick winner productive sectors? How do we best support suppliers to develop the right capacities and standards to meet mine requirements? What institutional framework and which actors need to be involved to deliver?

Rather than laying the main responsibility for increasing domestic sourcing on the mining sector, this Guide aims at promoting a multi-stakeholder approach, in which all actors have clear roles and responsibilities.

We hope that this Practical Guide will serve as a working document for governments, industry associations, citizens, and individual companies that wish to enhance the value created by the mining industry in the region. We welcome your thoughts and comments on how it has been used and the results it has contributed to. For more information, please see www.worldbank.org/extractiveindustries.

Paulo de Sa, Practice Manager, Energy and Extractives Global Practice, World Bank Group
February 2015
Acronyms

ABSM  Alliance des Fournisseurs Burkinabé de Biens et Services Miniers
AIA  Antofagasta Industry Association
AMDC  African Minerals Development Centre
ANFO  Ammonium Nitrate/Fuel Oil
ANP  National Agency of Petroleum Timor Leste
ANP  National Petroleum Authority Brazil
ANZ  Australia New Zealand
APDN  Apresiasi Produksi Dalam Negeri
BMP  Company Benefit Weight
CAO  Compliance Advisor/Ombudsman
CET  Common External Tariff
CORFO  Chilean Economic Development Agency
CPI  Centro de Promoción de Inversiones
CSI  Corporate Social Investment
CSO  Civil Society Observers
CSR  Corporate Social Responsibility
DGMG  Direction Générale des Mines et de la Géologie
ECOWAS  Economic Community of West African States
EILCD  Extractive Industries for Local Content Development
EITI  Extractives Industries Transparency Initiative
EPC  Engineering Procurement and Construction
ERP  Enterprise Resource Planning
FDI  Foreign Direct Investment
FIT  Feed In Tariff
GATS  General Agreement on Trade and Services
GATT  General Agreement on Tariffs and Trade
GDP  Gross Domestic Product
GEEDR  The World Bank's Energy and Extractives Global Practice
HDI  Human Development Index
HS  Harmonised System
HSE  Health Safety Environment
ICMM  International Council on Mining and Metals
IFC  International Finance Corporation
ITS  Inspection Technique des Services
JNNSM  Jawaharlal Nehru National Solar Mission
Kaiser EDP  Kaiser Economic Development Partners
KPI  Key Performance Indicator
LDC  Least Developed Country
LIP  Local Industry Policy
LIPP  Local Industry Participation Plan
M&E  Monitoring and Evaluation
MCI  Mining Contribution Index
MDA  Mine Development Agreement
MIGA  Multilateral Investment Guarantee Agency
MLME  Ministry of Lands, Mines, and Energy
MPRDA  Minerals and Petroleum Resources Development Act
NGO  Non-Governmental Organisation
NIC  National Investment Commission
ONIP  National Organisation of the Petroleum Industry
OTR  Off The Road
PPP  Private-Public Partnerships
PROMINP  Programme for the Mobilisation of the National Industry of Oil and Natural Gas
PVC  Polyvinyl Chloride
R&D  Research and Development
SAP  Type of ERP System
SATs  South African Technical Specification
SCADD  Strategy for Accelerated Growth and Sustainable Development
SCM-ALBI  Sherritt International Ambatovy Local Business Initiative
SEAT  Socio-Economic Assessment Toolkit
SICEP  Vendor Qualification System and Supplier Database
SME  Small and Medium Enterprises
SMS  Short Message Service
TXDN  Tingkat Komponen Dalam Negeri [Indonesian certified local content level]
TRIM  Trade Related Investment Measures
USGS  United States Geological Survey
VAT  Value Added Tax
WAEMU  West African Economic and Monetary Union
WALPI  West African Mining Local Procurement Implementation Project
WTO  World Trade Organisation
Context

Local procurement by the mining sector is increasingly being seen by policymakers around the world as a tool to secure **greater socio-economic benefits from mining activities**, in particular in terms of job creation and enterprise development. Mining companies are also increasingly viewing local procurement as a tool to support their **social licence to operate**. Specifically in West Africa, recent regional and national policy frameworks have also identified development of local procurement as a way to maximise the benefits from mining investment.

Many different approaches to increasing local procurement have been tried, with different levels of success. The context of countries across the world – and in West Africa – varies significantly, and different approaches may be appropriate to these contexts. Countries also need to take into account how they balance local procurement with other priorities such as investment promotion, government revenue, and ensuring alignment with international trade and investment obligations.

In the case of West Africa, a broad framework has been set by:

- **The AU Mining Vision and Action Plan** (adopted in 2009 by African leaders), in particular the pillar on local content, and the establishment of the African Minerals Development Centre (AMDC) in 2013 to support implementation of the Vision and its Action Plan
- **Regional organisations** (WAEMU and ECOWAS), both on local procurement itself as part of the harmonisation of mining legislations, and more widely on areas relevant to local procurement such as trade, customs, competition law, investment, enterprise development, sector policies, and infrastructure programmes

It is important that these frameworks **translate into effective country-level approaches**, policies, and successful implementation.

The World Bank aims to support strengthening of these frameworks, as well as the development of consistent approaches across the region. One of the mechanisms for this support is through the **World Bank West African Mining Local Procurement Implementation Project**.

What has informed the development of this guide?

In 2011, the World Bank supported extensive field research, analysis and consultation in the West African region around mining local procurement. In 2012 the World Bank published the report, *Increasing Local Procurement by the Mining Industry in West Africa*. The findings of this report were broadly endorsed through workshops in which there was strong participation by West African role players: twelve national governments, regional organisations, mining companies, Chambers of Mines, suppliers, and civil society.

In early 2013, the World Bank initiated an implementation support phase to this project: the **World Bank West African Mining local Procurement Implementation Project** (referred to as ‘WALPI’ throughout this guide) which included activities at both a national level, focused on Burkina Faso and Liberia, and at a regional level across West Africa. Key objectives of the WALPI project were to 1) support strengthening of the policy, regulatory and monitoring framework for encouraging and supporting local procurement; 2) identify and facilitate opportunities for local procurement; and 3) strengthen support for local procurement and supplier development. To achieve these outcomes, the project team (led by Kaiser Economic Development Partners) worked with West African governments, regional organisations, mining companies, the mining supply sector, donors, civil society and NGOs to understand the practicalities of implementing mining local support in various West African country contexts. Lessons from this process have informed this guide.

**Note:** This guide is based on information available at time of print. It may be updated in future based on additional information and insights from evolving mining local procurement practice.
About this guide

What is the purpose of this guide?
This document provides information, guidance and tools to support decision-making, planning and implementation of mining local procurement in West Africa, in particular at a country level. It can be used by individual role players as well as form the basis of consultative processes. The guide can also support regional harmonisation relating to mining local procurement.

Who should use this guide?
The guide will be most useful for key role players of mining local procurement in countries in West Africa that have mineral resources. These role players include government, mining companies, supplier organisations, support entities, donors, and civil society organisations.

Whilst it has been developed for mining in West Africa, some aspects may also be relevant to other extractive industries and to other geographies outside the region.

How is the guide structured?
This guide has been organised into eight modules that each address a set of related questions that have been consistently raised by role players.

<table>
<thead>
<tr>
<th>Questions raised by stakeholders</th>
<th>Relevant module</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Should we invest in supporting local procurement?</td>
<td>1. Selecting the best approach to local procurement</td>
</tr>
<tr>
<td>• If so, what is the best approach?</td>
<td></td>
</tr>
<tr>
<td>• How should we define local procurement given our socio-economic priorities and wider legislative context?</td>
<td>2. Defining local procurement and estimating the baseline</td>
</tr>
<tr>
<td>• What are our current levels of local procurement based on that definition?</td>
<td></td>
</tr>
<tr>
<td>• How do we identify the most attractive and realistic local procurement opportunities in the short, medium, and long-term?</td>
<td>3. Identifying opportunities</td>
</tr>
<tr>
<td>• How do we ensure full, fair, and reasonable access to opportunities?</td>
<td>4. Enabling local suppliers to compete</td>
</tr>
<tr>
<td>• What capacities do suppliers need to develop in order to compete?</td>
<td></td>
</tr>
<tr>
<td>• How can we support suppliers to develop those capacities and create a more competitive operating environment?</td>
<td></td>
</tr>
<tr>
<td>• Do we need local procurement policy, law, or regulation?</td>
<td>5. Public policy, law, and regulation</td>
</tr>
<tr>
<td>• If so, what should be in policy vs. law vs. regulation vs. guidelines or practice notes?</td>
<td></td>
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<tr>
<td>• If customs exemptions or regulation are currently being used as an incentive for mining FDI, how does this need to be aligned to support local procurement?</td>
<td></td>
</tr>
<tr>
<td>• Should our mining company have a local procurement plan and if so, what should be in it?</td>
<td>6. Mining company local procurement plans</td>
</tr>
<tr>
<td>• How do we integrate our local procurement plan into our overall company planning, operational systems, and reporting?</td>
<td></td>
</tr>
<tr>
<td>• How can we work across multiple organisations to deliver on the various aspects of our local procurement approach?</td>
<td>7. Coordinating implementation and building institutional capacity</td>
</tr>
<tr>
<td>• How do we ensure our organisations have the capacity to implement the approach effectively?</td>
<td></td>
</tr>
<tr>
<td>• How can we track changes to local procurement levels in the most practical way?</td>
<td>8. Measuring, monitoring and evaluating</td>
</tr>
<tr>
<td>• How should we adapt our approach based on our experiences with implementation, and our changing environment?</td>
<td></td>
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</tbody>
</table>
How to use this guide

The modules are designed in a way to encourage active participation by you as the user: each module will guide you through making strategic decisions after considering international experience and gathering data to answer key information questions.

The modules can be completed by individual organisations or collaboratively by role player groupings (e.g. Chambers of Mines) or through multi-stakeholder processes (e.g. national multi-stakeholder mining forums).

Each module is structured into four sections, as shown below.

Section 1 of each module shows the strategic questions that you need to answer in order to make the critical decisions for each module. Section 2 then presents examples from around the world, with particular emphasis on how countries have approached the strategic issues set out in Section 1. Section 3 sets out the information requirements in order to make informed decisions. Illustrative examples from the WALPI project (from either Liberia or Burkina Faso) are also provided here to guide you in answering each information question. Finally, Section 4 returns to the strategic questions, presenting the key considerations for each, allowing you to complete the process, and answer the strategic questions.

Is there a particular order for completing the modules?

Users do not need to complete all of the modules, but it does make sense to complete some modules before others, or at least review their content. In particular, it makes sense for Modules 1 and 2 to be completed or reviewed first before working on Modules 3 to 6. For example, it would be possible for a mining company to draft a Local Procurement Plan making use of Module 6 without having completed the previous modules, but this process would be greatly enhanced by first considering the overall approach (Module 1) and the key definitions (Module 2). Users can choose to complete Modules 3 to 6 in the order that fits best with the key decisions made in Modules 1 and 2. Modules 7 and 8 are best completed later on in the process as they are somewhat dependent on decisions made in previous modules.

Following implementation of the modules, iteration may be needed to reflect changed conditions and lessons learned.
Appendices of the guide: supporting documents and tools

Wherever you see this symbol, there is additional information, a template, or a tool available for download on http://www.worldbank.org/en/topic/extractiveindustries/brief/local-content-in-oil-gas-and-mining.

There are three supporting documents that cut across all modules of the guide:

1. **The Workbook** — this is the main tool to capture your answers to the information questions and strategic questions across all the modules.
   - Designed for use by strategic planners and managers from all stakeholder groups, as well as supporting researchers and process facilitators

2. **International experience by country** — this consolidates all the international experience presented in each of the modules, presenting the information by country.

3. **Original report**: *Increasing Local Procurement by the Mining Industry in West Africa.*

The following supporting documents relate to individual modules (references to each document in the modules themselves):

4. Excel template to capture and analyse current supply patterns [Module 2] — Designed for use by people familiar with supply chain information and spreadsheets

5. Initial assessment of current supply patterns to the mining sector in Liberia and Burkina Faso [Module 2]

6. Excel template for analysis of mining company demand by categories [Module 3] — Designed for use by people familiar with market/finance information and spreadsheets

7. Initial assessment of mining sector demand for Liberia and Burkina Faso [Module 3]

8. Opportunity brainstorming workshop - example agenda and brainstorming tool [Module 3]


11. Local procurement plan template [Module 6] — Designed for use by mining company procurement and strategic planning managers
Should we invest in supporting local procurement? If so, what is the best approach?

Before deciding on particular tools, programmes or legal instruments, it is important for stakeholders to work together to set the overall priorities, direction and nature of the approach. This can also help to build common expectations relating to the scale and timings to achieve benefits.
Module 1
Determining the best approach to local procurement

1. Key strategic questions to consider

In order to determine the best approach for you/your country, various strategic decisions need to be made. These decisions typically fall into three categories – scope, degree of formality, and resource intensity, as shown below.

<table>
<thead>
<tr>
<th>Do nothing/Focus on only a few aspects</th>
<th>1. Scope</th>
<th>Integrated programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Does it make sense to focus on increasing local procurement?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. What should be the priorities given the underlying socio-economic objectives?</td>
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<tr>
<td>3. Should local procurement activities focus just on the mining sector or wider markets? If so, which markets?</td>
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<tr>
<td>4. What is the nature of the opportunity? Should specific products/services or sectors be targeted?</td>
<td></td>
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<tr>
<td>5. What should be the focus of local procurement support efforts and initiatives given the constraints to realising these opportunities?</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Self-managed/Voluntary</th>
<th>2. Formality</th>
<th>Legislated/Regulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. What are the best mechanisms to deliver increased local procurement?</td>
<td></td>
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<tr>
<td>7. How collaborative or prescriptive should the approach be?</td>
<td></td>
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</tr>
<tr>
<td>8. What should be the broad use of legislation/regulation?</td>
<td></td>
<td></td>
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<tr>
<td>9. Who should lead the process?</td>
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<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Limited resources use</th>
<th>3. Resource intensity</th>
<th>High resource commitment</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. How much effort should and can be placed on increasing local procurement?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. What are the expected time horizons for creating a benefit? How might the approach be phased?</td>
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<td></td>
</tr>
<tr>
<td>12. Who should fund the process?</td>
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</tbody>
</table>

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).
2. Learning from international experience

1. TRINIDAD & TOBAGO
   Oil & Gas
   - Focus on oil & gas local content since 2004 (officially launched 2006)
   - No programme for mining despite active mining industry
   - Oil & gas contractors must estimate local content component of petroleum operations in Production Sharing Contracts
   - Permanent Local Content Committee with private sector representation
   - Local Content Chamber funded by oil companies

2. BRAZIL
   Oil & Gas
   - Focus on local content in oil & gas since 1999 with a highly regulated approach; some discussion of developing a similar approach in mining
   - Local procurement measurement focuses on goods and services produced or sourced in Brazil
   - Various institutions involved with significant resources
     - National Agency of Petroleum (ANP) implementation, including setting of minimum percentage requirements reporting templates, monitoring and evaluation of the local content policy; also accredits private certification companies (team of 18 on local content)
     - 21 companies accredited to certify local content of suppliers
     - National Organization of the Petroleum Industry (ONP); audits local content, issues local certificates to suppliers, maintains a database of certified suppliers
     - Programme for the Mobilisation of the National Industry of Oil and Natural Gas (PROMINP); multi-stakeholder forum around industry development

3. CHILE
   Mining
   - Focus on local content since 1999/2000
   - Pilot projects to certify skills in 15 industries
   - No formal programme, and no regulation around local procurement
   - Current emphasis on local mining procurement is around information sharing, supplier registration and certification, quality improvement and the development of world-class suppliers that can become exporters and strategic partners for mines
   - Strong role of mines, industry associations and donors

4. SIERRA LEONE
   All sectors
   - 2012 Local Content Policy sets out cross-sectoral approach, including mining and oil & gas
   - Focus on creating linkages between domestic and international firms, promoting use of domestic goods, employment of locals, and capacity and institution building
   - Local Content Committee will be charged with the monitoring of programme implementation and information gathering

5. GHANA
   Mining
   - Strong focus on mining local procurement since 2009
   - Collaborative approach between Minerals Commission and Chamber of Mines with support from the IFC
   - Identified initial set of 27 manufacturing opportunities for local supply
   - Specific local procurement regulation in 2012, including requirement for submission of Local Procurement Plans
   - Supplier development programme which focuses on SMEs
   - Limited implementation and oversight resources

6. NIGERIA
   Oil & Gas
   - Focus on local content in the oil & gas sector since 2010’s Local Content Development Act
   - Master Procurement Plans required to be submitted on an annual basis
   - 1% of every awarded contract goes to the Nigerian Content Development Fund to support training and business support services for Nigerians
   - List of 23 categories of work that must be executed in Nigeria; oil & gas sector targets were 45% by 2006 and 70% by 2010
   - Nigerian Content Development and Monitoring Board established in 2010
   - Various supplier development programmes that provide funding and other types of support
   - Evaluations have considered implementation weak and targets unrealistic

7. ANGOLA
   Oil & Gas & Mining
   - Focus on local content since 1982
   - Local content legal framework is across nine different pieces of legislation
   - Sonangol, a state entity, is responsible for local content oversight and supplier development
   - Oil companies are required to have capacity building programmes to encourage supplier development
   - Concerns have been raised that the approach has not resulted in widespread benefits

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<table>
<thead>
<tr>
<th>Country</th>
<th>1. TRINIDAD &amp; TOBAGO</th>
<th>2. BRAZIL</th>
<th>3. CHILE</th>
<th>4. SIERRA LEONE</th>
<th>5. GHANA</th>
<th>6. NIGERIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total GDP (2013)</td>
<td>$24.64 billion</td>
<td>$2.246 trillion</td>
<td>$277.2 billion</td>
<td>$4.136 billion</td>
<td>$48.14 billion</td>
<td>$521.8 billion</td>
</tr>
<tr>
<td>Mining Contribution Index Score (0-100)</td>
<td>52.4</td>
<td>79.6</td>
<td>92.1</td>
<td>51.3</td>
<td>84.9</td>
<td>28.6</td>
</tr>
</tbody>
</table>

Table Sources:
GDP: Current US$-World Bank
Mining Contribution Index (MCI) produced by the International Council on Mining and Metals (ICMM) score ranges from 0-100. Based on export contribution, export growth, and mineral production value as a % of GDP in 2010 (metallic minerals only).
Countries with mineral and oil and gas resources have taken a wide variety of approaches to the scope, degree of formality and resource intensity of their local procurement programmes. The map below provides some examples for both mining and oil & gas local procurement efforts.

For further detail, please refer to Appendix 2.
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

### Example answers from WALPI pilot country: Burkina Faso

#### 1. WHAT IS THE NATURE OF THE UNDERLYING MINERAL RESOURCE?

<table>
<thead>
<tr>
<th>Mineral Resource</th>
<th>Information Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gold</strong></td>
<td>Seven industrial mines in production as at 2014 – head grade between 11.1 and 3.5g/tonne</td>
</tr>
<tr>
<td></td>
<td>Most mines opened between 2008 and 2011</td>
</tr>
<tr>
<td></td>
<td>Production of more than 30 tonnes in 2012 and 2013, tripled since 2009</td>
</tr>
<tr>
<td></td>
<td>Six advanced projects expected to start production in 2015-2018, with ~500 tonnes of reserves</td>
</tr>
<tr>
<td></td>
<td>Mine lives generally 6-10 years, stretching to 15 for in some cases depending on resource and gold price</td>
</tr>
<tr>
<td></td>
<td>Several other companies at varying stages of exploration</td>
</tr>
</tbody>
</table>

**Possible information sources:** National geological statistics and cadastral information, exploration and mining company annual reports and feasibility studies, mining experts

- **Gold:**
  - Seven industrial mines in production as at 2014 – head grade between 11.1 and 3.5g/tonne
  - Most mines opened between 2008 and 2011
  - Production of more than 30 tonnes in 2012 and 2013, tripled since 2009
  - Six advanced projects expected to start production in 2015-2018, with ~500 tonnes of reserves
  - Mine lives generally 6-10 years, stretching to 15 for in some cases depending on resource and gold price
  - Several other companies at varying stages of exploration

- **Manganese:**
  - One operating mine (Kiere) producing ~50k tonnes of manganese in 2011 estimated to have 600,000 tonnes of manganese ore reserve
  - Very large deposit at Tambao (reserves of 100 million tonnes) expected to start production in 2017 with 5 million tonnes per year

- **Zinc:**
  - Perkoa mine (~875k tonnes of zinc reserves) starting in 2013 (produced ~45k) with 6 years expected life based on reserves

- **Other minerals:**
  - Diamond, copper, lead, bauxite, nickel, iron, phosphate, limestone

*For summary of estimated mine lives, see chart on the next page.*

#### 2. WHAT IS THE CAPACITY OF LOCAL BUSINESSES?

<table>
<thead>
<tr>
<th>Industry</th>
<th>Information Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing</strong></td>
<td>7.5% of GDP; economy dominated by agriculture, forestry, and livestock farming with low value-add</td>
</tr>
<tr>
<td><strong>Private sector</strong></td>
<td>Dominated by the informal sector; most businesses are very small or medium sized, and operate in retail or construction</td>
</tr>
</tbody>
</table>

**Possible information sources:** National statistics reports, business registry, Ease of Doing Business and private sector development reports, chambers of commerce/supplier development associations, business support and entities responsible for building market linkages

- **Manufacturing only:** 7.5% of GDP; economy dominated by agriculture, forestry, and livestock farming with low value-add
- **Private sector dominated by the informal sector:** most businesses are very small or medium sized, and operate in retail or construction
- **167th on World Bank’s Doing Business (2015)**

#### 3. ARE THERE OTHER SIGNIFICANT MARKETS FOR SUPPLIERS?

<table>
<thead>
<tr>
<th>Industry</th>
<th>Information Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Oil and gas</strong></td>
<td>Developing infrastructure to integrate roads, energy and information and communication technologies through PPPs (Public-Private Partnerships)</td>
</tr>
<tr>
<td><strong>Construction and infrastructure</strong></td>
<td>Population of ~16.5 million with ~27% urban up from 19% just 10 years ago, driving demand for sectors such as consumer goods, residential construction, etc. 3.1% annual population growth, one of the fastest in Africa</td>
</tr>
<tr>
<td><strong>Other large-scale extractive industries such as forestry</strong></td>
<td><strong>Public sector e.g. health, education, military</strong></td>
</tr>
</tbody>
</table>

**Possible information sources:** National statistics reports, reports by concessionaires/state entities

- **Oil and gas:** Developing infrastructure to integrate roads, energy and information and communication technologies through PPPs (Public-Private Partnerships)
- **Population of ~16.5 million with ~27% urban up from 19% just 10 years ago, driving demand for sectors such as consumer goods, residential construction, etc. 3.1% annual population growth, one of the fastest in Africa**

#### 4. WHAT ARE THE HIGH PRIORITY SOCIO-ECONOMIC OBJECTIVES THAT LOCAL PROCUREMENT COULD CONTRIBUTE TOWARDS?

<table>
<thead>
<tr>
<th>Objective</th>
<th>Information Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main government objective in SCADD is “strong and sustained economic growth”</strong></td>
<td>Intermediate goals: eradication of poverty and improving quality of life of populations (poverty rate of 43.9% in latest survey on living conditions in 2009; 181st on the Human Development Index (HDI) in 2014); economic diversification and productivity gains in the private sector; promotion of gender equality and empowerment of women; environmental sustainability</td>
</tr>
</tbody>
</table>

**Possible information sources:** National policy documents and vision statements, overall and for relevant line ministries

- **Main government objective in SCADD is “strong and sustained economic growth”**
- **Intermediate goals:** eradication of poverty and improving quality of life of populations (poverty rate of 43.9% in latest survey on living conditions in 2009; 181st on the Human Development Index (HDI) in 2014); economic diversification and productivity gains in the private sector; promotion of gender equality and empowerment of women; environmental sustainability
5. WHAT IS THE EXTENT OF SHARED VISION BETWEEN STAKEHOLDERS?

Possible information sources: Outputs/minutes of existing multi-stakeholder forums, existence of any signed agreements/charters/MOUs, press coverage/public debates

- Broad consensus on objectives / merits of local procurement, but yet to have a clear commonly agreed vision of the means/process

6. WHAT ARE THE MAIN CONSTRAINTS TO INCREASING LOCAL PROCUREMENT?

Including:
- Access to opportunities, including information flows and transparency or accessibility of procurement processes
- Local capacity/ capability: Scale/quantity, quality, suitability for concessionaires’ requirements, cost competitiveness, reliability
- Ineffectiveness of existing reporting, monitoring and evaluation

Possible information sources: Input from mines and suppliers/associations, studies, Ease of Doing Business reports

- Insufficient access
- Inadequate local supply capacities
- Lack of effective regulations
- Lack of entrepreneurial culture and capital accumulation

7. WHAT LEGISLATION, REGULATION, AND INTERNATIONAL OBLIGATIONS WILL THE LOCAL PROCUREMENT APPROACH NEED TO ALIGN WITH?

Including:
- Mining
- Investment
- Trade and customs
- Business registration and operation
- Citizenship

Possible information sources: Central government websites or contact points, registries of legislation and regulation

- Member of nearly all West African institutions, including WAEMU and ECOWAS
- Member of WTO since 1995

See fact boxes in Module 5 on AU, WAEMU, and WTO for further information on regional and international obligations and their implications for local procurement.

8. WHAT IS THE CURRENT INSTITUTIONAL CAPACITY, AND WHAT OTHER RESOURCES COULD BE SECURED?

Including:
- Mining regulator
- Extractive industries transparency initiative agencies (ETI)
- Chamber of Mines
- Supplier organisations
- Business development support entities
- Donors

Possible information sources: Existing reports on institutional capacity, international indices, surveys, interviews

- Low capacity in the governmental structure in charge of monitoring and controlling the activities of the different institutions, projects, and programmes related to mining
- Many existing structures outside the Mines Department to track, manage and report on relevant aspects such as jobs, etc. with varying levels of capacity
- Recent focus of multiple donors (Canada, France, …) on local procurement should make securing additional resources possible

---

### SUMMARY OF BURKINA FASO HISTORICAL AND FORECAST MINING ACTIVITY

<table>
<thead>
<tr>
<th>Year</th>
<th>Gold</th>
<th>Manganese</th>
<th>Zinc/Silver</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>Taparko/Bouroum (NordGold) 10 years to 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Youngo (Endeavour) 8 years to 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Mana (SEMAFO) 15 years to 2023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>Kalsaka (Amara) 7 years to 2015</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Inata (Avocet) 7 years to 2017</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>Essakene (IAMGOLD) 14 years to 2024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Perkoa (Blackthorn/Glencore Xstrata) 10 years to 2023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Bissa (NordGold) 10 years to 2023</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**KEY**
- Gold - mine in production
- Gold - advanced project
- Manganese - mine in production
- Manganese - project
- Zinc/Silver - mine in production

---

Q1/Q2 2016: Karma (TrueGold) 9 years to 2025
Q1 2016: Banfora (Gryphon Minerals) 9 years to 2025
2016: Taramoko (Roxgold) 7 years to 2023
Q4 2015: Bomboe (Orange) min 8 years to 2024
Q4 2015: Ouaoula (Endeavour) 8 years to 2024
2017/2018: Koné (Ampella Mining) min 9 years to 2026/27
2018: Tamba (Pan African Minerals) minimum 20 years to 2047

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A practical guide to increasing mining local procurement in West Africa | 13
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered. To complete this electronically, please download the Workbook.

**1. DOES IT MAKE SENSE TO FOCUS ON INCREASING LOCAL PROCUREMENT?**

**Considerations, including experience from the WALPI project**

- **Nature, scale and diversity** of the mineral resource:
  - High quality and large volume of mineral resources across a number of mineral groups typically lay a better foundation for sustainable local procurement.
  - Mine lives/activity of more than 10 to 15 years may be required to achieve significant benefits from local procurement, in particular where suppliers do not currently meet mines' requirements (based on a 3 to 5 year lead time on supplier development).
  - Local procurement is likely to be more limited during the exploration and construction phases due to the nature of the expenditure and the relatively short term timings of these phases.

- **Wider markets**:
  - The existence of other major markets increases the viability and sustainability for mine suppliers and can help build a diverse client base.

- **Local business capacity**:
  - The less developed the local business and supplier community, the smaller the short-term opportunity to supply mines will be.

- **Country stability**:
  - For fragile states, the potential to deliver on local procurement initiatives may be constrained by the following factors: government capacity and more pressing priorities, risks for mining projects becoming operational, and suppliers' willingness to make long term investments.

**2. WHAT SHOULD BE THE PRIORITIES GIVEN THE UNDERLYING SOCIO-ECONOMIC OBJECTIVES?**

**Considerations, including experience from the WALPI project**

Local procurement has the potential to contribute to objectives such as enterprise development, improved competitiveness, technology and quality upgrading, citizen empowerment, and local economic development. However, there may be trade-offs between these objectives which will need to be reflected in the approach.

- E.g. a focus on SMEs may exclude important larger contributors to the economy in terms of job creation; a focus on manufacturing may inadvertently exclude important service opportunities; a focus on locally owned businesses may de-prioritise local value addition.

**3. SHOULD LOCAL PROCUREMENT ACTIVITIES FOCUS JUST ON THE MINING SECTOR OR WIDER MARKETS? IF SO, WHICH MARKETS?**

**Considerations, including experience from the WALPI project**

In cases where wider markets exist, it may also be appropriate to have a wider local procurement approach that extends beyond mining to improve the sustainability and growth prospects for suppliers. This wider approach may be particularly relevant for market linkages and supplier database development. This will depend on the extent to which they have similar requirements and types of suppliers.

Another consideration is institutional capacity and arrangements – would it be more practical to have a single line ministry lead the initiative, or is there capacity and policy levers in an institution with wider reach (e.g. investment or commerce/enterprise development, national development agency)?

**4. WHAT IS THE NATURE OF THE OPPORTUNITY? SHOULD SPECIFIC PRODUCTS/SERVICES OR SECTORS BE TARGETED?**

**Considerations, including experience from the WALPI project**

Where both institutional capacity and local supplier capacity are limited, it may be more appropriate to prioritise supply sectors with higher potential, rather than trying to develop local procurement across the board.

**5. WHAT SHOULD BE THE FOCUS OF LOCAL PROCUREMENT SUPPORT EFFORTS AND INITIATIVES GIVEN THE CONSTRAINTS TO REALISING THESE OPPORTUNITIES?**

**Considerations, including experience from the WALPI project**

Given resource limitations, it may be necessary to prioritise addressing some constraints before others. The choice of which constraints or support gaps to prioritise may also be affected by which areas the core leadership and institutions have the greatest influence.
6. WHAT ARE THE BEST OVERALL MECHANISMS TO DELIVER INCREASED LOCAL PROCUREMENT?

Considerations, including experience from the WALPI project

Different mechanisms to develop the approach may be appropriate for different countries.

The approach will depend on issues such as:
- Extent and reliability of publicly available information
- Resources available to develop the approach
- Willingness of stakeholders to share non-public information
- Willingness and capacity of various stakeholders to participate in a consultative approach

Processes with different final outputs will also call for different mechanisms:
- Policy, legislation, and regulation: will require formal development and consultation processes
- Social compact, charter, or Memoranda of Understanding: in the case of a multi-stakeholder agreement, greater emphasis is placed on consensus-building or negotiation and joint ownership, with each party becoming a signatory to the agreement
- Code of practice, guideline or action plan: mechanisms could be less formal and non-binding, or individual parties could adopt or endorse the guidelines, also suitable for a privately-led initiative or interim measure to test out an approach
- Programmes or projects in priority areas: in existing laws, make use of institutional mandates or stakeholder agreements

Where there is strong social capital and some level of shared buy-in across key stakeholders to a common vision, a more collaborative approach is likely to be both workable and beneficial. Where this is absent, it may be more necessary to have one strong lead agency and a more prescriptive approach, whilst still consulting with stakeholders to try to address their needs within the approach.

Depending on the approach, different tools, projects and programmes may be appropriate.

7. HOW COLLABORATIVE OR PRESCRIPTIVE SHOULD THE APPROACH BE?

Considerations, including experience from the WALPI project

A more consultative approach typically increases the likelihood that role players will support implementation. However, as mentioned above, where there is a lack of shared vision, the nature of these consultations may be different, focusing on trying to make the approach more workable and effective, and increasing understanding of what it will mean e.g. in terms of compliance.

It can be challenging to get key decision-makers to allocate time to participate in processes, and then sustaining consultations. It is also challenging to find the balance between inclusivity and speed/efficiency, as well as coordinating technical vs. political processes.

8. WHAT SHOULD BE THE BROAD USE OF LEGISLATION AND REGULATION?

Considerations, including experience from the WALPI project

Where there is strong buy-in across key stakeholders to a common vision, legislation may play less of a role, with a greater emphasis on multi-stakeholder agreements. Where this is absent, it is likely that legislation may be required to galvanise action.

Typically policy documents would set out a broad vision and responsibilities; in some cases mining policy documents may already set out principles around local procurement.

However, having a blanket statement as part of mining law or policy, which generally encourages preference for local procurement without specific mechanisms, definitions, and firm proposals, appears to have had little effect to date in the region.

Legislation and regulation at a minimum tends to capture reporting obligations. In some cases local procurement definitions are included in regulation; however, sometimes countries choose to capture definitions in practice or guidance notes if they are still evolving or being refined.

Arbitrary local procurement targets in legislation or regulation (often not clearly defined) have not demonstrated to be effective tools to increase local procurement levels.

Experience in West Africa has shown that timing local procurement approaches to coincide with reviews of the mining law or mining codes has been helpful in promoting active consultation on issues, and allowing for alignment where necessary.

9. WHO SHOULD LEAD THE PROCESS?

Considerations, including experience from the WALPI project

- Relevant line ministry based on mandates and legislation
- Availability and interest of a suitable champion
- Capacity to manage the approach
- A strong Chamber of Mines (with some sub-structure to focus on local procurement/content) has shown to greatly help facilitate the process
10. HOW MUCH EFFORT SHOULD AND CAN BE PLACED ON INCREASING LOCAL PROCUREMENT?

Considerations, including experience from the WALPI project

Required effort levels will be informed by the gap between the desired context and the current situation, in terms of issues such as market linkages and information dissemination, supplier capacity, enabling operating environment, monitoring & evaluation.

The appropriate level of effort to place on mining local procurement can be evaluated both against the potential benefit, and the relative cost-benefit of other socio-economic opportunities and programmes in the country.

Mining local procurement efforts, in particular supplier development and reporting, can take significant human and systems resources, and in many countries this will be beyond existing institutional capacity i.e. will require additional resources.

11. WHAT ARE THE EXPECTED TIME HORIZONS FOR CREATING A BENEFIT? HOW MIGHT THE APPROACH BE PHASED?

Considerations, including experience from the WALPI project

Typically, achieving significant results through local procurement requires a long time. Countries with mines already in operation, some supplier base, a supportive operating environment, and institutional capacity may be able to achieve impact in the shorter term; in other cases the impact may be more in the medium to long term, and an approach may need to be phased to take into account these challenges in the shorter-term; whilst supporting “low hanging fruit” at a smaller scale.

12. WHO CAN FUND THE PROCESS?

Considerations, including experience from the WALPI project

Funders typically include line ministries, Chambers of Mines, and international donors.

Different funding options may be available for the process of developing a local procurement approach vs. managing and implementing the approach. For example multi-donor funded programmes could be approached to support the initial gathering of information and consultations to develop the approach.
As the country with the most advanced efforts around mining local procurement in the West African region, Ghana is a particularly interesting case.

Ghana’s mining local procurement approach

In 2006, the Ghana Minerals and Mining Act was enacted, stating that mining companies should give procurement preference for materials and products made in Ghana; service agencies located in the country and owned by citizens; and companies or partnerships registered under Ghanaian Company Code or Partnership Act. The Act also sets out requirements for employee localisation: hiring a minimum proportion of staff in various employment categories, with the Minerals Commission working with mining companies to identify staff positions that can be filled by Ghanaians, and local candidates who can be trained to replace foreign staff.

In 2008, the Minerals Commission of Ghana started to focus more on local procurement. The Commission drafted some proposed regulations for local procurement including specific targets. They placed an emphasis on promoting local manufacturing and preference for high Ghanaian participation. At this stage, the nature of this preference was not clearly specified.

The mining industry responded to this, through the Chamber of Mines, with proposals on what they felt was the most practical way to achieve increased local procurement, various consultations followed to try to refine the approach. They also initiated a collaborative process of identifying high opportunity products for local supply (see Module 3 for further detail on the approach followed).

In August 2011, the Minerals Commission, the Chamber of Mines, and the IFC signed a Memorandum of Understanding to collaborate around mining supplier assessment and development, including their respective financial commitments. The focus of this collaboration was around SME development.

In early 2012, an overall supplier capacity assessment was conducted, as well as individual supplier diagnostics to identify support needs.

Regulations in 2012 (effective 2013) required development of a ‘local procurement list’ of products of Ghanaian content, and submission of individual local procurement plans by the mines. The Chamber of Mines submitted a collective local procurement plan on behalf of members in 2013. Consultations are ongoing regarding the next phase, the initiation of a supplier development programme. Both the Minerals Commission and the Chamber of Mines have needed to increase their resources to improve local procurement.

Since then, local procurement efforts are being extended to oil & gas, but with separate regulation and institutions.

Lessons learned:

- Need for clarity on the nature of preference and a definition of “local”
- Benefits of institutional capacity and effective consultations between role players – notably the regulator and the mining industry; however, challenges exist in the lack of representative organisation of suppliers and in capacity to review submissions timeously
- Challenges of changing economic conditions (e.g. decreasing gold prices) affecting willingness/capacity of mines to contribute, and changing the nature of demand
- Long timelines in assessing and developing suppliers, both in terms of rolling out support programmes and the supplier development itself
- SME focus vs. all sizes of local suppliers – tension of focusing on SMEs vs. required economies of scale to competitively manufacture some products for mines, as well as having a large-scale impact on production capacity in a country; also need to ensure that anti-competitive practices do not emerge – encouraging development of multiple suppliers is needed, which may require investment facilitation
How should we define local procurement given our socio-economic priorities and wider legislative context?

What are our current levels of local procurement based on that definition?

Stakeholders often disagree about the level of local procurement that is taking place. One key reason can be that there is no common understanding of what is meant by “local procurement”. An agreed definition lays the foundation for a shared approach to implementation.
Module 2
Defining local procurement and estimating the baseline

1. Key strategic questions to consider

In order to provide clarity on what is meant by local procurement, it is likely that both an overall definition and sub-definitions will be needed. A range of decisions will need to be made about both content and process. The key strategic questions that need to be answered are set out in the diagram below:

**Content**
1. Which socio-economic elements should be emphasised in the local procurement definition?
2. What is the best wording for the overall definition and sub-definitions so that they are measurable e.g. through use of criteria, thresholds or formulas?

**Overall definition of local procurement**

**Sub-definition e.g:**
- Local supplier: ...
- Locally owned business: ...
- Local value-add is defined as ...
- A supplier in a mine affected community is ...
- “Full fair and reasonable access” is ...

**Process**
3. Will existing, amended or new definitions be used? If new definitions, in which document will they be captured?
4. What process should be followed to agree these definitions? Who needs to be involved?

One particular approach – defining local suppliers based on three core elements

Kaiser Economic Development Partners has developed an approach to defining local suppliers as a result of a number of strategy and implementation projects conducted in Africa for the World Bank, involving extensive consultations with governments and mines across the continent. This approach is based on the principle that there are three distinct aspects that make up the concept of 'local':

1. **Geographical location**
   - Mine vicinity
   - National
   - Wider region

2. **Citizen participation**
   - Ownership
   - Management
   - Employment

3. **Local content**
   - Inputs
   - Value add
   - Substantial transformation

Each of these critical elements relate to important (and different) areas of benefit to local economies: genuine involvement of local citizens (including in partnerships with international companies), job creation through value addition, and emphasis on the most appropriate geographical focus. See Appendix 2 for further details on how this definition can be applied.

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
- Module 1: Approach
- Setting the principles for the definition
- Module 5: Policy, legislation, and regulation
- Formalising the definition
- Module 8: Measuring, monitoring, and evaluation
- Playing the definition out into measuring and reporting
2. Learning from international experience

Definitions

There is no one, standardised definition of local procurement. However, many countries officially define "local" based on the components of location, participation, and local content or value addition:

1. Geographical location: A requirement that the registration, incorporation, or activities of a business take place at the regional, national, state, or "local" level (community affected by the mine).

2. Participation: A requirement that a business be majority-owned by citizens of the country (unless otherwise noted), or that a percentage of the management and/or employees are citizens of the country.

3. Local content and/or value addition: A requirement that goods, works, and services be created or provided for locally, that locally-made parts and/or labour are used, or that value is added to the product or service in-country.

<table>
<thead>
<tr>
<th>Country</th>
<th>Geographical Location</th>
<th>Participation</th>
<th>Local content/Value Addition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Regional, national, state-</td>
<td>Ownership</td>
<td>Value addition</td>
</tr>
<tr>
<td></td>
<td>level</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>National</td>
<td>Ownership</td>
<td>Local content of goods and services</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>National</td>
<td>Employment, Ownership (resident)</td>
<td>Local content of goods and services</td>
</tr>
<tr>
<td>Brazil</td>
<td>National</td>
<td>Ownership</td>
<td>Local content of goods</td>
</tr>
<tr>
<td>Ghana</td>
<td>National, &quot;local-local&quot;</td>
<td>Ownership</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>Ownership</td>
<td>Local content, local value addition or creation</td>
<td></td>
</tr>
<tr>
<td>Trinidad and Tobago</td>
<td>Ownership</td>
<td>Local content of goods, services, financing Local value addition</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>National</td>
<td>Ownership</td>
<td>Local content of goods and services</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>National</td>
<td>Ownership, management</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>Ownership, employment</td>
<td>Local content of goods and services</td>
<td></td>
</tr>
<tr>
<td>Angola</td>
<td>Ownership</td>
<td>Local content of goods and services</td>
<td></td>
</tr>
<tr>
<td>Timor-Leste</td>
<td>Ownership</td>
<td>Local content of goods and services</td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>National (implied)</td>
<td>Ownership (implied)</td>
<td>Local content of goods and services</td>
</tr>
<tr>
<td>Madagascar</td>
<td>Ownership</td>
<td>Ownership</td>
<td>Local content of goods and services</td>
</tr>
</tbody>
</table>

Angola, Brazil, and Nigeria are discussed as examples of how these three components are expressed within various definitions of local procurement. Chile and Australia are described as examples where additional components over and above these three are also incorporated.

4. BRAZIL

**Emphasis on participation**

Local content of Goods is applicable to Oil & Gas (CLb) for equipment and materials and is calculated with a formula:

\[ CLb = \frac{(1 - \frac{X}{Y}) \times 100}{1 + \text{taxes and duties}} \]

Where:
- \( X \) is the price of imported components in R$.
- \( Y \) is the final sales price of good excluding IPI and ICMS.

- Based on objectives of development of local suppliers and technology, mass creation of jobs and increased GDP.
- Formula and certification process is specified in Resolution ANP no 36/2007; further details of how to calculate are provided in a PROMINEP local content manual/primer.
- Previously Article 171 of the Constitution differentiated between national ownership and registration, but this was revoked in 1995 and now any company incorporated in Brazil is considered local.

6. NIGERIA

**Emphasis on participation and value addition**

Local procurement (oil & gas): the quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilisation of human, material resources and services in the Nigerian oil and gas industry.

Nigerian company: a company registered under the Companies and Allied Matters Act and having not less than 51% Nigerian shareholding.

- Local Content definition housed in the Nigerian Oil and Gas Industry Local Content Development Act of 2010.
- The Act does not define who is considered a "Nigerian".
- Based on Brazil’s Local Content regulation with the addition of Nigerian participation.

13. CHILE

**Mining company driven, based on location and competitiveness**

World-class suppliers: those that sell more than 30% of their product internationally, have standards equal to the industry leader and add a high level of value to their customers.

- Defined in World Class Supplier Development Programme (multi-stakeholder programme initiated by BHP Billiton and coordinated by Fundación Chile, now with participation from various mines).
1. AUSTRALIA
National and state-specific with comprehensive definitions

Captured in the "Local Industry Policy — A fair go for local industry, Interim Update 2013 (LIP)" 52, pp. 5-6; part of the Queensland Industry Participation Policy Act 2011.

Contestable goods and services are the goods and/or services included in, or may potentially be included in, contracts for an eligible project that can be potentially supplied from any of the following locations:
- Geographically close to the project;
- Queensland;
- Other locations within Australia or New Zealand; or
- Outside Australia and New Zealand (ANZ).

It excludes goods and/or services which are, in normal circumstances, highly likely to be supplied from sources geographically close to the project, or goods and/or services that are, in normal circumstances, highly likely to be supplied from locations outside ANZ because they are not currently manufactured or provided by ANZ suppliers.

Full, fair and reasonable opportunity is the provision of equitable opportunity for capable local industry to participate in the procurement activity by ensuring:
- Local industry has the same opportunity afforded to supply chain participants from elsewhere to participate in all aspects of a project, including front-end engineering and design, and project management;
- Expression of interest/tender documents should encourage local industry to collaborate in circumstances where the project delivery requirements are outside the capacity and capability of a single local business but could be delivered competitively by a number of capable local businesses through collaboration (including consortia);
- Tender documentation is free from technical requirements that might rule out local industry and is structured in such a way as to provide local industry the opportunity to participate in projects;
- For example, wherever it is practicable to do so, use ANZ standards and codes to ensure that local industry is not excluded from the market (if ANZ standards and codes are not able to be specified, and an equivalent to these standards and codes is used, then the reasons for adopting this approach must be explained in the Local Industry Participation Plan (LIPP));
- As part of value for money, that due consideration in the tender evaluation is given not only to price but also to environmental sustainability, quality and delivery, whole-of-life costs and/or administrative and risk mitigation advantages and the advancement of the priorities of Government arising from local sourcing.

Local industries is defined as Australian or New Zealand small and medium enterprises (SMEs).

Small to medium enterprise (SME) is defined as an Australian or New Zealand firm with fewer than 200 full time equivalent employees.

Local content includes all value-added activities undertaken by local industry.

Value added refers to the substantial transformation of goods and a minimum of 50 per cent of production costs incurred in Queensland, Australia and/or New Zealand. Project proponents should note the principles of Part V of the Australian Made, Australian Grown Logo Code of Practice May 2007.*

11. ANGOLA
Emphasis on participation

As per order 127/03 of 2003, national, private, or state companies enjoy preferential rights over foreign companies for sourcing of goods and services. As per the law, exclusivity to Angolan businesses is given for the sourcing of goods and services that require limited capital and non-specialised know-how. Activities requiring reasonable level of capital and limited level of specialised capabilities fall under semi-compliance preferential treatment and require joint ventures between domestic and international companies. Other activities are open for competition.

- Local content definitions housed in various pieces of legislation
### 3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

#### Example answers from WALPI pilot country: Burkina Faso

<table>
<thead>
<tr>
<th>1. WHAT ARE THE LOCAL PROCUREMENT APPROACHES’ PRIORITIZED OBJECTIVES? (RANKED IF POSSIBLE)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• Job creation</td>
</tr>
<tr>
<td>• Citizen empowerment</td>
</tr>
<tr>
<td>• Enterprise or SME development</td>
</tr>
<tr>
<td>• Development of manufacturing capacity</td>
</tr>
<tr>
<td>• Development of services</td>
</tr>
<tr>
<td>• Competitiveness</td>
</tr>
<tr>
<td>• Technology upgrading</td>
</tr>
<tr>
<td>• Reducing inequality</td>
</tr>
<tr>
<td>• Sustainability</td>
</tr>
<tr>
<td><strong>Source:</strong> Module 1</td>
</tr>
</tbody>
</table>

| **Job creation** |
| **Reducing inequality** |
| **Enterprise development** |
| **Development of manufacturing** |
| **Development of services** |
| **Citizen empowerment** |
| **Sectoral competitiveness and upgrading** |

<table>
<thead>
<tr>
<th>2. WHAT ARE THE EXISTING NATIONAL AND REGIONAL LEGAL DEFINITIONS THAT NEED TO BE TAKEN INTO ACCOUNT? (INCLUDING THRESHOLDS)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• Nationally registered business</td>
</tr>
<tr>
<td>• Locally-owned business</td>
</tr>
<tr>
<td>• Citizen</td>
</tr>
<tr>
<td>• Resident</td>
</tr>
<tr>
<td>• Local value-add</td>
</tr>
<tr>
<td>• Locally originating product</td>
</tr>
<tr>
<td>• Management</td>
</tr>
<tr>
<td>• Employment</td>
</tr>
<tr>
<td>• “Affected community”</td>
</tr>
</tbody>
</table>

| **Current Mining Convention (Article 6):** |
| “services and raw materials of local origin as well as products manufactured in Burkina” |

| **Draft new mining Code:** |
| “Burkinabe companies” (no details on definition of Burkinabe provided) |

| **Sectoral mining policy calls for integrating mines into the socio-economic development of “local communities”. Some mines adopt “local-local” (affected communities) as their geographical definition of “local procurement”.” |

| **WAEMU and ECOWAS:** |
| See fact box on following page |

| **Note:** |
| Thresholds are the levels or boundaries beyond which a supplier is included in a certain category |

<table>
<thead>
<tr>
<th><strong>Possible information sources:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Module 1</td>
</tr>
<tr>
<td>• Laws and regulations</td>
</tr>
<tr>
<td>• Line ministries/entities responsible business licensing department, trade, economic empowerment, labour, immigration</td>
</tr>
<tr>
<td>• WAEMU and ECOWAS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. WHAT SYSTEMS ARE IN PLACE TO MEASURE POTENTIAL ASPECTS OF THE DEFINITION? WHERE IS INFORMATION AVAILABLE AND ACCESSIBLE?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• National statistics annual surveys</td>
</tr>
<tr>
<td>• Business registration and licensing</td>
</tr>
<tr>
<td>• Industry surveys</td>
</tr>
<tr>
<td>• Mines’ reporting to regulators</td>
</tr>
<tr>
<td>• Mines’ internal systems</td>
</tr>
<tr>
<td>• EITI reporting</td>
</tr>
<tr>
<td>• Customs, revenue &amp; tax reporting</td>
</tr>
<tr>
<td>• Employment and payroll reporting</td>
</tr>
<tr>
<td>• Reporting related to work permits</td>
</tr>
<tr>
<td>• Academic or public research</td>
</tr>
<tr>
<td>• Enterprise/supplier support entities’ records</td>
</tr>
</tbody>
</table>

| **Business registration and licensing:** |
| “place of registration, ownership” |

| **Publicly available information on some suppliers** |
| **No specifications for mines’ reporting to regulators: self-reporting, typically based on criteria of “local-local”** |

| **Current systems at mining companies do not capture aspects such as ownership, employees, etc. but some of that information is known to procurement personnel. Some mining companies are in the process of auditing their suppliers and building databases including many details such as ownership, employees** |

| **ABSM data collection from its members – limited to their members, representing a modest percentage of suppliers or total spend** |

| **In summary, proper monitoring of current definitions would need a more systematic data gathering/reporting process** |

---

---
4. BASED ON THESE SOURCES, WHAT ARE THE BASELINE LEVELS OF LOCAL PROCUREMENT USING THESE DIFFERENT POTENTIAL MEASURES? WHAT ARE THE INFORMATION GAPS?

Including:
- National statistics annual surveys
- Business registration and licensing
- Industry surveys
- Mines’ reporting to regulators
- EITI reporting
- Customs, revenue & tax reporting
- Employment & payroll reporting
- Reporting related to work permits
- Academic or public research

See Appendix 4 for templates to capture supply patterns

Initial results based on supplier analysis as part of WALPI project (with data provided by the major mines):
- 92.6% of spend was on suppliers that are foreign-controlled (>50% of ownership)
- 35.7% spent on suppliers that are foreign-controlled but realise majority or some appreciable level of value addition in country
- 1.3% of spend was on Burkina-controlled companies with no significant value addition in country (“local importers”)
- 3% of spend at Burkina-controlled companies with significant value addition in country
- 47.2% of spend at locally registered suppliers

Relevant definitions within WAEMU AND ECOWAS frameworks:
As yet there are no specific definitions of local procurement within WAEMU or ECOWAS mining local procurement frameworks. However:
- The WAEMU framework refers to “services and materials of Community origin, products manufactured or sold in the Union”.
- The ECOWAS framework refers to “a) materials and products of a Member State; b) Service agencies located in a Member State and owned by a citizen (corporate or otherwise) of such Member State and/or public corporation.”

For purposes of trade and customs, there is a precise definition of “originating products”, and a process for approval: (ECOWAS and WAEMU rules of origin have been harmonised since 2004):

1. **Unprocessed goods** (e.g. animal, plant, and mineral products) and handmade products, without the need of a certificate of origin

2. **Products that have been sufficiently worked or processed** (i.e., industrial products) and are accompanied by a certificate of origin delivered by the identified national authorities. For these products, community origin is conferred according to:
   - **Local content**: goods that have been produced in member states with a minimum of 60% originating raw materials content.
   - **Substantial transformation**, as measured by a change in tariff classification: goods that are not wholly produced in member states, but their production requires the exclusive use of materials which are classified under a different tariff subheading from that of the finished product.
   - **Value-added**: goods that are not wholly produced in member states, but have received a value added of at least 30% of the ex-factory price of the finished goods. Value-added is defined as the difference expressed as a percentage of the ex-factory price before tax of the industrial product concerned and the value of raw materials, consumables, and packaging of foreign origin. The ex-factory price used is made essentially of the costs of raw materials, consumables, and packaging of both foreign and community origin, wages and salaries, duties and taxes, works and external services, and depreciation charges.

A process for certifying origin of goods is set out which is relatively complex, requiring application with supporting documentation to the ministry responsible for trade liberalisation matters, approval by the ministry after getting opinions from members of the National Approvals Committee, and final approval by ECOWAS Commission based on all documentation including basis for national-level approval to be transmitted by the Ministry.
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered.

To complete this electronically, please download the Workbook.

1. WHICH SOCIO-ECONOMIC ELEMENTS SHOULD BE EMPHASISED IN THE LOCAL PROCUREMENT DEFINITION?

Considerations, including experience from the WALPI project

Mining companies, governments and other stakeholders in West Africa have adopted a wide variety of approaches for defining local procurement and these have often failed to consider important factors that will encourage sustainable economic benefits to local citizens. Often, no clear definition is provided at all.

Existing definitions by mines are generally limited to locally-registered companies, locally-owned companies, or spend in the ‘affected communities’.

Selection of elements of the definition (and how these are prioritised) will impact the focus of efforts e.g. use of employment in the definition is likely to result in an emphasis on job creation whilst a definition based on locally-registered companies may result in an emphasis on local business registration (which may impact tax revenues but may not impact significantly on local value-adding activity or local participation). Definitions that do not include a value-add element may result in a focus on importers, which may create some opportunities but may also increase input costs for mines rather than adding value (unless importers develop the capacity to hold appropriate stock and provide value adding services such as maintenance and after-care).

Where objectives such as technology transfer, skills upgrading and increased global competitiveness of enterprises have been prioritised, consideration of the role of FDI could be useful (for more detail see Thomas Farole and Deborah Winkler (Eds), 2013, Making Foreign Direct Investment Work for Sub-Saharan Africa, available at https://openknowledge.worldbank.org).

For fragile states, care should be taken that definitions do not touch on sensitivities that might reignite social divisions.

There has been general support in consultations with a wide range of stakeholders in West Africa to incorporate all three components of location, participation and value addition into definitions.

The figure below represents the framework developed by Kaiser EDP used for categorising suppliers during the WALPI project.

Local value-addition (along the left side) ranges from a supplier not manufacturing or providing services locally through to all manufacturing or services provided locally. Similarly, the range for local participation (along the bottom) is from no local participation, to joint ventures and meaningful partnerships, through to full local participation within the supplier (in terms of citizen ownership, management and employment). Each supplier is plotted against the two axes and is categorised into one of the nine combinations.
2. WHAT IS THE BEST WORDING FOR THE OVERALL DEFINITION AND SUB-DEFINITIONS SO THAT THEY ARE MEASURABLE E.G. THROUGH USE OF CRITERIA, THRESHOLDS OR FORMULAS?

Considerations, including experience from the WALPI project

The choice of wording in definitions is essential as it will lay the foundation for whether or not local procurement can be effectively measured (see Module 8 on measuring, monitoring, and evaluation).

Tools to help provide clarity and avoid ambiguity include criteria, thresholds and formulas. In order to be both realistic and ambitious, thresholds should ideally take into account both the current baseline of suppliers and the likely constraints/potential to improve performance in terms of the selected elements of the definition, e.g. levels of local employment or value add.

Elements of the definition where there is existing information and reporting systems will be easier to administer, e.g. if companies already report to government on local ownership or employment, or if mines already capture information in their procurement or invoicing systems. However, these may not necessarily be the most important aspects for the reasons discussed above. Where information is lacking, consideration should be given to defining elements in a way that takes into account ease of implementation for mines, and capacity of verification authorities/regulators.

For example, definitions based on local content of individual transactions have been shown to be accurate but require significantly more resources whereas definitions based on the characteristics of suppliers may require less resources.

Selecting different thresholds for mining vs. other sectors may cause confusion amongst suppliers and support entities which could create implementation difficulties and administrative hassles.

There has been broad consensus in West Africa mining-related consultations that a system that defines local procurement as the local content of all mines’ purchases (as in Brazil’s Oil and Gas sector) will be too onerous to administer, given capacity constraints of government.

In line with the above, there has been a general positive response to the model proposed by Kaiser Economic Development Partners which specifies:

1. **Participation** of local citizens (and other West Africans) through:
   - Enterprise ownership
   - Employment
   - Management

   Thresholds would relate to local circumstances and existing national definition. In some cases a focus on ownership alone may be more practical given information and constraints.

2. Extent of **local content and value add** in the country and in West Africa:

   Drawing on ECOWAS & WAEMU definitions and extending these principles to services, at least one of the following should apply:
   - Supplier provides majority local unprocessed goods (e.g., animal, plant, and mineral products) and handmade products
   - Majority of products provided by supplier are substantially transformed locally (i.e. would change categorisation from one tariff heading to another)
   - Supplier uses more than 60% local originating raw materials
   - At least 30% value-add on the ex-factory price of finished goods: incl. materials, consumables, packaging, salaries, payments to govt., works, external services, depreciation.
   - Where a service provider undertakes, manages, and controls the majority of its services in country or in the region

   It may also be appropriate in some context where there is less local capacity to define a “mid” category threshold for suppliers that do not meet above thresholds but have:
   - Some local origin materials
   - Some products that are substantially transformed
   - Some value-add, but less than 30% overall
   - Some local service delivery

3. **Geographically**, preference for an enterprise located in the same country as the mine followed by companies in West Africa
### 3. WILL EXISTING, AMENDED OR NEW DEFINITIONS BE USED? IF NEW DEFINITIONS, IN WHICH DOCUMENT WILL THEY BE CAPTURED?

**Considerations, including experience from the WALPI project**

International benchmarking demonstrates a variety of places where definitions are housed, including in mining regulations or law, industrial policies or strategies, and even manuals. Sub-definitions may refer to existing definitions of locally owned businesses or national citizens.

Any related definitions in national mining law will need to be taken into account—if contradictory with the agreed definition they will need to be revised; other business registration definitions are also likely to be important—if suitable, these could be cross-referred as sub-definitions for a local business. Changes to definitions within mining laws may have long lead times, whereas those in regulations could be shorter. Changes to definitions in line ministries that are not closely involved in the local procurement effort are likely to be very difficult to implement.

Ideally, definitions of value add should cross-refer to WAEMU and ECOWAS definitions of product origin.

Inclusion in regulation rather than law or policy could provide greater flexibility to accommodate changes if needed, as circumstances change or data availability improves. This could be through the mining ministry, or the commerce/investment ministry if the definition will be used across different sectors. An alternative mechanism is practice notes or guidelines—these could either be the ultimate mechanism, or could be used as an interim mechanism to test out and refine definitions into a more workable form.

### 4. WHAT PROCESS SHOULD BE FOLLOWED TO AGREE ON THESE DEFINITIONS? WHO NEEDS TO BE INVOLVED?

**Considerations, including experience from the WALPI project**

Irrespective of the selected process, consultation around the definition with stakeholders can be beneficial in ensuring the definition is workable and does not have significant unintended consequences. If the definition is within a procedure, practice note, or manual, a less formal consultation is likely to be required.

If definitions are to be included within law or regulation, then the appropriate formal process for a country will need to be followed, e.g. legal drafting, public hearing, submission to parliament. This approach has greater power in terms of enforcement, but it may be less flexible and take longer to formulate and implement. See also Module 5: Policy, Law and Regulation.

The least formal process of all is to use programme terms of reference by regulators, support entities, chambers of mines or supplier associations to define priority supplier types, e.g. in terms of beneficiary types for a supplier development programme. This approach has the advantage of flexibility, but does not create certainty or clarity, and has no legal status.
How do we identify the most attractive and realistic local procurement opportunities in the short, medium, and long-term?

Identifying the right product and service opportunities is important to ensure the greatest benefits for society and the economy. It can also help to focus support efforts, given that resources are often limited.
Module 3
Identifying opportunities

1. Key strategic questions to consider

In order to determine the most attractive and realistic local procurement opportunities, various strategic questions need to be answered, as shown below:

1. How do stakeholders' objectives shape local procurement opportunities?

2. Which products and services are likely to have suitable demand to justify local supply?

3. In which product/service categories is there suitable local supply capacity?

4. How are opportunities constrained by the operating environment?

5. What are the priority opportunities in the short, medium and long term?

6. What process will work best to identify and review these opportunities? Who needs to be involved?

SEE ALSO:
Module 1: Approach
Understanding the socio-economic priorities and the overall nature of the opportunity

Module 2: Defining local procurement
Demand and local supply baseline

Module 4: Enabling local suppliers to compete
Assessing supplier capacity and defining the support requirements for opportunities

Module 6: Mining Local Procurement Plans (planning and reporting on progress in realising opportunities)
2. Learning from international experience

Mining and oil & gas sectors around the world are generally at the early stages of identifying specific product and service opportunities for local procurement. Countries with oil and gas resources appear to be slightly more advanced in this regard. They often include the identification of specific opportunities as a priority action within their policy framework (e.g. Trinidad and Tobago). Some countries have developed formal lists of opportunities (e.g. Angola, Indonesia, Libya and Nigeria).

Examples of local procurement opportunity identification in the oil and gas sector

Angola

Angola’s local content strategy in the oil and gas industry has focused both on the “Angolanisation” of the country’s workforce and procurement of local goods and services. In terms of procurement, Degree 127/03 created a list of priority goods and services based on the level of skill and required capital, creating three key opportunity groups:

1) Exclusive goods and services are those deemed “non-specialised” and require low capital - this group is to be provided exclusively by Angolan businesses. Foreign companies could be engaged as a subcontractor to an Angolan company.

2) Semi-compliance goods and services require a certain level of knowledge and moderate levels of capital – Foreign companies that wish to supply these goods and services can only do so in association with an Angolan-owned company, such as a joint venture.

3) All other goods and services fall within the competitive goods and services category, requiring a high level of capital and specialised knowledge. There are no restrictions on who can provide competitive goods and services, but Angolan companies will receive preference as long as their price is not more than 10% above that of a foreign company.

The products and services under “exclusive” and “semi-compliance” are shown below.

<table>
<thead>
<tr>
<th>Exclusive</th>
<th>Semi-Compliance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pressure tests on oil and/or gas storage tanks and pipelines</td>
<td>Geographical or geodesic surveying</td>
</tr>
<tr>
<td>Transportation of equipment materials and foodstuffs or sounding and production platforms</td>
<td>Vertical directional and/or horizontal drilling of wells</td>
</tr>
<tr>
<td>Supply of industrial and drinking water</td>
<td>Geological control of drilling (mud logging)</td>
</tr>
<tr>
<td>Catering</td>
<td>Production tests</td>
</tr>
<tr>
<td>Supply of technical material</td>
<td>Laboratories for geological, geochemical, and fluid analyses</td>
</tr>
<tr>
<td>General cleaning and gardening</td>
<td>Specialist consultancy in engineering and geological, geophysical, and geochemical sciences, as well as tank oil operations installations analysis and interpretation of data</td>
</tr>
<tr>
<td>General maintenance of equipment and vehicles</td>
<td>Operation and maintenance of production installations, including oil and gas pipelines</td>
</tr>
<tr>
<td>Operators and managers or supply points (airports, ports, and service stations)</td>
<td>Calibration of storage tanks and measurement instruments</td>
</tr>
<tr>
<td>Inspection of the quality of products distributed and sold (oil products and derivatives)</td>
<td>Construction and assembly of mechanical electrical structures, production and drilling installations</td>
</tr>
<tr>
<td>Retailers of lighting, oil, gas, and lubricants</td>
<td>Inspection and supervision of consignments of oil or natural gas</td>
</tr>
<tr>
<td>Transport of products from the terminals to the supply points</td>
<td>Cargo transport of oil or natural gas</td>
</tr>
<tr>
<td></td>
<td>Cement and drilling sludge products</td>
</tr>
<tr>
<td></td>
<td>Supply of drilling sludge</td>
</tr>
<tr>
<td></td>
<td>Supply of seismic materials, including explosives</td>
</tr>
<tr>
<td></td>
<td>Drilling production materials and equipment</td>
</tr>
<tr>
<td></td>
<td>Cleaning and maintenance works on wells</td>
</tr>
<tr>
<td></td>
<td>Cementation and/or completion of wells</td>
</tr>
<tr>
<td></td>
<td>Transport of crude oil to the refinery</td>
</tr>
<tr>
<td></td>
<td>Electricity and instrumentation</td>
</tr>
<tr>
<td></td>
<td>Operators and managers of terminals</td>
</tr>
<tr>
<td></td>
<td>Pressure tests on storage tanks and measurement instruments</td>
</tr>
<tr>
<td></td>
<td>Maintenance engineering of terminals and supply points</td>
</tr>
<tr>
<td></td>
<td>Inspection of distribution installations and supplies</td>
</tr>
<tr>
<td></td>
<td>Manufacture and assembly of braziers and lamps</td>
</tr>
<tr>
<td></td>
<td>Manufacture and assembly of electricity generating sets</td>
</tr>
<tr>
<td></td>
<td>Assembly of selected makes of vehicles for the oil industry</td>
</tr>
<tr>
<td></td>
<td>Manufacture of plastic for the oil industry, synthetic fibres and rubbers</td>
</tr>
<tr>
<td></td>
<td>Manufacture of fertilisers</td>
</tr>
<tr>
<td></td>
<td>Production of detergents</td>
</tr>
</tbody>
</table>
Indonesia

As part of the process of drafting their initial local content policies, Indonesia created a list of goods based on the available capabilities of domestic suppliers. TKDN (local content levels) are based on multiple factors including the origin of materials used in production, geography of the producer, ownership of the company, and citizenship of the labour force. Indonesia’s categorisation system is based on three levels of goods for which different procurement processes need to be followed and where domestically produced goods meet quality requirements:

1. **Required/mandatory goods** – There exists a domestic producer with a TKDN of at least 25% and a BMP (Company Benefit Weight) of at least 40%
   - Domestic manufacturers with a local content level of at least 15% are allowed to bid in this category

2. **Maximised goods** – There exists a domestic producer with a TKDN of at least 25% and a BMP of less than 40%
   - For contracts above US$100,000, domestic manufacturers with a local content level of 10% and above may bid in this category

3. **Empowered goods** – There exists a domestic producer with a TKDN of less than 25%
   - For contracts above US$100,000, domestic manufacturers with a local content level of 5% and above may bid in this category

**List of goods and services per category as at 2011**

<table>
<thead>
<tr>
<th>1. Required</th>
<th>3. Empowered</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Casing-tubing</td>
<td>• Boilers and accessories</td>
</tr>
<tr>
<td>• Tubular goods</td>
<td>• Building material and hardware</td>
</tr>
<tr>
<td>• Wellhead and X-mas tree accessories</td>
<td>• Building material, metals, and hardware (bolts and nuts)</td>
</tr>
<tr>
<td>• Chemicals</td>
<td>• Building structure and tanks</td>
</tr>
<tr>
<td>• Valve fittings</td>
<td>• Casing, tubing, and accessories</td>
</tr>
<tr>
<td>• Wire, cables, and accessories</td>
<td>• Cementing equipment and liner hanger systems</td>
</tr>
<tr>
<td>• Marine and offshore installations</td>
<td>• Chemicals</td>
</tr>
<tr>
<td>• Electric power sources</td>
<td>• Compressor and vacuum pumps</td>
</tr>
<tr>
<td>• Pumps, centrifugal, and rotary</td>
<td>• Drilling tools and retrievable production tools</td>
</tr>
<tr>
<td>• Oil and oil products</td>
<td>• Drilling machinery, mud equipment, and accessories</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Maximised</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cementing equipment and liner hanger systems</td>
<td>• Fire, safety, and environmental conservation equipment</td>
</tr>
<tr>
<td>• Wellhead equipment and accessories</td>
<td>• Machinery accessories and transmissions</td>
</tr>
<tr>
<td></td>
<td>• Marine offshore and installations</td>
</tr>
<tr>
<td></td>
<td>• Oil and oil products</td>
</tr>
<tr>
<td></td>
<td>• Paints and varnishes</td>
</tr>
<tr>
<td></td>
<td>• Plant elements and parts</td>
</tr>
<tr>
<td></td>
<td>• Production well tests and monitoring instruments</td>
</tr>
<tr>
<td></td>
<td>• Pumps, centrifugal, and rotary</td>
</tr>
<tr>
<td></td>
<td>• Pumps, reciprocating</td>
</tr>
<tr>
<td></td>
<td>• Pumps, other types</td>
</tr>
<tr>
<td></td>
<td>• Switch, control gear, and electrical instruments</td>
</tr>
<tr>
<td></td>
<td>• Transportation</td>
</tr>
<tr>
<td></td>
<td>• Tubular goods</td>
</tr>
<tr>
<td></td>
<td>• Valve fittings</td>
</tr>
<tr>
<td></td>
<td>• Wellhead equipment and accessories</td>
</tr>
<tr>
<td></td>
<td>• Wireline tool box and unit complete with power pack</td>
</tr>
<tr>
<td></td>
<td>• Wire, cables, and accessories</td>
</tr>
</tbody>
</table>

Additionally, buyers can locate a quality supplier that adheres to local content regulations through The Apresiasi Produksi Dalam Negeri (APDN) publication on certified suppliers. The business ability certification evaluates companies based on their production capacity (including output, quality of product), local content (TKDN and BMP levels), order status, management capabilities, marketing, and after-sales service. The rating system is as follows:

- 1 star: Score equal to 40 to 60
- 2 stars: Score equal to 60 to 80
- 3 stars: Score of 80 or greater
- No star: Incompetent, score of less than 40
Ghana provides one of the best examples of both the opportunity identification process and the resulting ‘local procurement list.’

**Ghana**

**Ghana mining local procurement opportunity identification**

Ghana’s initial focus was to identify high opportunity products for local manufacturing, with a view to examining the opportunities for local service delivery at a later stage. Working through the Ghana Chamber of Mines, the major gold mining companies provided information on spend and volumes of a number of products. Products were evaluated against a range of criteria including whether they were already manufactured in Ghana or could feasibly be manufactured locally within a 5-10 year time period. The result of the process was the following list of 27 products to be prioritised by the mining sector in Ghana:

| 1. Activated carbon          | 15. Heavy duty electric cables        |
| 2. Ammonium sulphate         | 16. Metal or PVC core trays            |
| 3. Bolts and nuts            | 17. Mill liners                         |
| 4. Bullion boxes             | 18. Motor re-winding and re-furbishing   |
| 5. Calico bags               | 19. OTR tyre-re-treading               |
| 6. Cement products/grout     | 20. Overalls & work clothes             |
| 8. Chemicals (caustic soda)  | 22. Quick lime & hydrated lime          |
| 13. Grinding media            | 27. Yelomine pipe                      |
| 14. HDPE & PVC pipes         |                                           |

With the support of the IFC, the above opportunities were then assessed to establish supplier capacity, gaps and support needs. An exercise of assessing 28 companies in 18 of the above sectors was carried out, resulting in a gap analysis of each sector. The most competitive product groups were: overalls and work clothes, plastic sample bags, OTR tyre re-treading, cement or grout products.

This list is currently being refined to create a list of 6-8 higher opportunity products to strongly focus on in the short-term. These opportunities will likely form part of the ‘local procurement list’, as required by Ghana regulation. It is intended that this list of products will be removed from the mining list (as long as the required quality and quantity can be produced locally) and as a consequence imports of these products will attract import duties and VAT.
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out **information questions** and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

**Example answers from WALPI pilot country: Liberia**

<table>
<thead>
<tr>
<th>1. WHAT ARE THE PRIMARY SOCIO-ECONOMIC AND SECTORAL OBJECTIVES THAT WILL SHAPE THE NATURE OF THE OPPORTUNITIES? (SEE MODULE 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Possible information sources:</strong> National policy and strategy documents and vision statements (including industrial, SME, private sector development), stakeholder workshops</td>
</tr>
<tr>
<td>• Particular focus on youth employment</td>
</tr>
<tr>
<td>• The industrial policy notes priority opportunities in agriculture, fisheries and services.</td>
</tr>
<tr>
<td>• A workshop in Monrovia with the Local Content Policy Committee identified the following priority for local content development:</td>
</tr>
<tr>
<td>  Employment/job creation and provision of living wages and livelihoods</td>
</tr>
<tr>
<td>  Enterprise development</td>
</tr>
<tr>
<td>  Wealth creation</td>
</tr>
<tr>
<td>  Supporting Liberia’s Vision 2030 to achieve middle income status</td>
</tr>
<tr>
<td>  Leveraging linkages between value chains to support growth and development, including supporting agriculture and horticulture development through links to buyers</td>
</tr>
<tr>
<td>  Maximising the benefits secured from resources</td>
</tr>
<tr>
<td>  Technology transfer</td>
</tr>
<tr>
<td>  Transformation of the economy</td>
</tr>
<tr>
<td>  Reducing inequality</td>
</tr>
<tr>
<td>  Building infant industries into sustainable and growing industries</td>
</tr>
<tr>
<td>  Ensuring investors engage in good corporate citizenship and contribute to building the country</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. WHAT PRODUCTS/SERVICES ARE MINING COMPANIES PRIORITISING FOR LOCAL SOURCING?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Possible information sources:</strong> Mining companies’ views (e.g. through workshops), individual mines’ local procurement plans</td>
</tr>
<tr>
<td>• Workshops with mining companies in Liberia (October 2013 and April 2014) to identify opportunities, rank them, and discuss ways of realising them resulted in the following opportunities (Note: opportunities in bold were identified as higher-priority opportunities by subsequent analysis):</td>
</tr>
<tr>
<td>1. <strong>Uniforms</strong></td>
</tr>
<tr>
<td>2. Camp management/catering &amp; security/HSE</td>
</tr>
<tr>
<td>3. <strong>Food products</strong>, in particular, rice, vegetables, and fish</td>
</tr>
<tr>
<td>4. Crushed rock</td>
</tr>
<tr>
<td>5. <strong>Construction services</strong></td>
</tr>
<tr>
<td>6. Cement</td>
</tr>
<tr>
<td>7. Drilling and mining equipment rental/hire/services, spares</td>
</tr>
<tr>
<td>8. Carpentry/furniture</td>
</tr>
<tr>
<td>9. <strong>Safety/personal protective equipment</strong></td>
</tr>
<tr>
<td>10. Internet/communication services</td>
</tr>
<tr>
<td>11. Lab testing, analysis, geotechnical lab, standards, sampling/testing</td>
</tr>
<tr>
<td>12. Stevedoring, clearing and forwarding, logistics</td>
</tr>
<tr>
<td>13. Explosives/ANFO (ammonium nitrate/fuel oil)</td>
</tr>
<tr>
<td>14. Labour brokering/HR services</td>
</tr>
<tr>
<td>15. Steel balls</td>
</tr>
<tr>
<td>16. Lubricants/petroleum</td>
</tr>
<tr>
<td>17. Rubber products</td>
</tr>
<tr>
<td>18. Conveyor splicing</td>
</tr>
</tbody>
</table>
3. WHAT IS THE HISTORICAL AND CURRENT DEMAND BY THE MINING SECTOR (AND OTHER MAJOR SECTORS)?

Including:
- Aggregated demand from five mining companies in Liberia:
  - Iron ore: ArcelorMittal, Western Cluster, China Union, Putu
  - Gold: Aureus
- Total spend reported across the five mines 2010-2013: US$1.550bn (likely to be closer to US$2bn with all activities included)
- Breakdown of reported spend by year:

<table>
<thead>
<tr>
<th>Year</th>
<th>Iron ore</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>245.3</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>159.9</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>503.4</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>641.1</td>
<td></td>
</tr>
</tbody>
</table>

- Breakdown of the above (2010-2013) spend by phase:
  - Exploration: US$60m
  - Projects (feasibility, construction, infrastructure): US$1.13bn
  - Operations: US$360m
- Note: detailed analysis of spend by ‘other major buyers’ has not yet completed in Liberia, but indications are that other major markets include construction/infrastructure, forestry, oil & gas, military & peacekeeping.

4. WHAT IS THE FORECAST ANNUAL DEMAND (E.G. NEXT 5 TO 10 YEARS) BY THE MINING SECTOR (AND OTHER MAJOR SECTORS)?

Possible Information sources: Mining companies procurement/finance departments, annual reports, investment/development plans, forecasting analysis (see Appendix 6 for approach used as part of WALPI project and Appendix 7 for initial outputs).

- Extrapolated and then forecasted spend (for mining all activities in Liberia) indicated over US$2bn of annual spend for the ‘target year’ of 2016:

<table>
<thead>
<tr>
<th>Year</th>
<th>Iron ore</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014E</td>
<td>188</td>
<td>1267</td>
</tr>
<tr>
<td>2015E</td>
<td>250</td>
<td>1631</td>
</tr>
<tr>
<td>2016E</td>
<td>2053</td>
<td>2053</td>
</tr>
<tr>
<td>2017</td>
<td>2224</td>
<td></td>
</tr>
</tbody>
</table>
5. **WHAT IS THE FORECAST ANNUAL DEMAND FOR SPECIFIC PRODUCT & SERVICE CATEGORIES FROM MINES?**

Possible Information sources: As above

- WALPI projected aggregated spend from five mining companies and forecasted spend across different product & service categories (See fact box below for categories used and Appendix 7 for full methodology and more results)
- Example of product and service categories forecasting for one group: plant & equipment, construction and core services (for 2016):

![Graph showing forecasted spend across different product & service categories](image)

6. **WHAT IS THE CURRENT LEVEL OF LOCAL SUPPLY FOR EACH PRODUCT AND SERVICE CATEGORY?**

*(SEE MODULE 2 FOR DEFINITIONS OF LOCAL AND THE LOCAL SUPPLY BASELINE)*

Possible Information sources: Mining companies’ procurement/finance departments, tailored analysis

- One product/service category example, (Civil Works) based on the categorisation and analysis as part of the WALPI project is provided below:

![Diagram showing local supply for Civil Works](image)
7. WHAT IS THE CAPACITY OF CURRENT AND POTENTIAL LOCAL SUPPLIERS TO THE MINES IN RELATION TO POTENTIAL OPPORTUNITY AREAS?

Possible Information sources: Statistics/surveys of capacity utilisation levels, chambers of commerce, supplier development associations, business support and market linkage entities, supplier assessment tools

- There is very limited formal manufacturing capability in Liberia, in particular by majority Liberian-owned businesses, although some capacity exists in metal work, building materials, and plastics; pre-conflict there was a wider range of factories, including agri-processing.
- Greater capacity exists in civil works and construction; however, equipment is often older than what is provided by foreign firms.
- Some parts of the services industry, such as security, have some capacity.
- Most suppliers are small businesses, and therefore have limited scale. Historically many suppliers have found it challenging to collaborate to meet requirements of larger contracts.

8. WHAT ARE THE IDENTIFIED CHALLENGES AND CONSTRAINTS TO INCREASING LOCAL SOURCING IN POTENTIAL OPPORTUNITY AREAS?

Possible Information sources: Input from mines and suppliers/associations, studies, Ease of Doing Business reports

- Quality, health, safety and environmental compliance
- Financing – equipment
- Affordable and reliable power
- Affordable expansion and working capital
- Affordable access to inputs
- Competition for limited available pool of skilled local managers
- Logistics and transport to reach the mines.
### Demand categorisation used in the WALPI project

This categorisation was used to aggregate procurement data across mining companies in order to inform selection of opportunities. (see Appendix 7 for full results and methodology)

<table>
<thead>
<tr>
<th>Group 1: Plant &amp; equipment, construction and core services</th>
<th>Group 2: Consumables</th>
<th>Group 3: Non-core products and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Geological and exploration services</td>
<td>- Exploration consumables</td>
<td>- Site related services</td>
</tr>
<tr>
<td>- Geological equipment and supplies</td>
<td>- Explosives and accessories</td>
<td>- Catering</td>
</tr>
<tr>
<td>- Analysis and testing</td>
<td>- Process consumables: chemicals, reagents, grinding media, etc.</td>
<td>- Other camp management</td>
</tr>
<tr>
<td>- Supply chain services</td>
<td>- Lime</td>
<td>- (integrated, cleaning, security)</td>
</tr>
<tr>
<td>- Transport and logistics</td>
<td>- Caustic soda</td>
<td>- Onsite transportation</td>
</tr>
<tr>
<td>- Freight forwarding/customs</td>
<td>- Cyanide</td>
<td>- Office space construction/rental</td>
</tr>
<tr>
<td>- Purchasing/sourcing/contract or inventory management</td>
<td>- Activated carbon</td>
<td>- Accommodation/hospitality</td>
</tr>
<tr>
<td>- Environmental services</td>
<td>- Grinding media</td>
<td></td>
</tr>
<tr>
<td>- Feasibility, design and engineering</td>
<td>- Crucibles</td>
<td></td>
</tr>
<tr>
<td>- Construction, and related materials and services</td>
<td>- Fuel and lubricants</td>
<td></td>
</tr>
<tr>
<td>- EPC</td>
<td>- Fuel</td>
<td></td>
</tr>
<tr>
<td>- Civil works</td>
<td>- Lubricants and greases</td>
<td></td>
</tr>
<tr>
<td>- Steel products and steel structures construction</td>
<td>- Tyres</td>
<td></td>
</tr>
<tr>
<td>- Installation and commissioning of equipment</td>
<td>- Non mining equipment replacement parts and tools</td>
<td></td>
</tr>
<tr>
<td>- Cement</td>
<td>- Wear parts and ground engagement tools</td>
<td></td>
</tr>
<tr>
<td>- Mine supports</td>
<td>- Electric power</td>
<td></td>
</tr>
<tr>
<td>- Other construction materials</td>
<td>- Water services</td>
<td></td>
</tr>
<tr>
<td>- Contract mining</td>
<td>- (including general waste management)</td>
<td></td>
</tr>
<tr>
<td>- Equipment &amp; plant maintenance &amp; repair</td>
<td>- Telecommunications</td>
<td></td>
</tr>
<tr>
<td>- Equipment rental</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Drilling equipment and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Drilling equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Drilling contracting</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Plant and equipment – mining/general</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Excavation and loading equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Materials handling equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Crushing, screening, grinding equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Processing equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Heavy transport equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Auxiliary equipment; ventilation, pumps, fueling systems, geotextile, piping, light vehicles, etc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Light vehicles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Plastic products, piping</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Electronic equipment and supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Electrical equipment and supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Spare parts for mining equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Drilling equipment and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Crushing equipment and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Processes and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Heavy transport equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Safety and protective equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Overalls, gloves, workwear</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Helmets, boots, other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Office supplies and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- IT equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Furniture</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Software</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Camp/site supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Medical equipment and supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other camp supplies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Food and beverages</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered.
To complete this electronically, please download the Workbook.

1. HOW DO STAKEHOLDERS' OBJECTIVES SHAPE LOCAL PROCUREMENT OPPORTUNITIES?

Considerations, including experience from the WALPI project

The socio-economic objectives and sectoral priorities of a country are a key starting point for determining opportunities. For example, focus on job creation would likely favour labour intensive sectors and/or opportunities with high labour-absorption potential due to scale. Other objectives such as SME development, increasing the number of women-owned businesses, developing technology-driven sectors or promoting exports, would all impact prioritisation of opportunities in different ways. Note that these objectives also play a key role in determining the overall approach to local procurement (Module 1) and definitions (Module 2) which in turn also impact the most appropriate opportunities to select.

Whilst regional integration may be an overall objective, in practice few countries have included regional supply opportunities as a priority focus although the WAEMU agreement commits members to “national treatment” of firms from the region. There is often more political impetus to support local suppliers than regional suppliers. In addition, given the more advanced nature of the mining supply industry in Ghana, many feel that suppliers from that country will gain disproportionately from a regional approach to opportunities.

When evaluating these options, consider the potential for clustering to provide complete solutions within the region will give a more accurate picture of potential benefits than just considering the first-level contracts. This is particularly true in cases where the scale required for viable production is larger than the market of any one mining country in the region. Regional trade, investment, and mining forums, including those organised by WAEMU, ECOWAS and the Regional Association of Chambers of Mines, present a mechanism for identification of regional opportunities.

Mining companies also often have clear ideas on the products and services that make most sense to source locally. There are frequently a number of products and services where local sourcing would benefit the mines commercially (e.g. by reducing logistics cost, increasing security of supply) or in terms of social license to operate (e.g. opportunities that could be met within affected communities). Mines will also have particular views on which products and services are most likely to be successfully provided by local companies, based on their experiences with existing suppliers. Their priorities for local supply may also be constrained by their regional or global policies around which product/service categories can be procured through local management.

2. WHICH PRODUCTS AND SERVICES ARE LIKELY TO HAVE SUITABLE DEMAND TO JUSTIFY LOCAL SUPPLY?

Considerations, including experience from the WALPI project

Typically the products and services that offer the best opportunities demonstrate one or more of the following characteristics of demand:

- The volume and value required across the mines is significant. These products and services do not necessarily need to be the largest purchases by the mines but they must at least have a sufficient scale to justify capital investment for a few local suppliers.
- Demand is consistent. Products and services that are consistently required are more likely to provide a sustainable market for local suppliers. Products or services that are only needed during exploration or construction may not provide a sustainable opportunity for local businesses unless a country is expected to have a long time horizon of continued exploration and mine development. A clear demand for at least five years is preferable. As such, it is beneficial to establish demand across mines both now and in future based on estimates of future development of the sector.
- There are often wider markets available (outside mining). These could include construction, oil and gas, agriculture, or tourism. Multiple buyers are likely to yield more sustainable opportunities for suppliers. It is also important to consider the wider (West African) regional market, in particular in cases where the scale required for viable product is larger than the market of any one mining country in the region.

3. IN WHICH PRODUCT/SERVICE CATEGORIES IS THERE SUITABLE LOCAL SUPPLY CAPACITY?

Considerations, including experience from the WALPI project

The first consideration is the level of local supply for each product/service category. See Module 2 (Defining local procurement and estimating the baseline) for some specific ideas on measuring existing local supply. In the areas where local suppliers are already present, it is important to understand current capacity, e.g. whether the necessary price, scale, quality, and reliability exist currently.

If there are gaps in supplier capabilities, it is important to make an initial assessment of whether capacity can realistically be expanded, and how long this would take. The expected timeframes will impact the point at which these opportunities could be realised, as well as targeted growth rates. See also Module 4: Enabling suppliers to compete.

It is also important to ensure that there are multiple suitable local suppliers of a product or service in order to avoid inadvertently encouraging monopolistic practices and price escalation. There are some examples in West Africa and elsewhere where prioritisation/preference has led to anti-competitive practices where there are only one or two local suppliers.
4. HOW ARE OPPORTUNITIES CONSTRAINED BY THE OPERATING ENVIRONMENT?

Considerations, including experience from the WALPI project

Constraints in the operating environment may impact on different opportunities to different degrees e.g. unreliable or high cost power is likely to constrain manufacturing most severely.

It is important to make an initial assessment of whether these operating environment constraints can realistically be addressed. See also Module 4: Enabling suppliers to compete. The expected timeframes for addressing these issues will impact the point at which these opportunities could be realised.

5. WHAT ARE THE PRIORITY OPPORTUNITIES IN THE SHORT, MEDIUM AND LONG-TERM?

Considerations, including experience from the WALPI project

Once the previous four questions have been answered, a number of high opportunity products and services are likely to emerge. These questions may interact with each other to reveal overall conclusions. For example, demand analysis will result in certain products/services being proposed (e.g. with significant demand and wider markets). These will then be examined in terms of supplier capacity which may refine the nature of the opportunity, requiring additional demand analysis. Similarly, a review of supplier capacity may uncover new opportunities that were not considered as stakeholders’ priorities or arose from the demand analysis.

It is important to be realistic in terms of the time frames for achieving certain opportunities. Short term opportunities are only likely to be realistic where there is existing suitable local supplier capacity; areas requiring significant capacity upgrading are more likely to be medium-term; areas requiring significant changes in the operating environment are more likely to be longer-term unless innovative solutions can be found that fast track improvements.

6. WHAT PROCESS WILL WORK BEST TO IDENTIFY THESE OPPORTUNITIES, INITIALLY AND ON AN ONGOING BASIS? WHO NEEDS TO BE INVOLVED?

Considerations, including experience from the WALPI project

Experience has shown that the most effective mechanism for identifying opportunities is a combination of stakeholder consultation and rigorous analysis.

Collaborative processes which have strong involvement from mining companies as well as the supplier industry are likely to yield the most realistic opportunities, and result in increased local procurement by mining companies. Working sessions with a core team of mining procurement officials can be an effective first step, because they can openly share information on requirements, thoughts on opportunities and initial criteria for prioritisation. The outputs of these small brainstorming sessions can form the basis for wider consultations and testing. Policy makers and officials, regulators, statistics bodies and donors may also have useful input and access to data or prior research. When this input is combined, opportunities that individual stakeholders may have failed to identify quickly come to the surface. These processes are often led by:

- Chambers of Mines
- Market linkages support entities in the public or civil society sectors
- Mining regulators (if they have sufficient capacity around mining demand and supply issues)

Opportunity identification processes often build in a review process to take into account both changing demand and supply capabilities e.g. a review every one or two years.

Process example: Opportunity identification process followed during WALPI project in Liberia and Burkina Faso.

1. Initial understanding, measurement and categorisation of overall demand: gathering data from a number of representative mining companies on their current spend based on their accounting, vendor and invoicing systems. This data, which was kept confidential at a disaggregate level, was consolidated by the project team into demand across mines by standardised demand category.
2. Workshops with mines’ procurement officials to brainstorm local procurement opportunities: the result of the demand analysis in the previous step was presented as background and to support the brainstorming exercise.
3. Consolidated data from the mining companies was extrapolated and scenarios used to estimate future demand levels.
4. Wider workshops were held including mines, suppliers and other stakeholders to help understand:
   - Drivers of demand e.g. ore moved, number of employees
   - Typical cost ranges and order volumes
   - Requirements
   - Challenges in supplying the mines for this product/service

NOTE: This exercise was not definitive or complete, but supported the initial steps for opportunity prioritisation by local stakeholders.

Some of the lessons learned include:

- Gathering of data from mines can be time consuming and relies on the goodwill and availability of mines’ procurement officials
- Sitting with mine officials and accessing direct reports from their accounting or vendor systems seems to be the most efficient approach, rather than sending out spreadsheets or surveys for completion by officials
- Mines may be less likely to share local procurement opportunities if these discussions or consultations take place in the context where they expect targets to be set based on these opportunities

There are three tools offered by this guide to assist in this area:

- Excel template for analysis of mining company demand by categories (Appendix 6)
- Initial assessment of demand for Liberia and Burkina Faso (Appendix 7)
- Opportunity brainstorming workshop – example agenda and brainstorming too (Appendix 8)
How do we ensure full, fair, and reasonable access to opportunities?

What capacities do suppliers need to develop in order to compete?

How can we support suppliers to develop those capacities and create a more competitive operating environment?

In order for local supply to increase significantly, many changes are needed so that local suppliers can compete, including: behaviours, procedures, systems, capacities, infrastructure, and support measures. Mines, suppliers, and support organisations all have a role to play to overcome the obstacles to competitiveness.
Module 4
Enabling local suppliers to compete

1. Key strategic questions to consider

There are two key areas that need to be addressed so that local suppliers can compete:
1) The everyday two-way mine-supplier interactions, which link back to mines’ and suppliers’ internal systems, procedures, behaviours, and capacities
2) The wider operating environment, which impacts on the competitive landscape for suppliers, and the resources available to support them.

Mine-Supplier Interactions
- Information on demand & procurement requirements
- Information on supplier capacity
- Joint problem-solving and innovation
- Requests for information/quotes/proposals
- Bid/quote submission
- Feedback
- Product/service delivery
- Payment

MINES

SUPPLIERS

1. Which interactions between mines and suppliers need to be improved so that local suppliers can compete?
2. What changes to behaviours, systems and capabilities are needed to achieve each of these improvements?
3. Who should be responsible for making these changes? If additional resources are needed, how can they be secured?

Wider Operating Environment

Health, Safety and Environment
Contract enforcement

Business development services

Finance
Power
Quality standards

Premises
Transport
Technology

Registration and licensing
Internet and communications
Tax

4. What are the highest priority operating environment issues to resolve so that suppliers can compete?
5. What solutions for each of these issues are likely to be most effective given the context?
6. For each of these issues, who should lead:
   - Development of solutions
   - Testing/prototyping
   - Implementation
7. Who else needs to be involved?
8. If additional resources are needed for implementation, who might provide these?

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
Module 1: Approach
Understanding the socio-economic priorities and the overall nature of the opportunity
Module 3: Identifying opportunities
Understanding constraints in relation to priority
Module 6: Mining Local Procurement Plans
Capturing targets and support commitments from mines

A practical guide to increasing mining local procurement in West Africa | 41
2. Learning from international experience

Countries have followed very different approaches to enabling suppliers to compete, relating to the level of sophistication of local suppliers and the main challenges in the operating environment.

Examples of activities include:

- Changes to information sharing systems
- Development of supplier databases
- Market linkages services
- Supplier assessment
- Help with implementing health, safety, environmental, and/or social conditions
- Training of workers
- Advance payment
- Help with quality assurance
- Support for sourcing raw materials
- Help with inventory control
- Lending/leasing of machines or equipment
- Help with audits
- Repair/maintenance of machines
- Access to product or process technologies
- Access to financing for improvements or working capital
- Licensing of patented technology
- Provision of inputs
- Financial planning assistance
- Help with finding export opportunities
- Help with organisation of production lines
- Help with business strategy
- Creation of supplier parks to help deal with infrastructure issues
- Alignment of enterprise support agency activities

Below are two very different examples of initiatives. In Mozambique, the emphasis in mining has been on improving access to tender information and equipping suppliers to bid more easily and effectively. In Chile, the focus has been on developing world class suppliers that can jointly solve core issues faced by mines.

### MOZAMBIQUE

Large-scale mining is relatively new in Mozambique, and mining areas are typically far from the core commercial area of Maputo. Potential suppliers are therefore not familiar with mine tendering processes, which often require relatively complex email or online submissions of quotes or bids.

Mining companies such as Rio Tinto and Vale have therefore identified the following as priority areas of support: access to tender information, knowledge of how to submit a compliant bid, and computer access to submit the bids, as well as supplier diagnostics and capacity building.

**Rio Tinto’s Tete Business Centre** was established in 2012, with a focus on procurement procedures and local business development. Its four key areas of work are:

1. Information dissemination and opportunities, financing options, pre-qualification processes, HSE requirements, procurement and tendering principles
2. Business diagnostics and pre-qualification, including bringing in external specialists to assess local businesses on quality, HSE performance, and management
3. Training and mentoring on tender submission and good business practices
4. Facilities provision

Rio Tinto and AgDevCo, as part of a multi-stakeholder group, have also been working on a direct supplier development programme to support the local sourcing of agricultural produce for consumption by Rio Tinto in Tete province. AgDevCo will help catering companies to source local suppliers, provide financial and technical support, manage the projects, and guarantee reliability of supply to the mines and their primary contractors.

**VALE’s Supplier Development Programme** is active in the mining affected areas of Tete, Beira and Nacala. The programme has been rolled out in partnership with the CPI (Centro de Promocao de Investimentos), providing diagnostic services and firm-specific training and professional guidance.

The complex bureaucracy in Mozambique has been recognised as a disincentive for firms to formally register and license their businesses, which in turn is a constraint to supplying mines. This is an area that is likely to take longer to solve on a large scale.

### CHILE

In 1995, CORFO (the Chilean Economic Development Agency) with support from the EU, implemented a programme in the Antofagasta region, granting financial support to large companies that were prepared to participate in supplier development, requiring companies to take responsibility for the training and integration of suppliers. CORFO built on this programme to support a collaborative effort across mines, involving ten large companies and two regional universities. They also helped to identify gaps in the local supply base, and facilitated foreign investment to fill these gaps.

The Antofagasta Industry Association (AIA) established a Vendor Qualification System and supplier database – SICEP – in 2001. This is used by around 20 purchasing companies in the mining and oil & gas industries, including international suppliers and primary contractors. The system has information on over 2,500 suppliers. In order to qualify, suppliers must register, be evaluated, and certified for labour and social security compliance. They also receive training to improve their business operations. Suppliers pay fees (registration and annual maintenance) of between US$200 and US$400 per supplier.

In 2008, BHP Billiton started the World Class Supplier Development Programme, with other mining companies joining later. It is coordinated by Fundación Chile, a non-profit that supports technology transfer, innovation, and competitiveness across the Chilean economy. The programme helps suppliers to reach the level where they can offer innovative solutions to challenges faced by mining companies in Chile. The aim is to create 250 world-class suppliers in Chile by 2020.

Mining companies identify areas where solutions could assist operational efficiency across its operations, and identify local suppliers who have the capacity to work on the problem. Each prioritised challenge is advertised to suppliers. 2 to 3 local suppliers are then formed into a cluster to research the problem and pilot innovations, with technical support and sometimes expert external consultant training and linkages with local universities.

The cost of projects can range from US$100,000 to US$20m and have a typical project lifetime of 15-27 months from problem identification through to evaluation. Working with the government, BHP Billiton’s investment in the programme during its first four years reached $50 million, and for the financial year 2013/14, the budget is just under $20 million. The programme directly employs 11 people full-time, with a further 71 part-time employees.

A programme such as this requires a strong existing supply base with a level of technical competency, as well as a strong university and R&D support system.
IFC and Rio Tinto in Guinea — Increasing Local Impact in the Guinean Mining Sector

The IFC and Rio Tinto, a multinational mining company, are working together in Guinea to increase local impact of the mining sector. The IFC has a 5% shareholding in Rio Tinto’s Simandou iron ore project, which, as of June 2013, was the largest potential private sector investment in Africa. The project lays out plans to build an iron ore mine, a port, and 700km of railway. Combined, these three developments could completely transform the economy of the country and improve economic opportunities for many Guineans. To ensure that mining-affected communities and other Guineans benefit from this project, the IFC started a pilot programme, Guinea Linkages, with Rio Tinto and Guinea Alumina Corporation.

The IFC’s Guinea Linkages programme works to reduce the gap between local suppliers and mining companies through five main areas:

1. Improve local supplier capacity so they are able to meet the needs of mining companies and also assist in their ability to access financing
2. Train local trainers and consulting firms in the IFC Business Edge program so they can assist SMEs in developing their managerial skills and improve their businesses. Courses are offered in Human Resources, Marketing, Finance, Operations, and Personal Productivity Skills
3. Develop the “Guinea Buy Local Program” with Rio Tinto to help them with their own local procurement policies and procedures
4. Collaborate with donors, governments, financial institutions, and other stakeholders to aid in the development of a local supply chain
5. Create a database of Guinean businesses that could supply mining companies

As of December 2012, the results of this programme have been positive and include the following:

- $9.1 million in new mining sector contracts between local suppliers and mining companies
- 700 jobs created in local businesses due to their integration into the mining supply chain
- IFC Business Edge programme launched with Rio Tinto and Guinea Alumina Corporation. 860 people received training in various management areas
- 100 local SMEs trained by the IFC in marketing, health and safety, and financial management
- 100 local SMEs trained in how to develop a business plan and access finance through a programme by the IFC and an affiliate of BNP Paribas, a multinational bank
- A business and training centre established in Beyla by the IFC and Rio Tinto for local SMEs
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

**Example answers from WALPI pilot country: Liberia**

**Note:** This is part populated based on information available at this stage.

<table>
<thead>
<tr>
<th>1. WHAT ARE THE EXISTING PRACTICES FOR EACH TYPE OF INTERACTION BETWEEN MINES AND SUPPLIERS? WHICH ARE CONSIDERED THE BIGGEST CHALLENGES?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>- Form, frequency and performance relative to expected level of:</td>
</tr>
<tr>
<td>- Information on demand &amp; requirements</td>
</tr>
<tr>
<td>- Information on supplier capacity</td>
</tr>
<tr>
<td>- Joint problem-solving and innovation</td>
</tr>
<tr>
<td>- Requests for information/quotes/proposals</td>
</tr>
<tr>
<td>- Bid/quote submission</td>
</tr>
<tr>
<td>- Feedback</td>
</tr>
<tr>
<td>- Product/service delivery</td>
</tr>
<tr>
<td>- Payment</td>
</tr>
<tr>
<td><strong>Potential information sources:</strong> Mines’ procurement and finance offices, suppliers associations and surveys of suppliers</td>
</tr>
<tr>
<td>There is no independent information available on the exact practices followed by mines and suppliers in Liberia. However, numerous challenges have been anecdotally identified.</td>
</tr>
<tr>
<td>Some potential suppliers have raised concerns that some mines’ vendor registration and tendering processes are not sufficiently transparent or accessible, and that they seldom receive feedback on why their bids were unsuccessful. Mines follow different approaches to quotation and bid notification (across mines and within mines for different categories of procurement), ranging from inviting existing suppliers, invitations to registered vendors, closed calls for quotations, pre-qualification processes, and open tenders (locally and/or internationally). Suppliers do not always have regular access to email to check bid notices or submit applications.</td>
</tr>
<tr>
<td>Mines are increasingly using the Building Markets initiative to understand available supplier capacity.</td>
</tr>
<tr>
<td>There is little evidence of joint innovation or problem-solving between mines and local suppliers, with a few exceptions such as security services.</td>
</tr>
<tr>
<td>Mines have raised concerns about reliability of supply from some local suppliers, in terms of meeting agreed quality and time specifications.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. WHAT SYSTEMS AND PROCEDURES ARE BEHIND EACH OF THESE CHALLENGES?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>- Mines:</td>
</tr>
<tr>
<td>- Policies and procedures relating to vendor registration, procurement and order fulfilment, invoicing and payment</td>
</tr>
<tr>
<td>- IT and technology systems e.g. vendor databases, accounting, ERP</td>
</tr>
<tr>
<td>- Communication and marketing systems e.g. web, SMS, newspaper, noticeboards</td>
</tr>
<tr>
<td>- Suppliers: internal policies and procedures</td>
</tr>
<tr>
<td><strong>Potential information sources:</strong> Mines’ headquarters, procurement and finance offices, suppliers associations, business process mapping exercises, supplier assessment tool (see Appendix 9)</td>
</tr>
<tr>
<td>Many mines in Liberia receive instructions from their head office about which types of procurement will take place locally vs. regionally and through headquarters, whether based on demand categories or spend thresholds.</td>
</tr>
<tr>
<td>The larger mining companies are using ERP systems such as SAP to manage their procurement and vendor systems in an integrated way. Other mines have more manual systems, such as Excel, and may not have a common system across divisions or spend areas.</td>
</tr>
<tr>
<td>Many mines use email and phone to communicate opportunities. Some contracts will be advertised in newspapers or trade publications locally or internationally.</td>
</tr>
<tr>
<td>Research shows that less than one third of Liberian businesses use the internet for business purposes every day, and only half have an email address. More widely, concerns have been raised about corrupt and collusive practices between procurement officials and some suppliers, and between groups of suppliers in terms of escalating prices’.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. WHO ARE THE PEOPLE RESPONSIBLE FOR EACH SYSTEM/PROCEDURE WITHIN MINING COMPANIES AND SUPPLIERS?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Potential information sources:</strong> Mine websites and contact lists, supplier databases</td>
</tr>
<tr>
<td><strong>Note:</strong> This section would include identification of individuals/specific designations in each organisation.</td>
</tr>
<tr>
<td>Different mines’ procurement and financial systems may be managed by personnel on mine sites, in country offices (mostly in Monrovia), or in regional or global head offices. Decisions on changing where procurement takes place are likely to require head office approval. Some procurement managers only spend a portion of their time in Liberia as they are also responsible for other geographies.</td>
</tr>
<tr>
<td>The majority of local suppliers are small businesses, and therefore have limited scope for specialist roles – owner-managers are often responsible for decision-making; however, some have dedicated marketing or finance staff.</td>
</tr>
</tbody>
</table>
4. WHAT ISSUES HAVE BEEN IDENTIFIED IN THE OPERATING ENVIRONMENT THAT CONSTRAIN COMPETITIVENESS?

Including:
- Business registration issues
- Business operation issues
- Issues particular to the requirements of mine suppliers
- Specific issues in priority opportunity product/service categories

Potential information sources: Private sector and SME development strategies, Ease of Doing Business reports (see https://www.wbiginvestmentclimate.org/), WEF Global Competitiveness sub-indices, supplier surveys

OVERALL LIBERIA DOING BUSINESS RANKINGS (2015): 174

Examples:
- **Electricity**: Most of Liberia does not have reliable grid power, and relies on expensive generators, resulting in power costs that can be around four times the global average.
- **Credit and funding**: The requirement for at least 150% collateral makes credit unattainable for many businesses. Interest rates for local companies can be in excess of 25%; however, foreign companies that access credit internationally receive significantly lower interest rates. The private equity market is very underdeveloped (with some developmental funds) but many small businesses are not interested in relinquishing operational control.

5. WHICH LOCAL SUPPLIERS DO ALREADY OR COULD SUPPLY THE MINES? WHAT ARE THEIR COMPETENCIES AND MAIN CHALLENGES TO INCREASING COMPETITIVENESS?

Potential information sources: Mines’ vendor lists or databases, centralised supplier databases, market linkages support entities, business registers

As part of the WALPI project, around 600 locally registered businesses have been identified that already supply the mines. Stronger local suppliers demonstrate competency in service delivery, preparing quotes and creative problem solving. Businesses interested in supplying mines have noted challenges such as:

- Affordable and reliable power
- Affordable expansion and working capital
- Affordable access to inputs
- Available pool of skilled local managers
- Logistics and transport to reach the mines

6. WHICH INSTITUTIONS HAVE RESPONSIBILITIES THAT RELATE TO THESE CHALLENGES? WHAT RELEVANT INITIATIVES ARE ALREADY UNDERWAY, AND WHAT IS THEIR SCOPE? WHAT OTHER IDEAS FOR SOLUTIONS TO THESE ISSUES HAVE BEEN RAISED OR ARE BEING TESTED?

Including:
- Stated mandate
- Actual role in practice
- Institutional capacity

Possible information sources: Institutional mapping exercises, central government registry, individual line ministry and state agencies/their websites, reports on the investment climate, operating environment and private sector development

Examples:
- **Electricity**: Some locations are supplied by the Liberian Electricity Corporation (public entity with Board representation from MLME), but there is also a lot of self-provision by companies. The National Electrification Master Plan has a long-term plan to increase electrification across the country with funding from various donor agencies.
- **Credit and funding**: Banks are responsible for developing business finance products. Collateral rules are set by foreign banks’ headquarters and influenced by perceived risk associated with post conflict status, etc. Donors and non-profits are also providing business micro-finance. JFP (a Building Markets programme) and IFC are working with various stakeholders to improve affordable access to business finance for suppliers – both working capital and equipment financing – by providing guarantees, advocating for regulatory change around equipment leasing, and supporting development of new business finance products.
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered. To complete this electronically, please download the Workbook.

Mine-supplier interactions

1. WHICH INTERACTIONS BETWEEN MINES AND SUPPLIERS NEED TO BE IMPROVED SO THAT LOCAL SUPPLIERS CAN COMPETE?

Considerations, including experience from the WALPI project

The priority improvement areas may vary for each country based on the context and the practices of the particular mines and suppliers active there. However, experiences in West Africa to date have often raised issues about:
- Accessibility of mines’ demand information and procurement processes to local suppliers, including feedback
- Lack of up-to-date and accessible databases of potential suppliers
- Reliability of local suppliers when delivering contracts
- Payment terms
- Reduction of corrupt practices

2. WHAT CHANGES TO BEHAVIOURS, SYSTEMS AND CAPABILITIES ARE NEEDED TO ACHIEVE EACH OF THESE IMPROVEMENTS?

Considerations, including experience from the WALPI project

It is important that both mines and suppliers recognise their active roles in addressing issues, rather than a culture of blaming the other party for problems experienced. They also need to understand their respective limitations in terms of what they have the power or the capacity to change. Taking a “systems approach” may help both mines and suppliers see how their practices interact.

Consideration can also be given to efforts to date by both mines and suppliers to address these issues, and lessons learned, e.g.:
- What have mines already tried to do to increase the accessibility of their procurement?
- What have suppliers already done to improve their capacity to deliver to the necessary scale, time, quality and price?

The table below provides consideration for some interactions.

<table>
<thead>
<tr>
<th>Interaction</th>
<th>Considerations and experiences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand information and accessibility of procurement processes</td>
<td>Mines may not be able to share accurate long-term demand figures in earlier stages of development, because of commodity price fluctuations. Mines typically prioritise consolidation of the supply base in the interest of efficiencies rather than extending their databases; whereas support entities and government would prefer that they worked with more suppliers. Consolidated tender opportunity notices can help suppliers know where to find information. Experience has shown that email is not always used as a business tool by suppliers in West Africa; support may be needed to change this and, in the interim, SMS communication is a useful tool. Tender Information Centres where suppliers can access computers and submit bids can also be useful.</td>
</tr>
<tr>
<td>Supplier information and databases</td>
<td>Experience has shown that hiring a local citizen as the procurement manager/buying officer improves the mines’ awareness of local supplier capacities. Building shared supplier databases has been shown to be a useful tool; however, care needs to be taken to regularly update information e.g. every six months. An online portal can be useful for mines. Implementing a shared supplier assessment tool can also be useful (see box at the end of the section).</td>
</tr>
<tr>
<td>Reliable delivery by suppliers</td>
<td>Placing obligations on primary contractors has helped to build the capacity of local suppliers in their supply chain, and support them to meet delivery requirements. It can be useful to conduct joint product testing and R&amp;D, support for certification and development of business processes and improvement to management and production systems. Some countries have instituted rating systems for suppliers, which help buyers to recognise and reward more reliable suppliers.</td>
</tr>
<tr>
<td>Payment terms</td>
<td>Some mining companies have implemented a policy of seven day payment to local suppliers to assist with cash flow; others assist with up-front payment or purchasing/ pre-financing of materials. Sometimes there are internal limitations within mines, especially in the development phase when mines rely on head office cash transfers for operating budgets.</td>
</tr>
<tr>
<td>Reduction of corrupt practices</td>
<td>Independent supplier verification and screening can assist to identify potential exposure and risks relating to company ownership. Decision-making procedures can also be amended to include review processes, rotation of officials and separation of negotiator and contracting roles. Increasing transparency of contract information, including to civil society, can assist with building independent “watchdog” functions.</td>
</tr>
</tbody>
</table>
Wider operating environment

3. WHO SHOULD BE RESPONSIBLE FOR MAKING THESE CHANGES? IF ADDITIONAL RESOURCES ARE NEEDED, HOW CAN THEY BE SECURED?

Considerations, including experience from the WALPI project

In mines, typically there will need to be a day-to-day champion within the procurement management team, who can also advocate for changes in other departments where required e.g. finance. Experience shows that the chances of successfully making changes and maintaining new systems are improved if there is buy-in from the senior leadership in the company e.g. country director or global MD. Suppliers will be able to make some changes internally, in other cases there may need to be additional support provided e.g. around management capabilities and good business practices, improvement of production processes, standards compliance and certification. Various support agencies may need to be involved. Experience has shown that support programmes tend to be more effective where suppliers make some contribution to the cost of the support.

Chambers of Mines, as well as supplier associations and support entities, can play a useful role in building common platforms such as databases and information portals.

In some countries, the capacity of support organisations is weak, including public enterprise development agencies, technical standards and certification bodies, industry associations / chambers of commerce, and private business development service providers. Capacity building may be required so that these organisations can effectively meet the needs of mining suppliers, which may be more complex than those of their other clients. Where the scale of need does not justify building specialist local institutions, or where this will take too long, it may be more effective to draw in regional or international institutions. (See also Module 7)

4. WHAT ARE THE HIGHEST PRIORITY OPERATING ENVIRONMENT ISSUES TO RESOLVE SO THAT SUPPLIERS CAN COMPETE?

Considerations, including experience from the WALPI project

Identifying the priority issues may need to consider both how critical these issues are, as well as the extent to which they can be influenced. Operating environment challenges often relate not just to mining suppliers but many other businesses and even the society overall. Approaches are therefore often shaped by many other factors, with the needs of mining suppliers not always being a priority. Ideally, there should be an iterative relationship between these decisions and identifying opportunity in the medium vs. long-term. As more is learned about the pace of possible change, opportunities may shift into different time horizons.

5. WHAT SOLUTIONS FOR EACH OF THESE ISSUES ARE LIKELY TO BE MOST EFFECTIVE GIVEN THE CONTEXT?

Considerations, including experience from the WALPI project

Potential solutions may emerge from:

- Isolated or small-scale initiatives that have not yet been scaled up
- Initiatives in other sectors
- Solutions tried in other locations in the region or internationally
- Bottom-up innovations by those involved who has strong motivation to solve the problem
- Solutions that have been proposed by researchers (whether academics, public research institutions or private think-tanks) that have not yet been tested
- Design and innovation professionals and consultancies, in particular those that specialise in large-scale systems changes

When evaluating which of these solutions might work in the particular context, consideration should be given to similarities and differences in factors such as:

- Scale and nature of the problem
- Legal and regulatory environment
- Human, financial and institutional resources available
- Dynamics between the role players that will need to be involved e.g. extent of shared vision or common understanding of the problem

Example solutions relating to electricity:

- Larger suppliers providing excess power to a cluster of smaller suppliers
- Mines providing power to suppliers on site
- Mines entering into PPPs to roll out grid infrastructure, including to suppliers in affected communities.

Example solutions relating to credit:

- Ring-fencing a portion of royalties for supplier development
- Tapping into export credit financing for large capital equipment purchases
- Enterprise development funds as part of mine and other corporate CSI
- Mines underwriting funding for selected suppliers
- Collaboration between mines and banks to reduce the cost of credit for enterprises in their supply chain, drawing on expertise of business development service providers
- Funding provided by joint venture/international partners
6. FOR EACH OF THESE ISSUES, WHO SHOULD LEAD: DEVELOPMENT OF SOLUTIONS, TESTING/PROTOTYPING, IMPLEMENTATION?

Considerations, including experience from the WALPI project

In many countries there is a forum with a mandate to improve performance on "doing business" and competitiveness indicators. This is often a multi-stakeholder task team led by the investment authority, commerce ministry or in some cases a task team or working group within the Presidency. If such a forum exists, it could be a good place to raise the specific issues experienced by mining suppliers. A separate process might be needed if such a structure does not exist or is ineffective, or if the needs of mining suppliers are very different from those in the rest of the economy.

Ideally, the development of a solution should involve the entity responsible for final rollout, but this may not always be possible if that entity is resistant to change. In these cases, it may be necessary for those who are affected to take a lead in finding solutions, ideally with backing from support entities. Testing and prototyping can be a key step in trying out new solutions without incurring massive costs or having to change the whole system at the same time. Ideally, the testing or prototyping can involve the entity responsible for final rollout. However, where the agency responsible for the issue does not buy into finding a solution, it may be necessary to test the new solution out through another mechanism e.g. a short-term project with separate funding, which may either reduce the perceived risks, or help to mobilise political will for the change.

The decision of who should lead implementation relates to the fit with mandates as well as operational capacity. It may also relate to the nature of the change required and who has influence over these; e.g. does it require changes to legislation or regulation, changes to procedures and practices, or investments in infrastructure, systems and/or people?

Typically the first option is to start with existing institutions that are based—or are active—in the country. Secondary consideration may be given to either partnering with international institutions or creating new institutions/ agencies. Creation of new institutions is generally a long-term and expensive exercise, often with concerns about sustainability of these organisations and challenges of marketing them so that potential beneficiaries are aware of what they offer, and it is therefore often a last resort. (See also Module 7)

7. WHO ELSE NEEDS TO BE INVOLVED?

Considerations, including experience from the WALPI project

A problem-solving process is often greatly enhanced by including a diverse range of people with different experiences and ways of thinking, including technical experts, practitioners, those who experience the problem on a daily basis, as well as people from unrelated fields who may bring fresh perspectives.

It may also be helpful to involve experienced facilitators who can ensure that the design process takes into account user needs and yields a workable solution. Experts that can analyse the economic or commercial feasibility of solutions will also need to help screen solutions. Other role players and stakeholders that may need to be involved or consulted could include related line ministries, potential funders, and support agencies, whilst taking care to avoid the outcomes being shaped by vested interests.

It may also be helpful to have a multi-stakeholder group that can regularly assess performance in identified problem areas. (See Module 8)

8. IF ADDITIONAL RESOURCES ARE NEEDED FOR IMPLEMENTATION, WHO MIGHT PROVIDE THESE?

Considerations, including experience from the WALPI project

In some cases, implementation may be funded through organisations' existing budget allocations e.g. where existing services are adjusted or re-oriented. In other cases, additional resources may be required for implementation. Experiences in West Africa show that there is often funding available if one knows how to navigate through funding processes.

It may be helpful to develop a matrix of available funders — whether national funds, international donors, foundations, or corporate investors — as well as what types of areas they support, and their funding and reporting processes. Types of funding and resources required (whether cash or in kind contributions) may include:

- Professional fees for:
  - Facilitation of idea generation
  - Feasibility studies and related analysis
  - Technical support
  - Organisational design and development
  - Drafting support for new regulation, procedures or manuals
  - Skills development — including training, mentoring and coaching
  - Secondment, contracting or hiring of additional human resources for implementation
  - Development of new systems/rollout of new technologies
  - Infrastructure development

Depending on the country context, the selection of the most suitable funders to approach may be direct or through a central funding coordination structure.

Some countries have chosen the approach of ring-fencing a portion of mine royalties to support increased competitiveness of suppliers; this would typically require a decision by the revenue authority, and might also require amendment of laws or regulation.
WALPI Supplier Assessment Tool

As part of the WALPI project, a supplier assessment tool has been developed that can be used by supplier registration and support entities. See Appendix 9.

This tool consolidates the questions typically asked by mining companies as part of their initial supplier registration and vendor qualification processes. These questions help to identify compliance gaps and therefore inform support priorities. The table below provides an overview of the structure of the tool, which is in Excel format.

<table>
<thead>
<tr>
<th>Category</th>
<th>Response</th>
<th>Unit</th>
<th>Supporting Documents</th>
<th>Assessor notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact Information</td>
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<tr>
<td>Core Products/Services</td>
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<tr>
<td>Core Company Information</td>
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<tr>
<td>Quality</td>
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<tr>
<td>Financial Stability</td>
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<tr>
<td>Human Resources</td>
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<tr>
<td>Health, Safety, &amp; Environment</td>
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<tr>
<td>Political Risk/ Governance/ Corruption/ Human Rights</td>
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<tr>
<td>Past Work with Mines and Future Potential</td>
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<tr>
<td>Client Interactions and Transactions</td>
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<tr>
<td>Support</td>
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</tr>
</tbody>
</table>
Do we need local procurement policy, law, or regulation? If so, what should be in policy vs. law vs. regulation vs. guidelines or practice notes?

Government policy, law, and regulation can be important tools to formalise and create clarity around an agreed local procurement approach. They can range from setting out overall principles in a sector-specific or more general local content policy to providing clear obligations and guidance on roles and responsibilities, definitions, and reporting. They can be voluntary guidelines or more prescriptive and can provide different incentives and enforcement mechanisms. They can also create the basis to secure resources for support. However, consideration needs to be given to administrative capacity, local business capacity, overall socio-economic objectives, and potential impact on the investment climate, as well as other legal and international obligations.
Module 5
Local procurement policy, law, and regulation

1. Key strategic questions to consider

The key strategic questions to consider relate to the content of the policy, legislation, and regulation, as well as how it will be executed in terms of process, timings, and roles:

<table>
<thead>
<tr>
<th>1. Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. What are the priority changes/additions to policy, law and associated schedules, regulation, guidelines and practice notes?</td>
</tr>
<tr>
<td>2. If customs instruments (e.g. mining lists) are already in place or are being considered, how can these be aligned to optimally support local suppliers?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2. Process/timings</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. How should these changes be sequenced and what are the likely lead times?</td>
</tr>
<tr>
<td>4. What legacy issues from existing agreements will remain for the longer term, and how can these best be dealt with?</td>
</tr>
<tr>
<td>5. If additional resources are needed to amend or develop legal documents, how could these be secured?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>3. Roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>6. In each case, who can lead the process of developing and amending the necessary policy, legislation, regulation etc.?</td>
</tr>
<tr>
<td>7. Who else needs to be involved and consulted?</td>
</tr>
</tbody>
</table>

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
Module 1: Approach
Module 1 raises a number of key strategic questions that need to be answered in order to decide on a local procurement approach, including how to encourage behaviour from all role players that leads to increased employment, diversification, and spillovers to the local economy. As part of these considerations, Module 1 discusses where and how policy, law and regulation can be appropriate tools for the approach depending on the level of formality and scope, as well as key considerations governments may need to take into account.

Module 2: Definitions
Formalising the definitions

Module 4: Enabling suppliers to compete
Operating environment and doing business reforms

Module 7: Coordinating implementation and building institutional capacity
2. Learning from international experience

Recent research by the McKinsey Institute has shown that most resource-intensive economies in the world have local procurement legislation and regulation. As shown in the figure below, it is a mix of ‘hard’ and ‘soft’ regulation.

<table>
<thead>
<tr>
<th>PERCENTAGE OF COUNTRIES WITH DIFFERENT REGULATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining countries</td>
</tr>
<tr>
<td>Hard regulation</td>
</tr>
<tr>
<td>Soft regulation</td>
</tr>
<tr>
<td>Number of resource-driven countries</td>
</tr>
<tr>
<td>Oil and gas countries</td>
</tr>
<tr>
<td>Hard regulation</td>
</tr>
<tr>
<td>Soft regulation</td>
</tr>
<tr>
<td>Number of resource-driven countries</td>
</tr>
<tr>
<td>Both mining and oil and gas countries</td>
</tr>
<tr>
<td>Hard regulation</td>
</tr>
<tr>
<td>Soft regulation</td>
</tr>
<tr>
<td>Number of resource-driven countries</td>
</tr>
</tbody>
</table>

This research found that countries such as Angola, Brazil, Indonesia, and Nigeria have “hard” regulations with specified quotas and targets, as well as requirements for international entities operating in country to set up a local subsidiary. Mozambique, Australia, and Mexico have “soft” regulations, where targets are not obligatory. Chile, Canada, Lithuania, and Norway have no local content regulations; Chile and Norway used to, but they achieved their objectives and were able to phase them out. In its research, McKinsey found four gaps in local content regulation across all the countries it studied:

1. Requirements seldom customised to sectors: Most of the requirements are generic and not adapted to the supply structure of different sectors.
2. “Value pools” of higher opportunity not targeted: Opportunities with the greatest potential are not always prioritised. In other cases, unrealistic targets have been set.
3. Time frames undefined: As an exception, Ghana has been clearer about phasing the approach to local content in oil and gas, with increases of 10% each year for locally-made or locally-provided goods and services.
4. Lack of supporting government institutions.

More widely, it is important to note that there is limited empirical evidence to date on the achievement of desired outcomes of the different kinds of local content policy and regulatory measures.

The type of regulation around local procurement in West Africa has evolved over time, from general principles captured in overall law to more prescriptive requirements, often captured in regulations or individual mining agreements. Based on WALPI experience, the main challenges that have been observed in terms of regulation are a lack of clear definitions (see Module 2), and a lack of implementation capacity for both oversight and supplier development.

The following matrix is an overview of some of the countries highlighted throughout the Guide, capturing whether they have hard or soft regulation in line with McKinsey’s definition, as well as indicating which aspects have been included in their policy, regulation, or legislation. Please note that not all of these local procurement legal mechanisms are working as expected, and their inclusion here should not be taken as an endorsement as best practice.
Over time, changes have occurred in the typical coverage of policy, legislation and regulation. Initially, few policies included supplier development and capacity building activities, but now almost half the countries mentioned include it to some extent. Many countries have also historically used customs exemptions as part of their mining code and convention incentives to mining investors. Increasingly, countries are seeking to align these mechanisms with their local procurement efforts.

The use of customs instruments in relation to mining local procurement in West Africa

Most countries in West Africa provide special customs exemptions to mining companies as a way to encourage mining investment. Customs exemptions are generally provided under certain conditions and to certain products that may be defined in a predetermined list (often referred to as “mining list”) available centrally or in mining/concession agreements. Mining lists and customs treatment of inputs are primarily used as tools of investment and FDI policy. Only recently have countries started to change how they are being applied to ensure they support local procurement, for example, by removing exemptions where items are locally available and/or prioritised for local supply.

Using customs instruments to encourage support for local procurement depends on two processes: the ordinary process by which tariff rates are set for all products, and the exemption scheme process. As most West African countries are members of the WAEMU customs union and/or ECOWAS (which is in the process of establishing a customs union), the setting of the generally applicable tariff regime happens at the regional level. The mining exemption schemes are currently happening at the national level. There is an attempt by WAEMU to “regionaize” that process, i.e. developing the mining list at a regional level.

Some examples of West African countries with mining lists are shown below, highlighting the variety of approaches followed. Further detail on these and other countries, as well as WAEMU tariff rates, is available in Appendix 10.

<table>
<thead>
<tr>
<th></th>
<th>Niger</th>
<th>Mali</th>
<th>Ghana</th>
<th>Guinea</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal form of the mining list</strong></td>
<td>Appendix III to the Model Mining Convention</td>
<td>Joint decree by the Minister of Finance and the Minister of Mines and Energy</td>
<td>Provided for in the Mineral and Mining Law: 29(a) import exemptions Exemptions in terms of VAT Act for items on the mining list</td>
<td>Individual list to be submitted for approval to the Ministers in charge of Mines and Finance. Mining list should conform to framework set in article 166 and following of the Amended Mining Code of 2013.</td>
</tr>
<tr>
<td><strong>Presentation and format of mining list</strong></td>
<td>Presented by HS chapters and codes, including comments and some specific qualifications¹⁶</td>
<td>Presented as a list of products grouped by subcategories and categories and then by phase (totaling 185 items for exploration phase and 332 items listed for exploitation phase) – HS code not included</td>
<td>Described broadly in the law as “plant, machinery, equipment and accessories”</td>
<td>No specific format set in mining Code, but mention that regulation will define the conditions of filing and approval of mining lists.</td>
</tr>
<tr>
<td><strong>Existence of specific lists for individual mines</strong></td>
<td>Possible, in case of departure from central list in individual mines’ conventions</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Other possible departure from central list</strong></td>
<td>List can be modified by simple request and approval by the Director of Mines</td>
<td>No</td>
<td>Not specified</td>
<td>Not applicable</td>
</tr>
<tr>
<td></td>
<td>Niger</td>
<td>Mali</td>
<td>Ghana</td>
<td>Guinea</td>
</tr>
<tr>
<td>----------------</td>
<td>-------------</td>
<td>-------------</td>
<td>------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Date of establishment and review of mining list</td>
<td>2006-2007</td>
<td>1998</td>
<td>Reviewed in 2004 Under review as part of process of promoting local procurement</td>
<td>Mining list provisions established in new Mining Code of 2011 (Code amended in 2013)</td>
</tr>
<tr>
<td>Removal of products available nationally</td>
<td>Not specified</td>
<td>Some items in the mining list require consideration/ research of local availability before importation</td>
<td>2012 mining law regulations [2(10) and (11)] allows for Commission to develop a &quot;local procurement list&quot; to be reviewed annually, and payment of full duties if a mine does not source locally those items on the local procurement list; however, does not specify removal from list</td>
<td>As per article 166 of Mining Code, any equipment, material, machine, raw material, or consumable may not be included in mining list if an equivalent Guinean-made item can be found and is available on commercial terms that are at least equal to that to be imported.</td>
</tr>
<tr>
<td>Removal of products available regionally</td>
<td>Automatic: per paragraph 22.3.4.(5) of model mining convention, no exemption for items in mining list that are produced within WAEMU at similar conditions of price, quality, etc.</td>
<td>Not specified</td>
<td>Not specified</td>
<td>Not specified</td>
</tr>
</tbody>
</table>
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out **information questions** and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

**Example answers from WALPI pilot country: Liberia**

### 1. **What are the relevant legal documents?**

<table>
<thead>
<tr>
<th>Ministry of Lands, Mines &amp; Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mineral Policy of 2010</strong></td>
</tr>
<tr>
<td>- Current mining law – Mineral and Mining Law of 2000: Local procurement in general was not captured in the Act. Sections 160 and 161 briefly touched the issue of local content in terms of local employment.</td>
</tr>
<tr>
<td>- Vision is for &quot;equitable and optimal exploitation of Liberia’s mineral resources to underpin broad-based sustainable growth and socio-economic development&quot;</td>
</tr>
<tr>
<td>- Calls for the development of the &quot;up-stream&quot; linkages by establishing mineral supplier (inputs) industries (services, capital goods, consumables)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model MDA and Individual MDAs which when ratified become laws</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The text of Section 12 of the Model MDA &quot;Use of Liberian Goods and Services&quot; includes:</td>
</tr>
<tr>
<td>- When purchasing goods and services related to Operations, the Company shall, and shall cause its major contractors to:</td>
</tr>
<tr>
<td>i) organise their procurement practices to give meaningful opportunities to bid for contracts to those entitled to preference pursuant to clause (ii) of this sentence, and</td>
</tr>
<tr>
<td>ii) give preference to the maximum extent possible to materials and goods produced in Liberia and services provided by citizens of Liberia resident in Liberia or entities incorporated or formed in Liberia where citizens of Liberia are entitled to receive 60% or more of profits from such entities, provided that such goods and services are at least comparable in quality, terms, delivery, service, quantity and price to goods and services obtainable from other sources. Subject to the foregoing, the Company and its major contractors may freely contract with any Person. The Company shall report to the Minister within 60 days following the end of each Financial Year on the extent to which the Company and its major contractors acquired during such year materials, goods and services from the preferred sources described in the first sentence of this Section</td>
</tr>
<tr>
<td>- Some individual MDAs also include tariff arrangements and exemptions for mine imports</td>
</tr>
<tr>
<td>- More recent MDAs include requirements to submit Project Linkages Plans, and extend local procurement obligations to &quot;major contractors&quot;</td>
</tr>
</tbody>
</table>

| Sub-section 9.2 of the Mineral Exploration Regulations includes similar local procurement provisions to those in the model MDA |

### Public Procurement & Concessions Commission

- **2007 margin of preference policy** in place for public procurement with targets:
  - In respect of procurement of goods, 15% margin of preference shall be provided for goods if it is established that local input in the form of raw materials, labour or plant constitutes a minimum of 30% of the Ex-Works price. |
  - In respect of procurement of works, 10% margin of preference shall be provided for works contracts. |
  - In respect of procurement of services, a margin of preference shall be applied to consultancy or service contracts only when cost is a factor in the selection process in which case the provision of Sub-Regulation (3) of this Regulation shall apply. |

  If and when a margin of preference is to be applied to procurement of services the Entity must: |
  1) confirm that cost is a factor in respect of the criteria for evaluation of services |
  2) a margin of preference has been stipulated in the bid document as applicable, |
  3) apply 30% during the evaluation of costs for firms with a minimum of 30% of total man month input being Liberian nationals. |

### Ministry of Finance:

- **Revenue Code**: As amended by the Consolidated Tax Amendments Act of 2010, Section 1708 (b) has a special rule for mining or petroleum projects, allowing import duty exemptions for plant and equipment, intermediate inputs, and raw materials. |
- **Customs regulation and procedures govern collection of customs duties and capturing of import information** |

### Ministry of Commerce and Industry

- **Regional and international agreements** |
  - ECOWAS e.g. Rules of Origin |
  - Other bilateral trade and investment agreements |
  - National Investment Commission (NIC) |

### Investment Act of 2010 asserts the principle of "national treatment", therefore with respect to all laws, regulations, instructions and other acts having the force of law in Liberia, foreign investments in Liberia shall be treated not less favorably that [sic] similar domestic business organisation. |

However, this is subject to labour and immigration law provisions; and some differences in treatment of foreign investors in terms of the Revenue Code and reservation of some sectors to Liberian citizen-owned businesses are noted, as is the exclusion of public procurement.
2. WHAT ARE THE EXISTING LEGAL DEFINITIONS THAT NEED TO BE TAKEN INTO ACCOUNT? (INCLUDING SPECIFIED THRESHOLDS)

Possible information sources: Central government law repositories and websites; individual line ministries; reports and assessments of mining law within the country or by international agencies; local legal experts.

See Module 2

- Constitutional definition of a Liberian citizen as of African descent
- Liberian enterprise
  - More than 51% citizen ownership in margin of preference policy
  - At least 60% of profits going to Liberian citizens resident in Liberia in model MDA
- Domestic business / enterprise
  - In 2010 Investment Act: “Domestic business organisation” is
    - a business organization in which the majority of the shares are held by a person who is, or persons who are citizens of Liberia or a partnership in which the partnership controlling interest is owned by a person who is or persons who are citizens of Liberia;
  - In 2007 “Policy on margin of preference”, “Domestic business” is
    - a business owned by foreign nationals and registered under Liberian Law, with less than 51% Liberian ownership; or without Liberian ownership but operating in Liberia

3. DO ANY OF THESE LAWS, REGULATIONS AND MINING AGREEMENTS INCLUDE STABILITY/GRANDFATHER CLAUSES THAT ARE RELEVANT TO LOCAL PROCUREMENT? IF SO, WHAT ARE THE EXPIRATION TIMINGS AND REVIEW PROCESSES?

Possible information sources: Mining law and agreement repositories/EITI website, local mining experts

MDAs include “stability clauses” in terms of fiscal regime – 25 years with 5 year periodic review. More widely, Section 31 of the model MDA allows for 5 year periodic review to consider any substantial changes in circumstances, as well as the option for either party to request good faith consultations between the parties on “any matter affecting the rights and obligations of the parties pursuant to this Agreement or any matter relating to Operations”, with any modifications having to be by mutual written agreement, and only become effective once approved by the President of the Republic. The model MDA also notes the applicability of other Liberian Laws (with exceptions in terms of the Revenue Code) and that obligations should be interpreted within the Liberian legal context.

4. WHAT ARE THE TYPICAL TIMINGS AND APPROVAL PROCESSES FOR AMENDING OR PASSING NEW LEGAL DOCUMENTS?

Possible information sources: Local policy/legal practitioners, parliamentary records

Typical timings:
- Policies: more than 4 years
- Law amendments: 2 to 3 years
- New law: more than 3 to 4 years
- Regulations: 2 to 3 years
- Procedures, practice notes and guidelines: 1 to 2 years

Processes:
- Policy, law and regulation: Internal drafting within line ministries/by experts, national and county-level consultations, submission to Cabinet and legislature for adoption
  - Potential use of Law Reform Commission for drafting
- Procedures, practice notes and guidelines: Internal drafting by officials within line departments
5. WHAT CHANGES TO RELEVANT POLICY, LAW AND REGULATION ARE ALREADY PLANNED? WHAT ARE THE PLANNED TIMINGS FOR THESE CHANGES?

- Proposed National Investment Commission (NIC) Local Content Policy (under way)
- Draft revised mining law and planned regulations (MLME) (expected to be finalised in 2015)

Draft wording as at November 2013:

161. **Linkages and Local Content**

1. The Minister acting together with other relevant Ministries, Government agencies and private sector organisations and enterprises must cause a strategy and action plan to be developed and implemented to increase linkages between mining operations and business enterprises in Liberia.

2. The Minister must ensure that lists of goods and services that have potential to be supplied by business enterprises in Liberia and lists of suppliers of goods and services that could be supplied or adapted for supply to mining operations are prepared and published.

3. The Minister may prescribe a framework for promoting, measuring and monitoring linkages and local content, including definitions and criteria for linkages, local content, value added and Liberian participation in ownership and management of suppliers, steps to be taken to advance linkages and local content and guidelines for linkages and local content plan.

4. The holder of a large scale mineral mining licence must
   - prepare and implement a plan for linkages and local content,
   - in the conduct of mining operations including the purchase, construction and installation of facilities, give full, fair and reasonable access to opportunities, to the maximum extent possible consistent with safety, efficiency and economy, to materials and products made in Liberia and to businesses located in Liberia and in particular to businesses that are owned and managed by Liberian citizens.
   - share information on procurement needs and help to identify and assess the viability of suitable products and services for local supply.
   - collaborate with and assist potential local suppliers with technical support, product testing, advice on standards, preferential payment terms and support for access to finance.

- Planned accession to the WTO (spearheaded by Ministry of Commerce & Industry)
- Current review of the Constitution, including definition of a citizen (led by Constitution Review Committee)
- Review of local content requirements for the oil and gas industry also underway.

As discussed above, when developing national local procurement policy, legislation and regulation, countries need to take into account their existing regional and international obligations. The boxes below provide further detail on relevant regional and WTO provisions.

### Relevant AU, WAEMU, and ECOWAS provisions

A framework has been set by the AU Mining Vision and Action Plan, in particular the pillar on local content, and by regional organisations (WAEMU, ECOWAS). These address both local procurement (as part of the harmonisation of mining legislation) and areas relevant to local procurement (trade, customs, competition law, investment, enterprise development, sectoral policies, infrastructure programs, etc.).

WAEMU has been a customs union since 2000 and, as such, has a Common External Tariff (CET). ECOWAS has established a free trade area since the 1993 Treaty and has recently been making progress towards the adoption of a CET. Therefore, when in pursuit of local procurement, a Member country needs to take care not to impose tariffs or non-tariff barriers or otherwise impede the movement of a good originating from another Member state.

Other areas of regional harmonisation include:

- Regional competition law in WAEMU: the constitutive treaty comprises the core competition law interdictions of agreements and abuse of dominant position, which are further specified by regulations and directives (Example: regulation 02/2002/CM/UEMOA relating to anticompetitive practices, regulation 04/2002/CM/UEMOA relating to state aids within WAEMU, etc.). Note that due to centralised enforcement combined with institutional issues, effectiveness of the regional competition law is limited.
- Sectoral policies and harmonisation: maritime transport, agriculture, industry, telecommunications, energy, tax system, macroeconomic policy, etc.
- Regional infrastructure programs (example: WAEMU PER) aiming to reduce friction in the flow of goods and services.
WTO provisions and special treatment

**Note:** all West African countries except Liberia are members of the WTO

Relevant WTO agreements include:
- **Trade Related Investment Measures (TRIMs):** This falls within the scope of the General Agreement on Tariffs and Trade (GATT) and applies to all WTO members, and therefore only applies to trade in goods.
- **General Agreement on Trade in Services (GATS):** WTO members indicate which sectors they commit to compliance with GATS.
- **Agreement on Government Procurement:** This agreement is pluri-lateral and therefore only applies to countries that sign up to it.

There are a few aspects of the above that are of particular interest in relation to local procurement in the West African context:

**GATT:**
- This special treatment is provided to developing countries (Nigeria, Mauritania, Ghana, Côte d'Ivoire, and Cape Verde are designated Developing countries) and least developed countries (LDCs) (Benin, Burkina Faso, Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Mali, Senegal, Sierra Leone, and Togo are all designated LDCs). The special treatment makes provision for:
  - An additional transition period for eliminating TRIMs in five years for developing countries and seven years for LDCs that has now lapsed.
  - The Council for Trade in Goods may also extend this period for LDCs where the member is experiencing difficulties implementing the provision.
  - Introduction of new measures that deviate from TRIMs obligations was limited to a period of five years, provided that these measures are eliminated by 2020.
- Local procurement measures in some cases could be considered as 'providing economic assistance' under Article XVIII of GATT 1994.
- The infant industry rationale, or declining industry argument, could apply to some industries.
- In fragile states, national security might be deemed a motivation for particular economic policies/regulations, e.g. Nigeria's local content policy in the oil and gas industry in mitigation of political upheaval.
- The removal of special exemptions on tariffs for imports of certain goods and services by mining companies (e.g. mining lists) can be done without affecting international trade commitments as this simply returns a country's trade law to its agreed levels of tariff protection.

**GATS:**
- As this agreement only applies to a country's lodged sector commitments, there may be sectors relevant to mining local procurement that are not covered by the agreement.

**Public Procurement**
- No African country is a signatory to the Agreement on Public Procurement, and therefore, none are bound by its provisions.
- As government procurement is excluded from TRIMs requirements, those West African countries where mines are concessioned through government procurement may be excluded from compliance with TRIMs obligations such as national treatment (however, see Canadian andIndian cases below).

**Cases concerning TRIMs and public procurement**

Canada lost a court case in 2013 in relation to its local content requirements. The WTO (on 6 May 2013) confirmed that the local content requirements in the Canadian province of Ontario's feed-in tariff (FIT) programme for renewable energy were inconsistent with international trade rules.

India argued in a case brought against them that the local content clause in the Jawaharlal Nehru National Solar Mission (JNNSM) is primarily aimed at promoting domestic manufacturing and is fully consistent with India's existing obligations under the WTO agreements. According to the Indian government, since the JNNSM is essentially procurement of solar power by the government through a state-owned entity, there is no violation of WTO obligations.

**Note:** At time of print, there have been no cases brought to the WTO in either the mining or oil and gas sectors. There is also recognition among trade scholars and practitioners that because oil, gas, and mining projects have potentially such extraordinary impact on the economy of the host countries, these sectors need extraordinary measures, in particular in Least Developed Countries.
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered.
To complete this electronically, please download the Workbook.

## 1. Content

### 1. WHAT ARE THE PRIORITY CHANGES/ADDITIONS TO POLICY, LAW AND ASSOCIATED SCHEDULES, REGULATION, GUIDELINES, AND PRACTICE NOTES?

**Considerations, including experience from the WALPI project**

- Changes could include amendments to existing, or development of new, legal documents
- Currently there is no common approach to mining local procurement policy, legislation, and regulation across the region, which could guide changes; however, this may develop over time
- Typically, it is more difficult to change or create new policy; regulations, guidelines and practice notes are generally easier to amend
- Mining law reviews and development of local procurement regulations are taking place across a number of West African countries, including Liberia, Burkina Faso, and Ghana. As these legal frameworks are tested out over time, they may inform changes in other countries in the region
- Changes may include both alignment to avoid contradictions or inconsistencies, as well as setting out the principles, definitions, approach, responsibilities, reporting obligations, etc.
- Examples of changes covered are included in the table below, along with some considerations:

<table>
<thead>
<tr>
<th><strong>Definitions</strong></th>
<th>Unclear or implied definitions have provided limited value; there have often been contradictory definitions which create uncertainty and lack of clarity. See Module 2 for further information. Some countries have chosen to include definitions in regulations or practice notes rather than in law. This provides greater flexibility and ability to respond to changing circumstances and lessons learned.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope or application</strong></td>
<td>Clarity on who the provisions apply to is important, e.g. stages of mining, other extractive industries, categories of mining licence.</td>
</tr>
<tr>
<td><strong>Access to opportunities</strong></td>
<td>This may include requirements for regular updating of vendor registrations, open tendering, advertising, and, in some cases, a central portal for procurement information and/or submissions. Care should be taken that provisions are workable for mining companies and suppliers, i.e. they do not introduce significant administrative burdens or delays.</td>
</tr>
<tr>
<td><strong>Approach to preference</strong></td>
<td>For example, equal treatment, margin of preference, or set asides. Phrases such as “to the maximum extent possible” and “being equal on price, quality, and reliability” are difficult to independently verify and therefore are of limited use. Percentage allocations for margins of preference are difficult to apply given the wide variation in types of goods and services, some of which are more commoditised, others having wide variations in pricing. Often this preference is required to “flow through” to primary contractors. Set asides may have unintended consequences resulting in uncompetitive practices and pricing by suppliers.</td>
</tr>
<tr>
<td><strong>Priority products/services for local procurement</strong></td>
<td>Lists that have been developed in consultation with the mining industry and suppliers have been shown to be more realistic and achievable. It is likely that these lists will need to be updated either annually or every few years. Inclusion in core legislation is therefore not likely to be appropriate. Inclusion in schedules or annexures to legislation, or guidance notes that can be more easily updated might therefore be more appropriate. <strong>Note:</strong> Care should be taken to align any mining list provisions to avoid a disincentive to source locally.</td>
</tr>
<tr>
<td><strong>Objectives, measures, and targets</strong></td>
<td>Clear objectives and measures can be helpful to ensure there is a common understanding of what stakeholders want to achieve. However, arbitrary targets in law or regulation have been shown to be ineffective as they can often not be achieved in reality, which can undermine legitimacy of the local procurement effort. They can also be difficult to enforce, such as in Guinea’s new Mining Code. Therefore, it may be more practical to set out clear overall objectives within policy, and for mines to set targets and report on their progress against these, based on a thorough demand and supply analysis, e.g. as part of their local procurement plans. See Module 6 for further information.</td>
</tr>
</tbody>
</table>
Priority types of suppliers
These priorities would reflect socio-economic priorities and the selected definitions. See Modules 1 and 2 for further information.
Priority categories may include:
- Location
- Local participation: ownership (local/JV), management, and employment
- Value-addition
- Size of supplier, e.g. SME, large
- Sector

Transitional arrangements
Where stability or grandfather clauses exist that affect local procurement provisions, it would be helpful to provide clarity on how alignment will be achieved over time. In some cases, new regulation or guidelines could clarify existing obligations.

Reporting requirements
Examples of reporting requirements include submission of local procurement plans by mines. See Module 6 for further information.
It is helpful to have clear guidelines on: structure, frequency of submission, feedback or sign-off processes and timings, implications of not submitting or not submitting on time.
Whilst some countries have put in place penalties for non-submission, care needs to be taken that submission and feedback timings are realistic for the capacity of both mines and the regulator, and that any penalties encourage behaviour that supports rather than detracts from local procurement efforts.
In some cases, regulations provide forms or templates for submission.
Local procurement requirements are often specified as “flowing through” to primary contractors; in such cases it would be helpful to clarify how this obligation is dealt with in terms of reporting.

Nature of support/support programmes
These may include both supply-side measures (supporting suppliers to become more competitive, comply with mines’ technical requirements, and upgrade skills and technology, including through JVs) and demand-side measures. See Module 4 for more detail. Demand-side measures include policies and regulations to encourage the choice of “local suppliers” by the mining companies.

Incentives and financial instruments
This may include alignment of existing incentives or creation of new incentives, e.g. supplier support incentives, ring-fencing of a portion of royalties to support local procurement or supplier development specifically, and/or creation of targeted funds.

Institutional arrangements and roles
This may include allocation of responsibilities to existing entities or creation of new agencies, depending on availability of suitable capacity. It may also include the creation of multi-stakeholder forums, task teams, or working groups to further develop and implement the local procurement approach. See Module 7 for more detail.

Note: not all of these items are covered in every country and this is not an exhaustive list. This is also not a recommendation of the structure of a law in any given country.

Some examples of how decisions in Module 1 (Approach) might play out into responses to this strategic question:

<table>
<thead>
<tr>
<th>Example strategic decisions in Module 1: Approach</th>
<th>Implications for this question</th>
</tr>
</thead>
</table>
| Q2 Job creation is primary socio-economic objective | • Emphasis on employment/labour-absorbing opportunities in policy statement, and legal definitions of local supplier, including both small and large firms
• Align incentives and measurement framework to job creation |
| Q3 Include wider markets (outside mining) | • Change definitions and any agreed preference systems in overall enterprise and supplier regulation rather than just in mining regulations (cross-reference in MDAs);
• Ensure wider private sector development policy/strategy supplier development and incentive procedures all include suppliers to mining and other priority sectors |
| Q4 Certain supply sectors are targeted e.g. fresh produce, construction materials in the short-to medium-term | • Include provision for supplier sector targeting in the policy; identify specific priority opportunities in a schedule that can be changed more regularly
• Integrate priority sectors from mining local procurement into any industrial policy/strategy
• Any guidelines on local procurement plan structure could include consideration of these priority sectors |
| Q5 Focus on addressing the critical challenge of quality of supply | • Within the mining local procurement policy: Reflect the emphasis on supporting quality improvements in partnership with relevant agencies
• Within wider policy, strategy, legislation and regulation: Amend quality and technical infrastructure provisions to align with the systems required by mines, align certification and standards agency mandates, provide for mutual recognition of multinational quality bodies
• Align enterprise incentive guidelines to support quality certification for suppliers |
| Q7 Select collaborative approach based on strengthening mine-government-supplier trust and relationships | • Emphasis in policy, legislation and regulation on mandating and resourcing consultative and joint planning structures
• Issue guidelines on supporting local procurement that enable consistent information sharing and reporting |
2. IF CUSTOMS INSTRUMENTS (E.G. MINING LISTS) ARE ALREADY IN PLACE OR ARE BEING CONSIDERED, HOW CAN THESE BE ALIGNED TO OPTIMALLY SUPPORT LOCAL SUPPLIERS?

Considerations, including experience from the WALPI project

- The approach will need to remain compliant with regional and international trade obligations (See fact boxes in previous section)
- Various definitions of local suppliers will have an impact on customs issues, e.g. a focus on locally value-adding suppliers or a focus on use of local inputs or raw materials
  1. If suppliers are likely to be reliant on inputs that are not readily available locally, extension of mining tariff exemptions to local suppliers can help to level the playing field.
  2. Where local manufacturing is prioritised and possible, consideration may be given to removing such items from the mining list to avoid a disincentive to source locally. Consultations with Commerce departments and industry associations can assist in assessing available capacity; consultations with competition authorities (if present) can also assist in seeking approaches that do not have unintended consequences for competitive practices.
- Consistency of terminology and definition of items by HS Code can help to avoid ambiguity

Some examples of how decisions in Module 1 (Approach) might play out into responses to this strategic question:

<table>
<thead>
<tr>
<th>Example strategic decisions in Module 1: Approach</th>
<th>Implications for this question</th>
</tr>
</thead>
</table>
| Q2 Development of local manufacturing as a priority socio-economic objective | • Consider removing items from the mining list that can be/are manufactured locally, potentially in a phased approach based on development of suitable local capacity  
• Consider mechanisms to ensure local manufacturing suppliers have the same access to duty-free imported inputs as mines |
| Q5 Focus on addressing the critical challenge of quality of supply | • Take into account available quality and capacity of local supply when considering removing items from the mining list |
| Q7 Select collaborative approach based on strengthening mine-government-supplier trust and relationships | • Regulator to consult with mines and supplier sector to determine the most suitable approach and timings for changes to the mining list |
| Q9 Mining ministry to lead the process | • Mining ministry to work closely with revenue authority/customs administrator to create consistency between customs schedules/procedures, and any wider mining lists (overall or within individual mine agreements) |
3. HOW SHOULD THESE CHANGES BE SEQUENCED AND WHAT ARE THE LIKELY LEAD TIMES?

Considerations, including experience from the WALPI project

- This will need to take into account the typical lead times reflected in the information questions in order to be realistic.
- In addition, sequencing will need to follow the national legal process sequence, e.g., regulation follows law, which follows policy. Initial drafting, consultation, finalization by state law advisors.
- Experience in the region has shown that processes can take many years and some have not been finalized. Therefore, consideration may need to be given to the use of processes with shorter lead times (e.g., practice or guidance notes) to provide clarity in the interim period.

Some examples of how decisions in Module 1 (Approach) might play out into responses to this strategic question:

<table>
<thead>
<tr>
<th>Example strategic decisions in Module 1: Approach</th>
<th>Implications for this question</th>
</tr>
</thead>
</table>
| Q10 Limited resources are available in the short-term; these could be increased in the medium term as mining sector revenue grows | - Focus in short-term on non-binding guidelines that do not require significant legal resources to redraft or implement new systems
- Prepare MOUs to enable collaboration in the short-term with other agencies and international support bodies with provisions for capacity building for local structures
- Work with finance ministry/revenue authority to integrate allocation into budget policy framework when royalties increase |
| Q11 Recognition that benefits will be medium- to long-term, and that supply competitiveness needs to be improved first to increase the scale of opportunity | - Policies to recognize challenges in short-term and longer-term objectives
- Content of regulation would not include prescriptive short-term measures
- Emphasis in 4 to 5 year planning and strategy documents on measures to support supplier development and improvements to the operating environment
- Emphasis in local procurement plan guidelines on both medium and long-term target setting as well as partnerships for sustainable supplier development
- Measurement frameworks to include both supplier capacity development and actual local procurement |

4. WHAT LEGACY ISSUES FROM EXISTING AGREEMENTS WILL REMAIN FOR THE LONGER TERM, AND HOW CAN THESE BEST BE DEALT WITH?

Considerations, including experience from the WALPI project

- Depending on the content and status of existing individual mining agreements, there may be inconsistencies, e.g., in the nature and timing of reporting:
  - If the new provisions around local procurement are not substantively different, changes could also be considered as clarification.
  - Changes could potentially be addressed through mutual consent and written confirmation if needed, or waiting for the next review period.

5. IF ADDITIONAL RESOURCES ARE NEEDED TO AMEND OR DEVELOP LEGAL DOCUMENTS, HOW COULD THESE BE SECURED?

Considerations, including experience from the WALPI project

- A scan of existing institutions and donors providing technical support and funding for policy, legal and regulatory work, and drafting may reveal a shortlist of organizations to approach:
  - GEEDR is hosting a global public-private partnership, the Extractive Industry for Local Content Development (EILCD).
    - The partnership will provide support to practitioners in both public and private institutions and serve as a knowledge creator and hub for resources related to local content in the oil, gas, and mining industries.
  - For example, in Guinea, there are discussions between donors regarding the financing of local procurement activities.
6. IN EACH CASE, WHO CAN LEAD THE PROCESS OF DEVELOPING AND AMENDING THE NECESSARY POLICY, LEGISLATION, REGULATION ETC.?

Considerations, including experience from the WALPI project

- Typically lead entities have included mining ministries, mining regulators/minerals commissions, concession management and oversight bodies, and ministries of commerce/industry.
- Champions of legislative reform ideally need to have an understanding of both the legislative processes and the implementation issues.
- In many cases in West African countries, regulators have capacity constraints; consideration of this capacity is important when developing reporting and oversight provisions in law and regulation, as well as allocating responsibilities.
- Where the agreed overall lead for the mining local procurement approach is outside of government (e.g., Chamber of Mines or Chamber of Commerce), ideally a consultative structure could be developed to provide input into government on possible legislative and regulatory implications.

7. WHO ELSE NEEDS TO BE INVOLVED AND CONSULTED?

Considerations, including experience from the WALPI project

- Legal drafters can be drawn from within government or contracted advisers. These options may have different resource and time implications, depending on the context and available capacities.
- Collaborative processes with key stakeholders (government, mines, suppliers, and support entities) have been shown in many cases to result in more workable outputs.
Should our mining company have a local procurement plan and, if so, what should be in it?
How do we integrate our local procurement plan into our overall company planning, operational systems, and reporting?

A local procurement plan is a key tool that can be used to set objectives and targets, identify opportunities and support requirements, and organise efforts to increase local procurement. It can also be used to assess progress and fulfil reporting requirements.
Module 6
Mining company local procurement plans

1. Key strategic questions to consider

A local procurement plan can be developed at a number of different levels, including mine, company, or country level. The strategic questions below will guide you through the development of your local procurement plan.

- At which level should a local procurement plan be prepared? (mine, country office, Chamber of Mines, etc.)
- Who should be responsible for leading the development and implementation of the plan, and who should be consulted?
- What should be the local procurement plan document’s structure?
- How often will it be updated or progress reports submitted?
- What are the internal challenges to completing the plan and how can they be overcome?
- How can consistency be ensured (given varying individual company approaches)?

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
Module 1: Overall Approach
Informing the local procurement plan
Module 5: Policy, legislation, regulation
Any regulated reporting requirements
Module 8: Measuring, monitoring, and evaluating
Tracking and evaluating progress
2. Learning from international experience

There are very few well developed local procurement plans in the mining sector globally. Individual mining companies’ strategies and policies exist but these often lack detail in relation to specific actions steps, targets, and definitions, and are not clearly integrated into day-to-day procurement operations. The box below provides an example of one of the more comprehensive approaches.

**Anglo American Local Procurement Strategy for Quellaveco site in Peru**

In 2010, Anglo American announced plans to develop a copper deposit in Quellaveco site in the Moquegua region of Peru. The site is in an area of Peru where communities have had negative experiences with mining companies in the past, so a decision was made to develop a local procurement strategy for the mine to expand the developmental impact of Anglo American’s supply chains and help secure the mine’s social license to operate.

The process was led by Selma Fernandes, a supply chain expert within the Anglo American group, with the support of the senior management team who had also supported Selma’s relocation to the site in order to better engage with stakeholders, facilitate research and consultations, and develop an appropriate strategy. The process drew on the tools set out in Anglo American’s Socio-economic Assessment Toolkit (SEAT).

The focus of the local procurement strategy is on “localised” procurement, i.e. within the community affected by the mine.

As part of the engagement process, a series of workshops were facilitated in 2011 between potential suppliers and community members. At these workshops both the opportunities available, and critical Anglo American requirements around safety and competitiveness of suppliers were dialogued.

A template for the strategy was developed through various iterations, including:

- **Business case**
- **Demand-side analysis**
- **Supply-side analysis**
- **Priority opportunities for local procurement and supplier development (gap analysis)**
- **How to ensure accessibility and visibility of priority opportunities**
- **Building local SME capability**
- **Building internal capacity (resources, procedures, processes and systems, KPIs)**
- **Risk assessment (to both host communities and the operation)**
- **Stakeholder engagement**
- **Exit strategy**

A dedicated local procurement coordinator has been appointed to manage the implementation of the strategy. The coordinator’s roles include:

- An intensive campaign to identify competent suppliers in the region (Over 1200 localised suppliers identified)
- Managing local supplier development programmes aimed at improving standards, security, and administrative services, with results measured in terms of increased productivity and sales
- Development of a reporting framework, and management of monthly social reporting by contractors
- Convening a series of business networking events in partnership with the local Chamber of Commerce
- Development of a communication strategy to local suppliers, including radio and television spots
- Development and implementation of feedback mechanisms between mines and suppliers

The templates for the local procurement plan, along with lessons learned have been adapted and developed into a ‘Local Procurement Toolkit’ which is now being rolled out across the Anglo American group. The aim of the Local Procurement Toolkit is to provide resources to implementation teams across various operations which will ensure consistent delivery of high quality local procurement engagements.

The development of the mine is still being considered, with further investigation of the economic case, as Anglo seeks ways to lower its capital costs in light of the prevailing copper price, with potential start up in 2016.

There is little evidence of combined local procurement plans across mines within a country or region. One exception is Ghana where, in response to new regulation, the Ghana Chamber of Mines produced a joint Local Procurement Plan for the gold mining sector in 2013. This enabled identification of shared opportunities and support programmes. There has been some subsequent discussion about individual mining company submissions.
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

Example answers from WALPI pilot country: Burkina Faso

**1. WHAT ARE THE RELEVANT PLANNING AND REPORTING SYSTEMS AND DOCUMENTS (MINE, COUNTRY, CHAMBER OF MINES ETC.)? HOW IS LOCAL PROCUREMENT CURRENTLY DEALT WITH IN THESE SYSTEMS/PROCESSES AND DOCUMENTS?**

<table>
<thead>
<tr>
<th>Potential information sources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requirements from head offices, regional/national mine management</td>
</tr>
<tr>
<td>• Current content captured</td>
</tr>
<tr>
<td>• Existing key performance indicators (KPIs)</td>
</tr>
<tr>
<td>• Regularity of reporting/assessment</td>
</tr>
<tr>
<td>• Systems used (e.g. procurement systems, finance systems, vendor/supplier prequalification databases, surveys)</td>
</tr>
</tbody>
</table>

No requirement for submission of a local procurement plan in current mining law.

- Chamber of Mines multi-year initiatives/action plan on local procurement, including Chamber of Mines study on the state of local procurement in Burkina
- Mining companies’ sustainability/corporate responsibility reports
- Chapters/sections on socio-economic impact/community development in mining companies’ annual reports
- Varying level of detail and complexity across mining companies’ data on procurement. More established companies have computerised systems that can output current spend levels based on many criteria
- Mines reported on their local procurement initiatives and results during ad hoc workshops (symposium in June 2013, presentation of Chamber of Mines study in February 2014, World Bank workshop in April 2014, etc.)
- Mines are typically reporting and targeting based on local registration, affected communities, ownership

**2. WHICH UNITS AND PEOPLE ARE RESPONSIBLE FOR PLANNING, IMPLEMENTATION AND REPORTING?**

<table>
<thead>
<tr>
<th>Potential information sources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Organograms</td>
</tr>
<tr>
<td>• Job descriptions</td>
</tr>
<tr>
<td>• Input from management</td>
</tr>
<tr>
<td>• Formal mandates in legal documents</td>
</tr>
</tbody>
</table>

Typically in Burkina Faso, the following units and people are responsible:

- Procurement/logistics departments of mining companies
- Corporate or government affairs/community development departments of mining companies
- Finance and line managers in mining companies (planning, strategic procurement decisions)
- Procurement group of the Chamber of Mines
- Leadership by key people in various positions in some key mining companies, and other stakeholders (Embassy of Canada, NGOs, etc.)
- At the country level, a Local Procurement Commission was suggested by WALPI workshop in April 2014

At present, there is no common approach to mining local procurement planning across the region that can guide activity in the country.

**3. ARE PLANNING AND REPORTING REQUIREMENTS EXPECTED TO CHANGE?**

<table>
<thead>
<tr>
<th>Potential information sources:</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Mining companies’ strategy documents and leadership statements</td>
</tr>
<tr>
<td>• Policy and legal review processes</td>
</tr>
<tr>
<td>• Country mining experts</td>
</tr>
</tbody>
</table>

Some mining companies have expressed interest in drafting local procurement plans

- Should the recommendations of the WALPI workshop be taken forward, there might be a change through the development of a Local Procurement Commission
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered.

To complete this electronically, please download the Workbook.

1. **AT WHICH LEVEL SHOULD LOCAL PROCUREMENT PLANS BE PREPARED (MINE, COUNTRY OFFICE, CHAMBER OF MINES ETC.)?**

   **Considerations, including experience from the WALPI project**

   The most appropriate level for the local procurement plan will depend on issues such as:
   - The main level at which procurement is taking place, e.g., at the mine level or at the country office.
   - The availability of suitable planning and implementation capacity, including whether there is any capacity in a Chamber of Mines.
   - Any regulatory requirements, e.g., if mining agreement specifies mine-level reporting.

2. **WHO SHOULD BE RESPONSIBLE FOR LEADING THE DEVELOPMENT AND IMPLEMENTATION OF THE PLAN, AND WHO SHOULD BE CONSULTED?**

   **Considerations, including experience from the WALPI project**

   Experience has shown that the procurement division should be central to the development and implementation of the plan, with some input from other divisions, e.g., finance, corporate social responsibility, and government liaison divisions.

   Consultations with communities and suppliers (including primary contractors, current and potential local suppliers) can be valuable to test out potential focus areas and support measures.

   A motivated internal champion is key to successful development and rollout, either from procurement management or more senior company leadership.

3. **WHAT SHOULD BE THE LOCAL PROCUREMENT PLAN DOCUMENT’S STRUCTURE?**

   **Considerations, including experience from the WALPI project**

   The WALPI process has developed a proposed template for a Local Procurement Plan, which is available for download as part of this guide. (See the summary of the proposed structure on the next page)

4. **HOW OFTEN WILL IT BE UPDATED OR PROGRESS REPORTS SUBMITTED?**

   **Considerations, including experience from the WALPI project**

   Reporting and updating cycles are likely to depend on:
   - Any regulatory reporting cycle requirements, e.g., annual or quarterly reporting.
   - Company reporting cycles, e.g., annual reports to society, quarterly reporting on performance indicators.
   - Available capacity to prepare reports (limited capacity is likely to necessitate less regular reporting, or more automated reporting systems).

5. **WHAT ARE THE CHALLENGES TO COMPLETING THE PLAN AND HOW CAN THEY BE OVERCOME?**

   **Considerations, including experience from the WALPI project**

   Experience has shown that challenges often include:
   - Available time of mining officials to develop and roll out the plan.
   - Often local procurement is only one aspect of the procurement officers’ responsibilities.
   - Lack of experience of procurement officers in writing local procurement plans or similar plans.
   - Lack of integration of systems and processes between units within the company, e.g., procurement vs. finance vs. CSI.
   - Often there is a lack of clear guidance on the structure and process.
   - Lack of readily available information on supplier capacity.

6. **HOW CAN CONSISTENCY BE ENSURED (GIVEN VARYING INDIVIDUAL COMPANY APPROACHES)?**

   **Considerations, including experience from the WALPI project**

   A common approach to developing local procurement plans among mining companies in a country will not only support collaboration across mining companies but will also provide regulators and wider stakeholders with a tool to facilitate collaboration on support efforts, and to oversee and monitor progress.

   Consistency can be generated by providing a clear framework for a local procurement plan – depending on the context in a country; this could be through the Chamber of Mines (through agreed guidelines or joint planning) or the mining regulator (through practice notes, guidelines, or regulation).

   In some cases, multinational mining companies may have internal guidelines for local procurement plans or strategies.
A suggested structure of a Mining Company Local Procurement Plan

CONTENTS
1. Introduction and background
2. Overall statement/vision for local procurement
3. Definitions/glossary of terms and indicators
4. Current performance against indicators (the baseline)
5. Key products and service opportunities for local procurement
6. Targets (short, medium, and long-term)
7. Strategies and tactics to achieve desired results
8. Measuring, monitoring, and evaluation systems
9. Building internal and external capacity to deliver on the plan
10. Risks and possible mitigations
11. Action plan

Note: Progress reports (quarterly and annually) would include updates on performance and progress against the action plan. In addition, annual updates could also include revised targets, opportunities, and support programmes.

Please see Appendix 11 for further detail on what could be included in each section.
How can we work across multiple organisations to deliver on the various aspects of our local procurement approach? How do we ensure our organisations have the capacity to implement the approach effectively?

A lack of coordination across the key role players can create confusion, mixed messages and ineffective delivery of mining local procurement efforts. In practice, coordination has many challenges given multiple institutional mandates, interests and ways of working. Insufficient and/or inappropriate capacity to implement has often been the weakness of mining local procurement approaches in the past, in particular in developing countries.
Module 7
Coordinating implementation and building institutional capacity

1. Key strategic questions to consider

Many institutions need to be involved to deliver on local procurement efforts. In order to begin coordinating implementation and developing institutional capacity, the following questions should be addressed:

1. Who should lead local procurement efforts - overall and for each aspect of the implementation?
2. What mechanisms should be used to coordinate implementation?
3. Given existing roles and capacities, what are the most critical gaps to address?
4. What are the most effective tools to build institutional capacity (people and systems)?

Institutions that may be involved in mining local procurement

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
Module 1: Overall Approach
Overview of institutional roles and capacity constraints that shape the appropriate approach
Module 4: Enabling suppliers to compete
Various role players relating to supplier development and the operating environment
Module 5: Policy, legislation, regulation
Roles in terms of mandates
Module 8: Measuring, monitoring and evaluating
Roles in terms of information gathering, M&E and oversight
2. Learning from international experience

Leadership and roles in implementation
Mining local procurement efforts to date have typically been led by either the extractive industries ministry or regulator (e.g. Ghana, Brazil) or the ministry/department responsible for commerce and industry (e.g. Australia Local Content Units in the Departments of Commerce nationally and at the state level). However, other entities that have been centrally involved or led specific programmes have included:
- Agencies promoting national competitiveness, technology transfer and innovation (e.g. CORFO and regional development agencies in Chile)
- Extractive industry companies/Chamber of Mines (e.g. Sherritt in Madagascar, Mozal in Mozambique)
- Investment councils or commissions

Occasionally a specialist agency has been developed with the sole purpose of developing local content, for example Kazakhstan’s National Agency for Development of Local Content (NADLoC). In Trinidad and Tobago the Permanent Local Content Committee (PLCC) is responsible for leading local procurement. It includes representatives from several private sector organisations, including the South Chamber of Industry and Commerce (the representative body for the energy services sector).

Where certification has been selected as an approach, this capacity is often located within the private sector, for example Chile’s Antofogasta industrial Association which has led certification of suppliers in Antofogasta. Certification also requires verification or accreditation agencies within government, e.g. Brazil’s National Agency for Oil, Gas, and Biofuels; South Africa’s new Local Content Verification Office (housed in the Bureau of Standards).

Other specialist roles may be required, e.g. supplier development, training, market linkages; depending on the institutional landscape these have used existing institutions or created new ones e.g. Australian Industry Capability Networks at the state level. The private sector, donors and NGOs also play a leading role here, for example the IFCs SME linkages programmes or Building Markets (in Liberia).

Coordination mechanisms
In some cases, the body responsible for mining regulation acts as a coordinating mechanism across government stakeholders relevant to the mining sector. For example in Ghana, the Minerals Commission plays the role of coordination across various government departments involved in licensing or regulation of the mining sector.

In some countries, specialist coordination structures have been developed, such as multi-stakeholder local content committees or cross-government local procurement boards (e.g. Nigerian Content Development and Monitoring Board, Trinidad and Tobago’s Permanent local content committee), whether for mining or across multiple sectors.

In other cases, the function of coordination has been allocated to a dedicated government agency or unit within a department. The Chambers of Mines in some countries have played a key role in coordinating aspects of implementation relating to mining companies, such as opportunity identification, access to information, and supplier development. Multilateral organisations also play a coordinating role by facilitating stakeholder discussions.

The institutional framework that is developed is dependent on the policies, laws and regulations, which govern local content requirements, as well as the institutional landscape and capacity within a country.

Capacity building
A number of bodies responsible for supporting local procurement have developed significant capacity for implementation. These include CORFO (which leads many programmes supporting private sector development and investment) and regional Industrial Associations in Chile. Some of CORFO’s successful capacity development has been attributed to its relative autonomy, as decisions and recruiting are less subject to political influence. This means that it can attract professional staff based on merit. In addition, it targeted the development of strong stakeholder relationships within Chile and internationally.
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

Example answers from WALPI pilot country: Liberia

### 1. WHICH ORGANISATIONS ARE RELEVANT TO LOCAL PROCUREMENT?

<table>
<thead>
<tr>
<th>Potential information sources:</th>
<th>OVERVIEW OF RELEVANT INSTITUTIONS IN LIBERIAN CONTEXT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Including:</td>
<td>Information flows, reporting/M&amp;E</td>
</tr>
<tr>
<td></td>
<td>Shared vision, planning, law</td>
</tr>
<tr>
<td></td>
<td>Market access linkages</td>
</tr>
<tr>
<td></td>
<td>Supplier development</td>
</tr>
<tr>
<td></td>
<td>Wider operating environment</td>
</tr>
<tr>
<td>Ministries of Lands, Mines &amp; Energy (MoLME)</td>
<td>Ministries of Lands, Mines &amp; Energy</td>
</tr>
<tr>
<td>National Investment Commission (NIC)</td>
<td>Proposed &quot;Liberia Mining Forum&quot; in terms of revised draft mining law</td>
</tr>
<tr>
<td>Inter-Ministerial Concession Committee (IMCC)</td>
<td>National Investment Commission</td>
</tr>
<tr>
<td>National Bureau of Concessions (NBC)</td>
<td>Chamber of Mines (newly formed)</td>
</tr>
<tr>
<td>Liberia Extractive Industries Transparency Initiative (LEIT)</td>
<td><strong>Individual mines</strong></td>
</tr>
<tr>
<td>LSGIS</td>
<td>Building Markets</td>
</tr>
<tr>
<td>Dept. Civil Service</td>
<td>Individual mines and primary contractors (feedback, technical assistance)</td>
</tr>
<tr>
<td>USAID GEMS process</td>
<td>IFC</td>
</tr>
<tr>
<td>Ministries of Finance/Revenue Agency</td>
<td>Building Markets</td>
</tr>
<tr>
<td>Mining companies</td>
<td></td>
</tr>
<tr>
<td>Civil society</td>
<td></td>
</tr>
</tbody>
</table>

### 2. WHAT IS THEIR AVAILABLE CAPACITY RELEVANT TO LOCAL PROCUREMENT?

<table>
<thead>
<tr>
<th>Potential information sources:</th>
<th>Building Markets:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Including:</td>
<td>Knowledge of available supplier capacity and main buyers (less knowledge of detailed technical requirements)</td>
</tr>
<tr>
<td></td>
<td>Team of 26 people for supplier identification, telephonic supplier verification, site visits and matchmaking</td>
</tr>
<tr>
<td></td>
<td>Existing networks with local suppliers and key buyers</td>
</tr>
<tr>
<td></td>
<td>Supplier database systems</td>
</tr>
<tr>
<td></td>
<td>Web portal for sharing information on suppliers</td>
</tr>
<tr>
<td></td>
<td>SMS and system for sending out notifications of tenders</td>
</tr>
<tr>
<td></td>
<td>Meeting convening capacity</td>
</tr>
<tr>
<td></td>
<td>3 vehicles for site visits</td>
</tr>
</tbody>
</table>

### 3. WHAT ARE THESE INSTITUTIONS AND OTHER STAKEHOLDERS' VIEWS ON GAPS IN CAPACITY?

<table>
<thead>
<tr>
<th>Potential information sources:</th>
<th>Key gaps are perceived to include:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Information gathering and sharing systems</td>
</tr>
<tr>
<td></td>
<td>Capacity for coordinated inspections and oversight, including people, vehicles and systems (which the current process by the Department of Civil Service with USAID GEMS around concession monitoring is trying to address)</td>
</tr>
</tbody>
</table>
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered. To complete this electronically, please download the Workbook.

### 1. WHO SHOULD LEAD LOCAL PROCUREMENT EFFORTS – OVERALL AND FOR EACH ASPECT OF THE IMPLEMENTATION?

<table>
<thead>
<tr>
<th>Considerations, including experience from the WALPi project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining regulators often play a central role in designing, implementing and monitoring regulation relating to local procurement. This means that they may be well-placed to lead local procurement efforts, in particular in terms of mine reporting (e.g., in Ghana). However, WALPi research and benchmarking shows that it is key for mining companies to be strongly involved in supporting local procurement efforts – with Chamber of Mines/individual mines often playing a leading role. Also, in cases where the local procurement approach extends beyond mining to other sectors, it may be appropriate for the lead to be taken by a commerce, industry or investment department, agency, or commission. Typically mining regulators do not have suppliers development capacity. Where the local procurement approach includes supplier development, the lead entity for this aspect could be selected from existing enterprise development entities, whether public, private or non-profit. Selection of the lead could take into account their resources, willingness and client base.</td>
</tr>
</tbody>
</table>

### 2. WHAT MECHANISMS SHOULD BE USED TO COORDINATE IMPLEMENTATION?

<table>
<thead>
<tr>
<th>Considerations, including experience from the WALPi project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential mechanisms include:</td>
</tr>
<tr>
<td>• Multi-stakeholder committees – these can be informally or formally constituted, either with a single chair person or a rotating chair person (depending on the selected format, the legal standing and enforcement authority would differ)</td>
</tr>
<tr>
<td>• An existing unit within government or a Chamber of Mines allocated the coordination responsibility (which would need to have good relationships with other organisations involved in implementation)</td>
</tr>
<tr>
<td>• Creation of a new agency (which may not be preferred given the lead times and resources required)</td>
</tr>
</tbody>
</table>

### 3. GIVEN EXISTING ROLES AND CAPACITIES, WHAT ARE THE MOST CRITICAL GAPS TO ADDRESS?

<table>
<thead>
<tr>
<th>Considerations, including experience from the WALPi project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience in West Africa has shown that the following are often where the most significant gaps lie:</td>
</tr>
<tr>
<td>• Inter-governmental and government-industry communication systems</td>
</tr>
<tr>
<td>• Information management and evaluation systems</td>
</tr>
<tr>
<td>• Supplier industry organisations</td>
</tr>
<tr>
<td>• Chambers of Mines' capacity relating to local procurement (with the exception of Ghana)</td>
</tr>
<tr>
<td>• Supplier development capacity at a level suitable for mining requirements, in particular in terms of private business development services</td>
</tr>
<tr>
<td>When considering which gaps to prioritise, one factor may be whether these gaps will hinder achieving shorter-term objectives of the local procurement approach. Often the capacity of the regulator and Chamber of Mines are considered highest priority, as supplier development support can be dealt with in the shorter term by donor-funded programmes.</td>
</tr>
</tbody>
</table>

### 4. WHAT ARE THE MOST EFFECTIVE TOOLS TO BUILD INSTITUTIONAL CAPACITY (PEOPLE AND SYSTEMS)?

<table>
<thead>
<tr>
<th>Considerations, including experience from the WALPi project</th>
</tr>
</thead>
<tbody>
<tr>
<td>There are a limited number of examples from international experience relating to building institutional capacity in local procurement. However, drawing from available lessons from both within and outside of the sector, the following can be considered:</td>
</tr>
<tr>
<td>• Sharing experiences between countries, e.g., information exchanges</td>
</tr>
<tr>
<td>• Integration of capacity from the private sector, e.g., through multi-stakeholder committees, secondments</td>
</tr>
<tr>
<td>• Integration of capacity from civil society, e.g., in terms of information gathering, supplier development</td>
</tr>
<tr>
<td>• Locating implementation units in departments with strong influence, e.g., Office of the President</td>
</tr>
<tr>
<td>• Organisational development, systems development and training support from donors</td>
</tr>
</tbody>
</table>

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A practical guide to increasing mining local procurement in West Africa
A practical guide to increasing mining local procurement in West Africa
How can we track changes to local procurement levels in the most practical way?
How should we adapt our approach based on our experiences with implementation, and our changing environment?

Ongoing mechanisms are needed to measure changes in local procurement levels, whether relative to previous performance levels or to targets. Monitoring the implementation of local procurement policy and support can help refine the local procurement approach and ensure it remains both appropriate and effective.
Module 8
Measuring, monitoring and evaluating

1. Key strategic questions to consider

In order to develop the best measuring, monitoring, and evaluation process, the following strategic questions need to be answered:

<table>
<thead>
<tr>
<th>M&amp;E Focus</th>
<th>M&amp;E Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How does the agreed definition flow through into measurement requirements?</td>
<td>5. What information will be gathered from whom?</td>
</tr>
<tr>
<td>2. What are the major data gaps that need to be addressed?</td>
<td>6. On what basis will reporting take place? Self-reporting independent certification or verification? How often? Soft or hard copy submission?</td>
</tr>
<tr>
<td>3. What are the key M&amp;E priorities, given the available resources/capacity?</td>
<td>7. How can mining companies best be encouraged to support M&amp;E?</td>
</tr>
<tr>
<td>4. How best can M&amp;E inform improvement of support?</td>
<td>8. Who should lead the following? Data gathering and reporting, monitoring and evaluation, oversight?</td>
</tr>
<tr>
<td></td>
<td>9. To what extent will the information be made public?</td>
</tr>
<tr>
<td></td>
<td>10. Where will additional funding be required to implement M&amp;E systems? How can it be secured?</td>
</tr>
</tbody>
</table>

This module provides resources to help you answer the above strategic questions, by sharing international experiences (Section 2), setting out information requirements (Section 3), and providing key considerations in relation to each question (Section 4).

SEE ALSO:
Module 2: Definitions
Inform what will be measured
Module 7: Institutional coordination and capacity building
Aligning measurement to available capacity

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2. Learning from international experience

Very few countries have accurate information on their baseline before they start their local procurement approach, as there is generally no agreed upon definition or consistent data gathering mechanism in place prior to the implementation of the approach. Available information tends to be based on reports from mines, associations, or enterprise support agencies, which may have inconsistent definitions and levels of information sharing. As a result, baseline local procurement estimates vary significantly. For example, findings from a 2014 survey of 15 World Gold Council members indicated that at least 80% of procurement spend was in the country of operation (available at http://www.gold.org/gold-mining/economic-contribution/value-distribution). In contrast, research on Newmont in Ghana showed that the “actual value-contributed” to the local economy by the top 100 suppliers was 17% in 2010.

Monitoring and evaluation approaches in the mining sector are evolving, overall and in terms of local procurement. In some cases measuring may be limited to within targeted supplier development initiatives, for example in Mozambique and Chile. South Africa provides an example of a more comprehensive system (although focused on Broad-based Black Economic Empowerment rather than local procurement) where certification of suppliers based on a scorecard approach is used. In Mongolia, civil society observers, who are part of a network established to monitor public procurement, have joined in public procurement bid evaluation committees as observers, but this does not seem to have been extended significantly to the monitoring of mining procurement.

Monitoring and evaluation has historically been more well-developed in oil and gas sectors. For example, strong data gathering mechanisms have been in place for a while in Brazil’s oil and gas sector, which uses certification of the level of local content for specific inputs (goods and services). This approach shows the resource intensity of administering a highly formal certification approach. However, countries with recent oil and gas local content regulation also lag behind in monitoring and evaluation. For example, in Nigeria, the monitoring and evaluation of local content in the oil sector has been criticised for lack of transparency (both in award of contracts to oil producers and to suppliers) and for a lack of clear definitions of local procurement.
Brazil

Certification to support local content M&E

Brazil’s oil production was 2.7m barrels per day in 2011, making it the world’s twelfth largest petroleum producer. It also produces 438 billion cubic feet of natural gas per day. Whilst it has a growing mining industry, local content policies currently focus on the oil and gas sector. The National Petroleum Agency, ANP, is the main federal entity responsible for regulating the oil and gas industry, as well as negotiating and monitoring oil and gas concessions.

Prior to 2003, ANP relied on concession contract provisions to support M&E. In 2003, ANP introduced specific rules regarding the reporting and monitoring of local content (in Ordinance 180/2003). In 2007, ANP introduced the Local Content Certification System, which established local content rules for all contracts signed since the 7th bidding round. Currently, ANP carries out M&E through reporting by oil and gas operators every 3 months, supported by the certification system to validate levels of local content. As such, the ANP’s role in monitoring local content includes the following:

- Issuing of templates for certification and reporting
- Setting minimum requirements and criteria
- Accrediting, monitoring and auditing certification entities
- Monitoring concession agreements
- Monitoring and evaluating local content commitments
- Applying penalties in the case of non-compliance
- Monitoring trends in local content for each type of good and service

Certification

Under the certification system, ANP accredits private certification entities to certify levels of local content – there are currently 21 ANP-accredited certification firms. By 2011, over 7,500 certificates were issued that stated the percentage of local content in the particular good or service. These certificates were issued to 400 local providers, which is evidence of over US$2 billion worth of investment in Brazil. The National Organisation of the Petroleum Industry (ONIP) is a leading certifier and has developed a register of more than 2,000 qualified suppliers of goods and services across the oil and gas production chain.

Resources

ANP’s Local Content department opened in 2008 with, on average, seven full-time staff, expanding to 18 in 2013.

Lessons learned

The ANP indicated that local content policy should include a focus on areas for support at each stage – for example, specific activities or industries, regions, or phases. Currently the ANP finds monitoring local content across all types of inputs to be challenging. However, after considering narrowing its scope, it has continued with the full range of products given the difficulty in modifying every contract since 2005. Nevertheless, the government consults industry associations on potential new industrial production units that could be developed in Brazil.

The ANP has also learned that penalties can encourage compliance by operators – it found that after introducing stringent penalties in 2011 operators participated more strongly in local content monitoring and evaluation.
Measuring the employment impact of mining local procurement

Economic growth and job creation are often key objectives of mining local procurement strategies. However, measuring and monitoring the value-added and jobs created by procurement to the mining sector or to a particular mining company is not a straightforward process.

One of the main reasons for this is that local suppliers “re-spend” the money they receive from orders placed by the mining company when they pay their employees, buy inputs from local companies, and make investments in production capacity. Suppliers’ spending generates further production by their own suppliers, and further spending by both suppliers’ suppliers and employees. In each round, further value is added (distributed as wages paid to workers, taxes paid to the government, and corporate profits earned by owners), and further jobs are created.

As such, the mining company has “direct,” “indirect,” and “induced” impacts. The “direct” impacts are those associated with the operation of the company, i.e. employees and purchases of the company. The “indirect” effects are those resulting from the activities of the company’s suppliers and, in turn, the suppliers’ suppliers. The “induced” impacts are those stemming from all the local employees (of the mining company, of its suppliers, of its suppliers’ suppliers, etc.) spending their income.

From an economy-wide viewpoint, the same principles can be applied to the mining sector as a whole. Procurement expenditures made by the mining sector are sales to the procuring industries, and translate into wages, taxes, and purchases of inputs from other enterprises. These sales then translate into wages, taxes, purchases of inputs, and so on.

In the end, the value added and the jobs created by the mining company (or mining sector) in the country, can be expressed as a multiplier of the direct value added and employment of the mining company (or mining sector). Each time there is a “leakage” outside of the country, in the form of procurement expenses, wages, or profits paid to foreign economic agents, there is a reduction in the overall impact and consequently the multiplier. Therefore, leakages in the early rounds have higher consequences than in later rounds.

At the mining company level, attempts to measure employment impact are generally limited to first round indirect impact. Mining companies that have active local procurement or local supplier development programmes typically collect information on the number of jobs created by their local suppliers or jobs associated with specific contracts (e.g. Ambatovy in Madagascar).

Measuring the full indirect impacts and induced impacts is generally done using economic input-output modelling, but requires the involvement of professional economists and the availability of detailed data from the mining company or mining sector and countrywide economic data. For example in Ghana, a study conducted for over six months on the “The Socio-Economic Impact of Newmont Ghana Gold Limited” estimated a job multiplier of 3.8 in the direct value chain of Newmont Ghana, and a total of nearly 50,000 jobs created, or a multiplier of 28 relative to Newmont’s own employment of 1,700. The study consisted of a simulation using the cashflow statement of Newmont and a social accounting matrix of Ghana, which is a statistical representation of the relationships between the economic actors (i.e. transactions between industry sectors, households, government, and the foreign sector), to derive output per sector. It also used the employment intensities of the different sectors to derive impact on employment.

In another case, the total job multiplier at the Yanacocha gold mine in Peru has been estimated at 14 times; and a study by the World Bank found that in Africa, the job multiplier is often in the region of 8-10 times.

A key factor that influences the potential job multiplier in West Africa is the existence of a large informal sector, which is less efficient and more labour-intensive. Mining companies tend to work directly with formal suppliers, but as one moves into the informal sector, job creation is significantly increased. The potential impact on society and poverty-reduction is further compounded by the high ratio of the overall population to the actively employed people, meaning that each worker supports a higher number of people relative to other parts of the world. Stakeholders sometimes perceive this dynamic at the “local-local” level, as one hears often that an even small contract for the mining company to a local supplier could mean a big difference in the lives of many people in the community.

Focusing alone on the total number of jobs created as an indicator is unlikely to be optimal in the medium or long term. For sustainable growth and structural transformation to occur, higher productivity activities need to develop alongside, or in replacement of, low-productivity, high-employment activities. Measuring suppliers by their average wages, average value-added, or the number of jobs are options, but some may find the data collection and processing requirements onerous.
3. Gathering required information

Some key information is needed to answer the strategic questions. This is likely to require gathering information from multiple sources. The table below sets out information questions and provides an illustrative country example based on work carried out during the WALPI project. To complete this electronically, please download the Workbook.

Example answers from WALPI pilot country: Burkina Faso

<table>
<thead>
<tr>
<th>1. WHAT ARE THE CURRENT INSTITUTIONAL MANDATES FOR MONITORING, EVALUATION, AND OVERSIGHT?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• Mining line ministry or regulator</td>
</tr>
<tr>
<td>• Commerce/business ministry or agency</td>
</tr>
<tr>
<td>• ETI office if present</td>
</tr>
<tr>
<td>• Public sector verification agency</td>
</tr>
<tr>
<td>• Chamber of Mines</td>
</tr>
<tr>
<td>• Parliament</td>
</tr>
<tr>
<td>• Private certification bodies</td>
</tr>
<tr>
<td><strong>Potential information sources:</strong></td>
</tr>
<tr>
<td>Laws and regulations (including mining agreements), interdepartmental committees/units, private sector service provider contracts, NGO objectives</td>
</tr>
</tbody>
</table>

No one institution is completely in charge of monitoring and evaluation related to mining local procurement. The roles of the key players are as follows:

- Ministère des Mines et de l’Energie: in charge of the definition of the Government mining policy, the establishment of the mining regulatory framework, and the application of the related laws and rules.
- Inspection Technique des Services (ITS) (under the above Ministry): responsible for controlling and monitoring the activities of the different institutions, projects, and programmes of the Ministry.
- Direction Générale des Mines et de la Géologie (DGMG) (also sits under the Ministry): in charge of the application and control of the Mining Code and regulations.
- Direction Générale des Douanes (within Ministry of Economy and Finance): in charge of the import verification and application of customs duties, including any mining list related processes.
- Other Ministries that are involved for specific aspects: Ministère de l’Industrie, du Commerce et de l’Artisanat; Ministère de la Fonction Publique, du Travail et de la Sécurité Sociale; Ministère de la Jeunesse, de la Formation Professionnelle et de l’Emploi; Ministère de l’Agriculture et de la Sécurité Alimentaire; Ministère des Ressources Animales et Halieutiques.
- The Chamber of Mines has taken on a mandate to develop initiatives on local procurement, and can play a role in the monitoring and evaluation of mining companies. Some mining companies are already self-reporting and self-monitoring on their local procurement actions and results.
- Civil society/NGOs: Plan Canada and ORCADE are both becoming active in local procurement and can play a role in M&E.

<table>
<thead>
<tr>
<th>2. WHAT ARE THE EXISTING DATA GATHERING, MONITORING, VERIFICATION AND OVERSIGHT SYSTEMS AND CAPACITIES?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• Budgets</td>
</tr>
<tr>
<td>• People</td>
</tr>
<tr>
<td>• Vehicles</td>
</tr>
<tr>
<td>• Information and communication systems</td>
</tr>
<tr>
<td><strong>Potential information sources:</strong></td>
</tr>
<tr>
<td>Mining company procurement/finance/sustainability staff; information systems, and reports; mining sub-contracts; Chambers of Mines reports; mining regulator reporting; customs departments/private verification agencies' reporting; NGO databases and reporting</td>
</tr>
</tbody>
</table>

There are limited M&E systems in Burkina Faso. The following data gathering and M&E systems exist:

- Mining companies’ information systems – these capture limited and varying levels of detail.
- Ongoing data collection/audit by some mining companies on their current suppliers – this is not a systematic data gathering and monitoring process.
- Various reports and studies completed or ongoing by stakeholders, including study by Chamber of Mines, WALPI supplier analysis, ongoing study by NGO.

<table>
<thead>
<tr>
<th>3. WHAT IS THE PROCESS FOR ADAPTING MANDATES TO SUPPORT MONITORING, EVALUATION AND OVERSIGHT?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Including:</strong></td>
</tr>
<tr>
<td>• How changes around M&amp;E mandates have been made historically</td>
</tr>
<tr>
<td>• What processes are underway/proposed to enhance M&amp;E mandates, learning organisations</td>
</tr>
<tr>
<td><strong>Potential information sources:</strong></td>
</tr>
<tr>
<td>Ministry of Mines policy officials</td>
</tr>
</tbody>
</table>

Existing mechanisms for refining monitoring and evaluation processes in Burkina Faso include:

- Regulations/decrees/notes by the Ministry of Mines and Energy, creating and defining roles of different divisions or units within the Ministry.
- Laws/presidential or inter-ministerial decrees for larger or strategic units, or those involving multiple ministries or specific donor funding.
- Ongoing process of reviewing the M&E framework, as part of the revision of the Mining Code and associated regulations. This revision involves a technical process, a multi-step consultative process with major stakeholders, and a political process (vote at National Assembly).
4. Answering the strategic questions

Once the above information has been gathered, the following strategic questions need to be answered.

To complete this electronically, please download the Workbook.

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1. **HOW DOES THE AGREED DEFINITION FLOW THROUGH INTO MEASUREMENT REQUIREMENTS?**

Considerations, including experience from the WALPI project

As set out in Module 2, local procurement can be defined in a way that supports socioeconomic development.

For example, the WALPI framework below would have various implications for measurement.

---

**FRAMEWORK FOR CATEGORISING SUPPLIERS**

The table below provides further detail on how two elements within the supplier aspect of the definition would play out into measurement requirements.

<table>
<thead>
<tr>
<th>Element</th>
<th>Implications for measurement requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizen participation levels in supplier company:</td>
<td></td>
</tr>
<tr>
<td>- Ownership</td>
<td></td>
</tr>
<tr>
<td>- Management</td>
<td></td>
</tr>
<tr>
<td>- Employment</td>
<td></td>
</tr>
<tr>
<td><strong>Information requirements:</strong></td>
<td></td>
</tr>
<tr>
<td>- Official ownership registration e.g. shareholder certificates</td>
<td></td>
</tr>
<tr>
<td>- Verified actual current ownership</td>
<td></td>
</tr>
<tr>
<td>- Management (as per definition, standardised agreed levels defined as management): organisation chart and verified citizenship</td>
<td></td>
</tr>
<tr>
<td>- Employees on payroll and verified citizenship; payments to contract workers, records of their citizenship</td>
<td></td>
</tr>
<tr>
<td><strong>Measurement process would need to cover:</strong></td>
<td></td>
</tr>
<tr>
<td>- All businesses confirmed as supplying exploration and mining companies or primary contractors in the country in a given year</td>
<td></td>
</tr>
<tr>
<td>Local value-add by suppliers:</td>
<td></td>
</tr>
<tr>
<td>- Local inputs</td>
<td></td>
</tr>
<tr>
<td>- Substantial transformation</td>
<td></td>
</tr>
<tr>
<td>- Local service delivery</td>
<td></td>
</tr>
<tr>
<td><strong>Information requirements:</strong></td>
<td></td>
</tr>
<tr>
<td>- Main products and services provided to the mining sector by each supplier</td>
<td></td>
</tr>
<tr>
<td>- In the case of products, to assess substantial transformation in the case where products have imported components:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- For unprocessed products, where these are sourced</td>
</tr>
<tr>
<td></td>
<td>- For processed products, value and source of inputs</td>
</tr>
<tr>
<td>- In the case of services, the location of where a service provider undertakes, manages, and controls the majority of its services</td>
<td></td>
</tr>
</tbody>
</table>
| **The measurement process would need to cover all businesses confirmed as supplying exploration and mining companies or primary contractors in the country in a given year.**
Based on the experience of the WALPI process, additional information (often already captured in mines’ procurement systems) would include:
- Nature of product and service
- Value of product/service provision to the mining sector
- Nature of demand to allow for tracking local procurement across different types of demand, e.g., exploration, mine development, mine operation
- Date of supply to allow for tracking over time

Alignment of data gathering and measurement with other initiatives in other sectors and public procurement may help to make data gathering more efficient in the medium term. Alignment with data gathered in other countries also allows for comparison and learning.

**2. WHAT ARE THE MAJOR DATA GAPS THAT NEED TO BE ADDRESSED?**

Considerations, including experience from the WALPI project

Although data on companies’ registered location is often readily available, there tends to be less publicly available and consolidated data on the participation of citizens and even less on the level of value added locally.

A phased approach to filling data gaps could be taken, for example:
- Initially categorising spend/suppliers to assess levels of local procurement, and then measuring actual levels/quantities of local procurement dimensions (e.g. “substantial transformation” vs. % value added)
- Measuring local procurement for the majority of procurement spend e.g. suppliers accounting for 90% of spend

In addition to local procurement tracking, M&E can also track progress in implementation and outcomes, and inform changes in approach, relating to local procurement support initiatives. There are likely to be information gaps in many cases around programme performance and impact.

**3. WHAT ARE THE KEY M&E PRIORITIES, GIVEN THE AVAILABLE RESOURCES/CAPACITY? HOW DOES THIS PLAY THROUGH INTO SPECIFIC INDICATORS?**

Considerations, including experience from the WALPI project

Given capacity limitations and data gaps, M&E efforts could be prioritised based on:
- Highest priority socioeconomic objectives (see Module 1)
- Tracking highest priority product/service opportunities or largest areas of spend (see Module 3)
- Assessing impact of support efforts so as to inform changes

A priority in the short-term would also be to refine the baseline level of local procurement (see Module 2).

**4. HOW BEST CAN M&E INFORM IMPROVEMENT OF SUPPORT?**

Considerations, including experience from the WALPI project

Indicators related to implementation of support programmes can also be tracked and evaluated. An open approach to reflecting on both successes and failures can support learning from implementation experience to refine the design and rollout of the approach and specific programmes.
5. WHAT INFORMATION WILL BE GATHERED FROM WHOM?

Considerations, including experience from the WALPI project

Using information requirements of the WALPI framework as an example, the following information sources could be drawn on:

<table>
<thead>
<tr>
<th>Element</th>
<th>Potential information sources</th>
</tr>
</thead>
</table>
| Citizen participation levels in supplier company: | • Ownership:  
  − Business registration databases  
  − Vendor registries, registration processed and vendor validation/certification  
  − Supplier questionnaires by support agencies  
  − Details related to membership of industry organisations  
  − Business owner identity documents and/or centralised citizenship databases  
| | • Management and employment:  
  − Existing reporting by companies on local employment and management  
  − Payroll / employment contract details  
  − Organisational charts  
  − Managers’ identity documents and/or centralised citizenship databases  
  − Work permit details (individual or through centralised systems)  
| Local value-add by suppliers: | • Supplier surveys/reporting and potentially also verification reports, support documentation such as suppliers’ purchase records  
  • Mines’ procurement information and reporting system (in cases where value-add information is captured)  
  • National statistics bodies surveys of gross domestic product and local value add  
  • Customs documentation  
| Local service delivery | |

6. ON WHAT BASIS WILL REPORTING TAKE PLACE? FOR EXAMPLE:
- SELF-REPORTING AND/OR INDEPENDENT CERTIFICATION OR VERIFICATION?
- HOW OFTEN?
- SOFT OR HARD COPY SUBMISSION?

Considerations, including experience from the WALPI project

Self-reporting and/or verification:

WALPI experiences show that self-reporting by mines can overcome some of the capacity gaps in government regulators in terms of conducting site visits or inspections. However, this approach requires effort and commitment by mining companies, trust between mining companies and government, and the capacity within government to assess submissions. Ideally, reporting could be integrated into mines’ vendor procurement/purchase order systems to reduce administrative burden and increase accuracy. This could be complemented by validation through spot inspection or audits, which would require some oversight resources. Full certification and verification, as used in some benchmarks, requires the most resources, but resources may be split between public and private sectors, as well as non-government role players such as civil society observers or NGOs.

In many cases, it will be necessary to adjust data gathering systems to capture the necessary information. This may include:
- Changing reporting requirements to the line ministry/regulator and, where relevant, EITI country office  
- Mines incorporating the necessary information into supplier/vendor codes, and requiring equivalent data sharing in contracts with their primary contractors  
- Collective data gathering through Chambers of Mines and/or mine supplier associations where these exist and have sufficient capacity  
- If possible, aligning national enterprise survey questions and methodology

Reporting frequency:
- Annual reporting is likely to be a more workable option in terms of capacity constraints and administrative burden for both mines and regulators (see also Module 6)  
- Brief six-monthly or even quarterly progress reports might be appropriate where capacity is less of a constraint

Submission format:
- Hard copy submissions: this has a high administrative burden, can cause delays in processing, reduces transparency, and in some countries there has been a history of regulators losing hard copies/not properly maintaining archives  
- Soft/online portal: this is often easier for mines to use, but requires initial investment in set-up (whether use of an existing platform or custom design), and there are potentially challenges of maintaining technology, data security etc., as well as issues in terms of reliability of internet access and limited use of e-government systems in some countries.
7. HOW CAN MINING COMPANIES BEST BE ENCOURAGED TO SUPPORT M&E?

Considerations, including experience from the WALPI project

Provision of free or seconded resources to support reporting and measurement activity could increase compliance and willingness to invest more in producing comprehensive reports, in particular where information is not readily available or centralised.

Greater visibility and informed public attention around local procurement could increase the value of effective reporting for mining companies (as well as programmes to improve local procurement performance). Greater public attention on local procurement can also encourage incorporation of good local procurement practices into corporate brand identity and marketing, which would need to be supported by measurement and reporting.

Experience from benchmarks has shown that inclusion of reporting and monitoring requirements in concession agreements, if followed up by oversight or penalties, can increase mining companies’ active participation in both local procurement and M&E.

8. WHO SHOULD LEAD THE FOLLOWING?

* DATA GATHERING AND REPORTING
* MONITORING AND EVALUATION
* OVERSIGHT

Considerations, including experience from the WALPI project

**Data gathering and reporting**

Drawing from WALPI experience, mines are best placed to gather and report information on their procurement spend and suppliers. Mining companies are also able to adjust their vendor registration and validation processes to fill existing information gaps. As such, Chambers of Mines may be best placed to gather and report this information, in particular where they also include mining sector suppliers, from whom they can gather information. Organisations that engage and support local businesses may be well placed for complementing this with further supplier information—in particular Chambers of Commerce and SME support initiatives.

**Monitoring and evaluation**

Options include:
- Mining industry regulator
- Commerce ministry
- Concession regulator

Based on WALPI experience, M&E systems are often under-resourced in terms of people and skills, vehicles, and information management systems. However, experience has also shown that location within the entity responsible for mining licence issuing and review is more likely to encourage compliance.

**Oversight**

Options include:
- Parliamentary committees
- EITI country offices
- Intergovernmental / multi-stakeholder groups
- International verification bodies such as Bureau Veritas
- NGOs such as Revenue Watch

Based on WALPI experience, in-country capacity for oversight may be limited in West African countries, in particular Least Developed Countries, and regional or international support partnerships may therefore be appropriate to provide interim support and build local capacity.

9. TO WHAT EXTENT WILL THE RECEIVED INFORMATION BE MADE PUBLIC?

Considerations, including experience from the WALPI project

WALPI experience shows that certain levels of transparency can help to increase both public awareness and accuracy of expectations of levels of local spend and benefits, as well as support evaluation and oversight by civil society. For example, sharing aggregate demand and local spend levels by supplier category and changes over time could be useful.

This, however, needs to be balanced by confidentiality of commercially sensitive information or information that may impact on competition in the marketplace, e.g. avoiding publishing of individual supplier-mine transactions, average pricing on specific supply items. There may be lessons from EITI in this regard around aggregated information and delays in public release.

10. WHERE WILL ADDITIONAL FUNDING BE REQUIRED TO IMPLEMENT M&E SYSTEMS? HOW CAN IT BE SECURED?

Considerations, including experience from the WALPI project

Options for funding of additional data gathering, monitoring and evaluation systems include:
- General government fiscus e.g. regulator, statistics authority or specialist local procurement verification agency budget
- Ring-fenced allocation from mine royalty payments
- In-kind contribution by mines through changes to their reporting systems and/or through a Chamber of Mines
- Leveraging existing funding and support programmes that are relevant e.g. government capacity building, EITI, open contracting and open data efforts, e-government systems development
- Additional donor contributions e.g. similar to multi-donor trust fund supporting EITI
For example, certain codes may benefit from exemptions only for specific use, etc.

Liberia is in the process of acceding to the WTO

For example, Ghana has made commitments to liberalising trade in services in the following sectors, subject to specific limitations: construction, health, education, tourism and travel-related services, maritime transport, financial services, and communications services. Limitations applied include minimum capital outlay for services provided through commercial presence in Ghana, limitations on work permits for provision of services through the presence of natural persons, minimum equity interest held by Ghanaian nationals (for insurance services provided through commercial presence), or requirements for joint ventures (specified telecommunications services provided through commercial presence).

This article recognises that members whose economies “can only support low standards of living and are in the early stages of development” may be justified in taking protective measures against imports where these ultimately contribute to the objectives of GATT

A more detailed look at what those commitments are is still needed


Adapted from McKinsey Global Institute (2013) Reverse the curse: Maximising the potential of resource-driven economies, p. 71

Key elements: separate mining lists for each of the phases of exploration, construction and operation; only one list for a company can be in effect at a given time; three possible categories in mining list: equipment & fixed assets, consumables for extraction and concentration of crude substance, consumables for transforming into semi-finished or finished products; subcontractors lists should be included into permit holder list; etc.