



Assessment of Supplier Development Programmes in the Extractive Sector in Africa: Strengths, Weaknesses, Opportunities and Critical Success Factors

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Foreword

The African Natural Resources Centre (ANRC) is an entity of the African Development Bank (Bank) specialising in natural resources management. The mandate of ANRC is to assist African governments to maximize development outcomes derived from Africa's natural resources by boosting the capacity of the governments to achieve inclusive and sustained growth. The ANRC delivers its mandate through cutting edge knowledge, conducting high-impact policy analysis, dialogue and providing technical assistance to help support African countries in natural resources planning, policy making, investment and governance. The work covers both renewable (water, forestry, land, and fisheries) and non-renewable (oil, gas, and minerals) resources.

Currently, the ANRC is running a local content and value addition flagship which seeks to support the Bank's Regional Member Countries in developing policies, investment plans, governance frameworks and effective implementation strategies for local content and value addition in the extractive sector. One of the components of the flagship is providing support in ways that can enhance employment through the supply of goods and services, among other measures.

In a bid to maximise local content, many African resource rich countries have introduced local content laws and regulations that include requirements for licensed extractive industry firms to procure goods and services from local suppliers. However, it has been recognised that some of the provisions in laws that put requirements on extractive companies have little chance of success without mechanisms to build the capacity of current and potential suppliers. Even though some supplier development programs have been executed, these programmes have delivered little impact.

The current study provides practical lessons from supplier development programmes implemented in the extractive industries across Africa. The lessons identified are the result of experience of effective and ineffective approaches in developing sustainable supplier programmes. With enhanced local content and

value addition, resource rich countries can create jobs and contribute to improving the quality of lives for the people of Africa, which is one of the 'High-5' priorities of the African Development Bank.

The work in local content and value addition by ANRC is designed to contribute to addressing the challenges and deepening domestic linkages in the economies of African countries. The persisting challenges to local content development in Africa broadly include: (i) the inadequate capacity of local firms to produce goods and services at the required standards and quality; (ii) the lack of access to credit for local supplier firms; (iii) inadequate information on industry requirements; and (iv) the lack of appropriate skills. Most of these issues can be addressed through well designed supplier development programmes. Therefore, a detailed understanding of their strengths, weaknesses, opportunities, and critical success factors is helpful to improve their effectiveness.

Among other knowledge products in the local content and value addition flagship in Africa's extractive sectors that the ANRC is undertaking include:

- Towards a framework for local content policy development in the Mining sector in Ethiopia
- Towards a framework for local content policy development in the Petroleum sector in Ethiopia
- Value chain analysis for the oil sector - potential contributions to African economies
- Enhancing the performance of African National Oil Companies
- Lithium Cobalt Value Chain Analysis for Mineral Based Industrialization in Africa
- Rare Earth Elements Value Chain Analysis for Mineral Based Industrialization in Africa

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Abbreviations and Acronyms

ACET	African Centre For Economic Transformation
BEE	Broad-Based Black Economic Empowerment
BSR	Business For Social Responsibility
BSTP	La Bourse De Sous-Traitance Et Partenariats
CAE	Centro De Apoio Empresarial
CECI	Centre D'étude Et De Coopération Internationale
CIRDI	Canadian International Resources And Development Institute
DfID	Department For International Development
EIC	Extractive Industry Company
ESR	Environment And Social Responsibility
GRI	Global Reporting Initiative
HDSA	Historically Disadvantaged South African
IFC	International Finance Corporation
IGF	Intergovernmental Forum On Mining, Minerals, Metals And Sustainable Development
IOC	International Oil Company
LPRM	Local Procurement Reporting Mechanism
LS&CD	Local Suppliers And Contractors Development
MPRDA	Mineral And Petroleum Resources Development Act
NCDMB	Nigerian Content Development And Monitoring Board
NGGL	Newmont Ghana Gold Limited
NGO	Non-Governmental Organisation
OECD	Organisation For Economic Cooperation And Development
ODA	Official Development Assistance
PEP	Private Enterprise Programme
PETAN	Petroleum Technology Association Of Nigeria
PSA	Production-Sharing Agreement
SDP	Supplier Development Programme
SEZ	Special Economic Zone
SI	Statutory Instrument
SIIND	Sonangol Industrial Investments
SMEs	Small And Medium Enterprises
SOE	State-Owned Enterprise
SOGA	Skills For Oil And Gas
TRIMs	Trade-Related Investment Measures
UNDP	United Nations Development Programme
WAGES	West Africa Governance And Economic Sustainability In Extractive Areas
WBCSD	World Business Council On Sustainable Development
WTO	World Trade Organisation
WUSC	World University Services Of Canada

Executive Summary

Across the African continent an increasing number of countries are introducing local content regulations that include requirements for investing extractive industry companies (EICs) to procure goods and services from local suppliers. These local content laws have typically also included requirements for local hiring and skills training for those directly employed by the EICs. For EIC procurement, the last decade has seen increasing regulations ranging from requirements for companies to submit local procurement plans, to percentage targets and lists of products that must be purchased from national suppliers. However, generally such demand-side measures have not been accompanied by an equally weighted level of supply-side interventions to support local businesses and build their capacity. This gap, as well as continued challenges across many host countries to meaningfully increase local procurement, has created a realisation that more proactive efforts are needed for enhanced supplier development programmes (SDPs).

Most analyses of SDPs have reviewed only one part of the ecosystem. For example, there are several case studies of programmes led by EICs that focus on potential corporations' actions, while ignoring the broader context. This study, in examining the empirical record and engaging in consultations with a range of actors in SDPs, aims to bring the different factors in SDPs together to create a more comprehensive picture. Through this more holistic approach, the factors influencing the outcomes of SDPs, the pre-conditions necessary for successful initiatives, and best practices can be observed and evaluated.

In order to analyse extractive industry SDPs in Africa, it is useful to disaggregate them into three broad groups:

- Government-led initiatives, where governments have been the main driver of SDP activities, usually structured around demand-side measures such as determining requirements placed on EICs;
- Company-led SDPs, where due to government pressure or forward-thinking management, EICs devote significant resources to building the capacity of current and potential local suppliers; and
- Official development assistance (ODA) -funded multi-stakeholder partnerships, where funding is provided to an executing agency to build the capacity of suppliers to EICs.

The activities of government-led SDPs in Africa have ranged from incentivising companies to carry out capacity-building efforts for suppliers, to pressuring

companies by making requirements in legislation and contract provisions, and on to more comprehensive stimulating initiatives, where governments create funds for suppliers, create “local content boards” to coordinate support for suppliers, and even invest in suppliers directly. At the most minimal end of the spectrum, have been government requirements for EICs to give preference to local suppliers in their procurement, but without providing any clear means of enforcement. However, these efforts, such as those contained in Botswana’s mining regulations, do not have a strong record of success in companies devoting increased resources to SDP activity. A step up from this are legislated requirements for EICs to develop a local procurement plan, which are currently required in Ghana and Zambia for mining, and in Tanzania for mining, and oil and gas production. However, here too government abilities to monitor and enforce these plans have been varied and the success of these measures is unclear. Zambia for example has had such a requirement in place since 2015, but such rules remain poorly enforced and monitored, and the country has been unable to create local manufacturing of inputs to the mining sector in any significant manner.

A step up from a requirement for a local procurement plan is to more proactively mandate supplier development as a contractual condition for EICs. Angola achieved significant success with this measure, persuading several international oil companies (IOCs) to create their own SDPs, and at one point BP took the coordinating role on a single training centre supporting businesses who supplied several companies. Other countries have sought to inspire SDP activity through the use of targets where EICs are required to buy a specified percentage of goods and services from national suppliers, particular procurement targets from a list of specific goods and services, or providing a list of products that should only be acquired from local suppliers. Since 2010, Nigeria has developed a list of 280 goods and services stating a percentage that must be purchased from Nigerian suppliers. Ghana’s Minerals Commission has produced a list from which mining companies must purchase from national suppliers or face fines.

The records in Ghana and South Africa in particular show that such targets on their own, without the accompanying meaningful support for suppliers to build their capacity, have a poor record in pushing companies to build up suppliers. In Ghana for example there has been some minor success in having some of the listed goods manufactured locally, such as cables, but overall, there has been a lack of comprehensive progress (interviewed representatives of the mining sector). In some countries targets like this have been shown to even be counter-productive to encouraging growth in local manufacturing capabilities. In South Africa for example, requirements to purchase from businesses owned by Historically Disadvantaged South Africans (HDSAs) has resulted in the local production of goods being displaced in favour of imports by firms compliant with the ownership-based regulations.

Evidence shows success is far more likely by combining such targets with

coordinating SDP activity and business financing. In Nigeria their targets given to oil and gas companies are accompanied by the operation of a Nigerian Content Development and Monitoring Board (NCDMB) which coordinates activities to support suppliers, and also manages a fund for suppliers to access credit – the Nigerian Content Intervention Fund. Such comprehensive approaches have been less common in the mining sector, although one exception that has received less attention has been found in Sierra Leone.

In some cases companies themselves have been the leading force in executing SDPs, regardless of any pressure or the use of targets by governments. Anglo American in South Africa presents a leading example with significant success in building the capabilities of suppliers. In oil and gas there are fewer cases of SDPs that have developed in a way that is truly independent from pressure from governments, though there are some examples from countries without local procurement regulations, mostly outside Africa.

Many SDPs have been initiated and led by ODA providers. While some have had government involvement, a surprising number of them have tended to work in a siloed fashion, without being coordinated in a meaningful way with the relevant ministries. A key finding of this study has been that currently, ODA-led SDPs tend to experience similar and recurring challenges. Initiatives are often planned and funded without adequate scoping in advance, executing agencies frequently do not understand the procurement needs and processes of EICs, and SDP activity is frequently duplicated by different bilateral and multilateral providers.

Best Practices, Critical Success Factors and Pre-Conditions

In order to draw out the practical lessons from SDPs that have taken place in the extractive industries across Africa, this study analyses initiatives and assesses them against the following factors:

- Defining the scope
- Duration of SDP
- Role of EICs
- Structuring of SDPs
- Supplier identification and databases
- Communication
- Access to finance
- For each factor a summary of relevant issues is outlined.

Defining the scope

Scoping refers to the process of examining the need for a given SDP and defining the types of interventions which will be the most effective. Interviews revealed SDPs are frequently pursued with inadequate scoping, particularly in the case of

ODA-led initiatives. One example that emerged as a promising model is Sierra Leone, where funding from the United Kingdom's Department for International Development (DfID) was used by Adam Smith International to develop a detailed scoping of the situation in the country, providing recommendations for SDP activity that the government later adopted.

Duration of SDP

All EICs engage in some form of supplier development such as workshops for suppliers. For all governments, supporting the growth of commerce is a general and important mandate so these mutual efforts create a clear overlap of interest. Significant interventions in supplier development however take time. The consistent theme uncovered both in the literature and in interviews is that to achieve a “big push” where SDPs succeed in shifting procurement to local suppliers, a minimum of three years is required. One representative of an executing agency for SDPs noted that “it takes a year or year and a half to even realize what was wrong with the initial proposal for the programme and to readjust the programming”.

Role of EICs

What emerged in this study was the pivotal nature that extractive companies play in SDPs, and that their active participation was a fundamental pre-condition for success. SDPs where EICs took an active role – whether their participation was mandated or voluntary – were fundamentally more successful than initiatives that were unable to secure their active participation. In addition to providing the offtake for suppliers supported by SDPs, EICs play a crucial role in enabling firms to supply them, such as by having procurement processes conducive to small firms, and by providing information on the types of goods and services they require, with technical specifications. In ODA-led SDPs, there continues to be many initiatives approved without securing the participation of the relevant EICs, and this has resulted in significant challenges and the misuse of resources.

Structuring SDPs

The way in which an SDP is managed has a major impact on the likelihood of its success. A consistent theme in this study is the critical role that adequate coordination plays in determining the outcomes of SDPs. Initiatives in which representation from all the relevant actors is included, have been shown to be much more successful than individual actors working in a siloed fashion. This study finds that having a strong central government body is one of the most effective ways to structure SDP activity, and that petroleum-producing countries like Nigeria and Angola using such an approach have tended to achieve more than those with less government coordination. By contrast, many of the ODA-led SDPs examined in this study had serious deficiencies in how they were structured, and frequently key stakeholders failed to be represented in their management and operation.

Supplier identification and database

The process of identifying which firms should be given support in SDPs is a critical factor and a key determinant of their success. Programmes that focus on the quantity of businesses trained, rather than quality measures like whether those firms secure actual supply contracts, were shown to be unlikely to succeed. Another critical factor in supplier identification, which is highly related to the scoping process, is which goods and services should be targeted as appropriate for local sourcing. As prudent supplier identification is a critical success factor, this points to the need for a strong coordination body like a local content board to continuously update its gap analysis and ensure support goes to the right businesses. This has also been true in EIC-led efforts like the Ahafo Linkages Programme in Ghana where a strong steering committee and empowered team within the procurement function were able to collaboratively identify appropriate products to target.

Communication

A relatively less studied aspect of SDPs has been the importance of communications from the stakeholders involved. Companies who communicate their procurement needs and executing agencies who communicate the types of supplier support they offer, help to inform stakeholders and to provide ongoing feedback for programme design. While transparency has increased about how much companies pay to governments, via the Extractive Industries Transparency Initiative (EITI), less progress has been made on having companies communicate the impacts of their procurement – though this is beginning to slowly change. Particularly in the case of ODA-led initiatives, the lack of communication from all parties involved can be seen to be a key reason why programmes have failed. Without communication from extractive companies on their procurement processes and which kinds of products they require for example, SDP executing agencies cannot tailor their programming.

Access to Finance

The most common challenge for SDPs cited in interviews was the difficulty suppliers faced in accessing finance. With high interest rates and an inability to purchase expensive equipment, the capacity-building support for many suppliers to EICs has been effectively wasted. Without accompanying finance there is a limit for what capacity-building can accomplish. Nigeria has recognized this and part of its approach to supplier development includes a Nigerian Content Development Fund, where one percent of all contract values in the upstream sector of oil and gas activity is provided to the fund. Several EICs interviewed believed that ODA providers may have a key role to play in unlocking SDP success by solving the access to finance problem, either by providing capital for supplier funds, or through programmes which support local finance institutions to provide credit.

The impact of WTO rules and regional considerations

Over the last decade extractive industry host governments have increased regulations on companies, mandating local procurement. It has been noted that these interventions have the potential to be in conflict with World Trade Organisation (WTO) rules, specifically trade-related investment measures (TRIMs). In practice, most of the key success factors for SDPs identified in this study do not violate WTO rules - for example, effective coordination of supplier training and finance allocation through a local content board. There are also significant exemptions in place for WTO rules for developing countries.

It is worth emphasising that no complaints regarding local content regulations in extractive industries have yet been brought to the WTO. One strategy to help mitigate the risk of WTO conflicts would be to add specific 'sunset clauses' on requirements that could violate WTO rules, in order to deter companies from seeking to raise a complaint in future. Such sunset clauses in regulations, which provide that a regulation shall cease to have effect after a specified date, also represent good practice in local content policy more widely.

Bilateral and multilateral trade and investment agreements often contain more meaningful bans on policies that can be critical to SDPs, such as technology transfer requirements. Governments seeking to build their supplier bases for extractive industries should avoid agreeing to such provisions in agreements, or request exemptions for the specific supplier sectors they are seeking to develop.

The other trade aspect of supplier capacity-building which continues to be important is the recognition that many supply opportunities in extractive industries can only be realised at a regional level. There are many cases where no single country's extractive industry operations provide sufficient demand for the economy of scale required for a supplier to be competitive. In these cases any attempt to build their capacity would require additional demand from other countries. To date however there are no examples of regional SDPs put in place by governments. There are however some models in place that could be drawn upon to consider how regional drives to promote suppliers could work. These include supplier portals being used in extractive industries across several countries, such as Invest in Africa's portals in Ghana, Senegal and Kenya, and supplier organisations such as Nigeria's Petroleum Technology Association of Nigeria (PETAN) that have been able to help their member firms successfully supply other EICs in the region.

Evaluating the Relative Weights of Different Factors, and the Pivotal Role of Coordination

This study has profiled many of the best practices that governments could consider for in SDPs, based on case study material and interviews. It is difficult to look at past SDPs and conclude the most important critical success factors in each case, without detailed research and consultation with the participating actors. It is possible however to analyse how performance in one factor has impacted the others.

The ultimate conclusion of this study is that each factor analysed above affects the others significantly, and for initiatives to completely succeed, all of them should be effectively addressed. While it is possible for limited success to be achieved even when one of the factors above is partially mismanaged, the long-term sustainability of SDPs characterised this way faces risks. For example, some companies have been able to achieve significant success in building up their suppliers, with little involvement from other actors, and without meaningful communication to stakeholders. However, in the event that company's assets are sold to a new company without the same values, it is likely such suppliers will fail in the long term.

One component of SDPs that emerges as the foundation for all critical success factors is the need for coordination. In both the empirical record on SDPs in Africa and in the interviews carried out for this study, there is a clear and direct positive relationship between the level of prudent coordination, and the likelihood of success. The policy implication is that setting up an effective structure for an SDP, with representation of all relevant stakeholders, is one of the most fundamental steps for any initiative.

Strategy and Policy Recommendations

Based on the findings of this study, there are several overarching policy implications that emerge in terms of how to create conducive conditions for the best practices for each factor in SDPs.

Strategic Opportunities and Policy Recommendations for Host Country Governments:

- i. Governments are encouraged to create a dedicated local content agency to act as a focal point for SDP activity – coordinating and monitoring progress and drawing on the resources of all relevant government ministries.
- ii. Governments need to ensure there is a source of affordable finance for suppliers to ensure SDPs work, either by creating their own funds, or mandating another actor to create them.
- iii. Governments may need to consider requiring companies to publicly report their local procurement efforts and results, including their participation in SDP activities.
- iv. Governments may have to require ODA providers and executing agencies for SDPs in extractive industries to publicly report on their progress, including the value of new contracts created as a result of their activities. This reporting could be compiled by the dedicated local content agency.
- v. Governments may consider avoiding limitations of their policy space for SDPs in bilateral trade agreements and could put in place sunset clauses for any local procurement regulations that could potentially conflict with WTO rules.
- vi. As an initial step towards developing suppliers on a regional basis, governments could consider convening the industry organisations representing suppliers across several countries to take stock of capabilities and explore potential joint SDP activity.

Strategic Opportunities and Recommendations for ODA Providers:

- i. The various bilateral and multilateral ODA providers who fund SDPs in extractive industry host countries across Africa should form a working group to collaborate on work and avoid duplication of efforts.
- ii. An online community of practice and resource library should be created by the ODA providers who fund SDP activity in Africa to share resources, post requests for proposals (RFPs) and report outcomes.
- iii. ODA providers should consider restructuring their funding of SDPs away from larger, multi-country programmes, to smaller, more targeted SDP activities, requested by governments.
- iv. A significantly higher share of ODA spending on SDPs could be used for scoping studies to support governments to understand the profile of EIC procurements, and what interventions would be most effective in building the capacity of domestic suppliers.
- v. ODA providers should explore options to provide and facilitate finance for firms taking part in SDPs.

01

Introduction

Across the African continent an increasing number of countries are introducing local content regulations that require extractive industry firms (EICs) who wish to operate in the region to also procure goods and services from local suppliers. Such local content laws typically also include requirements for local hiring and skills training for those directly employed by EICs. Regulations for local procurement have been steadily increasing over the last decade in both the oil and gas sector, and mining. This pattern shows no sign of abating and at the time of this report’s publication, Burkina Faso, Ghana, Zambia, and Mozambique are just a few of the countries currently working to adopt or review local content laws on extractive industries.

However, there is growing recognition that demand-side measures requiring extractive industry companies (EICs) to procure a percentage of goods and services locally, have little prospect of success without supply-side measures, which also develop the capacity of current and potential suppliers. Figure 1 provides a useful overview of the different types of demand and supply-side measures that governments commonly use.

Today it is still relatively uncommon across Africa that significant supplier-side measures are in place to match demand-side measures in regulating extractive industry activity. Available case study material on local content regulations in Africa illustrate this phenomenon in detail. In South Africa for example, a 2017 study by the Mining Shared Value initiative of Engineers Without Borders and the Canadian International Resources and Development Institute (CIRDI) found that government requirements to purchase from businesses owned by HDSAs (Historically Disadvantaged South Africans) were not accompanied by meaningful support for suppliers, leading to frustration from mining companies seeking to support local firms (MSV and CIRDI 2017). In Ghana, local procurement regulations in the oil and gas sector have been in place since 2013, but international oil companies report the capacity of suppliers to deliver what they need remains weak. While in 2013

a joint industry and government enterprise development centre was established, in 2016 it was suspended due to a lack of funds, and the centre’s records show only about 22 of 400 SMEs that were supported were ever awarded contracts by international oil companies (IOCs) (Ackah and Mohammed 2018, 12).

GOVERNMENT-LED INITIATIVES	DEMAND- OR SUPPLY-SIDE POLICY OPTION	POLICY OPTION(S)
Regulatory requirements		
Mandatory quantitative requirements	Demand-side	Mandated percentage of local sourcing of goods and services from domestic businesses Targeted list of types of goods and services that should be locally sourced (“set asides”) Community development agreements with obligations on local procurement (with specified targets) Certain lines of businesses reserved exclusively for nationals
	Supply-side	Preference premium price exclusively for local firms
Mandatory qualitative requirements	Demand-side	Community development agreements with provisions on local procurement (without targets)
	Supply-side	Technology transfer requirements (without specified targets)
		Requirements for local research and development spending (without specified targets)
		Supplier development programs Supplier portals
Best efforts that require “preference” without specific targets or timelines	Demand-side	Provision that local goods and services will be given preferential treatment or purchased “to the extent feasible”
Monitoring mechanisms that are more or less stringent and compulsory	Demand-side	Submission of procurement plans detailing how plans will be implemented
		Reporting requirements: companies to report annually on progress made
Incentives		
Financial support	Demand-side	Loans or lending on favourable terms are provided if companies meet certain local procurement objectives
Tax rebates	Demand-side	Tax incentives are provided if companies meet certain local procurement objectives

Figure 1: Summary of demand and supply-side policy options for governments to promote local procurement by the mining industry, from the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development (IGF 2019, 12-13)

This mismatch between the regulations requiring EICs to purchase local goods and services, and the lack of support for suppliers to build the capacity required to meet company needs, is a significant problem for host countries. While one might assume the companies feel the brunt of the problem, there are significant negative consequences for the host country and its government when suppliers do not improve their capacity. As Kolstad and Kinyondo (2015) note, when EICs spend more money on a good or service than the international market price, costs are increased for the operation. Since corporate taxation occurs on profit a company, tax revenue is lowered. In addition, in some countries EICs can also deduct costs associated with the procurement of domestic products, as well as expenses incurred in training suppliers, further reducing potential tax revenue. It is also worth noting that placing local procurement regulations on existing projects and operations could deter future investment, as investing companies may prefer jurisdictions without such regulations, especially if they have had bad experiences of higher costs and inadequate capacity in other countries.

Interventions from government on local procurement need to succeed because of the huge opportunity they create. As increasing use of automation and other new technologies reduces direct employment, the procurement of goods and services becomes increasingly important in terms of the potential economic benefits (Cosbey et al., 2017). This adds a level of urgency for governments to re-examine the approaches to local content they have used for roughly the last decade. At the heart of a more sophisticated approach needs to be effective development planning to ensure domestic firms become more competitive and graduate from needing this support. The COVID-19 pandemic and its impacts on global supply chains has heightened the pressure for African countries to build up domestic supply capabilities for key sectors that drive growth.

1.1 - The State of Knowledge and Study Objectives

Extractive industry efforts to develop local suppliers in host countries has a long history, and incubating, nurturing and supporting small and medium-sized enterprises (SMEs) is an accepted mandate of all governments. There are natural incentives for EICs to purchase as much as possible from local businesses, such as reduced shipping costs and lead times, and companies are likely to engage in some form of capacity-building support for current and prospective suppliers.

There have been many successful SDPs across Africa, and many of these have been the source of significant case study research and guidance. They include Angola's supplier development in oil and gas, Anglo American's Zimele Enterprise Programme in South Africa, and the joint Newmont-International Finance Corporation (IFC)'s Ahafo Linkages programme in Ghana. Case studies like these are invaluable, as well as guidance documents like the World Bank's 'A practical guide to increasing mining local procurement in West Africa' (2015) which contains workbook



spreadsheets, example job descriptions for SDP management positions, and other useful templates and materials that can be quickly adapted for use.

However, since extractive industry host countries in Africa have not achieved significant increases in local procurement, it suggests such best practices are not being fully implemented. In many cases, governments are implementing best practices for some aspects of SDPs, but underperformance remains in other areas. In addition, bilateral and multilateral providers of official development assistance (ODA) continue to provide significant funding for SDPs, but in many cases repeat the mistakes of previous programmes, designing and executing initiatives without a full understanding of what has worked in the past.

All this suggests that Africa has not lacked an examination of SDPs, but rather that the critical success factors may not have been examined in a comprehensive and at the same time. For example, IFC's case studies and guidance from the Ahafo Linkages Programme provide high-quality material on setting up and executing a dedicated SDP – but are mostly focused on actions an EIC can take, with little coverage of the role of government. Likewise, examinations of Angola's state-led SDP activity in oil and gas have focused heavily on the specific policies and contract provisions the government put in place in the 2000s, without examining how the oil companies may have adapted procurement processes, and shared information with the government. Thus, even with internet challenges, information is ultimately available to policymakers in Africa, but a lack of comprehensive analysis across all aspects of SDPs means existing materials are falling short in terms of providing meaningful policy advice.

The objective of this study is to bring all these strands of analysis together: to examine all the critical success factors for SDPs at once, and show how these factors affect each other, in order to make policy recommendations and to outline strategic opportunities. It draws from the empirical record of SDPs in Africa to identify common pre-conditions and critical success factors from past initiatives. This report also draws on interviews with actors across Africa's extractive industry host countries, to provide further analysis to the critical success factors that the literature provides. For each critical success factor, best practices are provided. After examining the potential impacts of WTO regulations on every step, as well as touching on the growing recognition of the need for regional approaches for backward linkages, the study concludes by examining how all these various factors impact each other. Based on the conclusions drawn from this analysis, the study provides policy recommendations and presents strategic opportunities for host country governments, and also the ODA providers who currently fund a great deal of SDP activity across Africa.

1.2 - Study Limitations

Internet and telephone interviews were used to carry out the consultative interviews with actors currently engaged in SDP activity,¹ but in some instances, parts of the information may require further validation. This is important because there are inherent limitations to conducting remote interviews with SDP stakeholders, and relying on existing literature. This is because much of the literature available on SDPs is written by the funders and executing agencies of the SDPs themselves, who may have an incentive to focus on success and downplay any mistakes. In addition, interviewing the actual SME beneficiaries of SDPs was not possible on a remote basis for this study. In particular, the perspectives of women in SDPs – either as those working in executing SDPs, or as suppliers who have received support – was difficult to incorporate without field visits. As such, it is hoped this report forms the foundation for future research whereby on-the-ground field visits can provide further validation for this report's analysis and recommendations. Ideas for future research that this study inspired are included in section 9 - Further Research.

¹ A list of interviewed institutions and academics is included in the Annex of this study. All interviews cited in this study however were provided on the basis that any public attribution requires permission from the interviewee.



02

Experience with SDPs across Africa

Empirical research on SDPs in Africa mostly consists of case study research, with a large proportion of it being written by the funders, executing agencies or relevant EICs involved. Regrettably, there are few instances of governments being able to provide comprehensive data on the extent to which local procurement has increased because of SDPs – or other government interventions in general, such as local procurement targets. In addition to many case studies written by participants in SDPs, another large portion of available material comes in the form of examinations of wider extractive industry local content efforts at the country level, with SDP activity being one of the several components of those analyses.

While this empirical record is incomplete, one can still use it to construct a reliable picture of the various types of supplier development efforts established across Africa by governments, EICs, and ODA providers. When this analysis is combined with stakeholder interviews with current SDP actors, it allows reliable conclusions to be drawn about the critical success factors for SDPs, and the relevant policy implications. With further research and obtaining historical data from governments and EICs on past SDPs, conclusions on the degree of impact for each critical success factor can be further strengthened.

2.1 - Government-Led Initiatives

Most extractive industry host countries in Africa have made efforts to develop their supplier base, although the level of intervention varies widely. It is also an ambiguous space between a government’s demand-side policies requiring companies to buy from local suppliers, and actual supplier development efforts. For example, in the case of Ghana which requires mining companies to purchase particular goods and services from locally registered suppliers, the Ghana Chamber of Mines and its member companies have made some efforts to support suppliers to meet those targets. It is debatable whether the list mechanism acts as a development plan in itself, or if this is an entirely distinct, demand-side measure.

The empirical record shows several efforts by different African governments to build up the capacity of businesses to be able to supply EICs. Figure 2 below shows such interventions from governments are only increasing for the oil and gas sector, and a similar dynamic exists for mining as well.

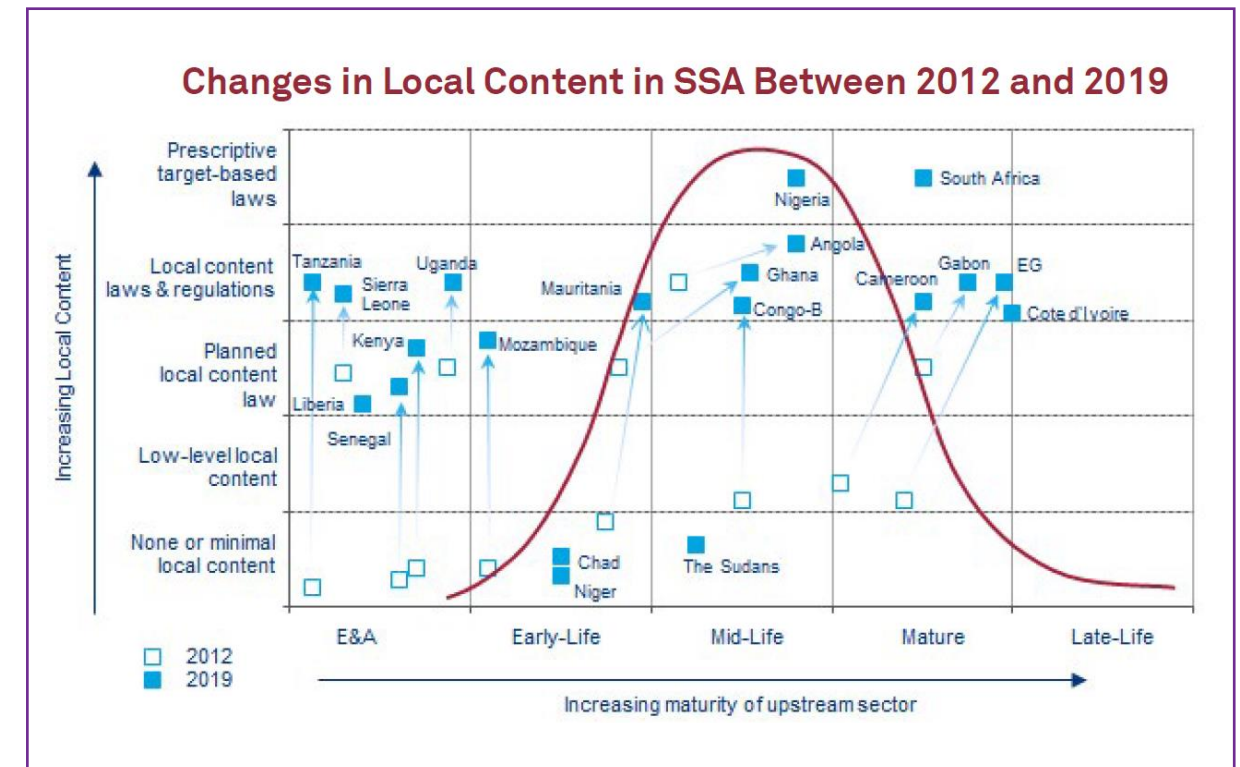


Figure 2: Graph showing rapid increase in the use of local content regulations for the oil and gas sector across Sub-Saharan Africa from 2012 to 2019 - Africa Oil Week and Wood Mackenzie (2019)

At one level are governments which have legislation that mandate EICs to give preference to local suppliers when available. These “best effort” clauses, as the IGF terms them, arguably set a tone for EICs to consider support for suppliers, but their enforcement is naturally difficult and subject to interpretation as to what companies consider to be legally required. For example, in Ghana, the Minerals and Mining Act, 2006 (Act 703) states a holder of a mineral right should give preference to Ghanaian goods and services provided by local citizens and companies. However, a study by the African Centre for Economic Transformation (ACET) argues such generic language left the Ghana Minerals Commission with considerable discretion on how it enforced this law (ACET 2015). This led the government to put in place more specific regulations in 2012. Botswana’s 1999 Mines and Minerals Act also has a similar best effort provision (Government of Botswana 1999, part three, section 12.1), but a 2016 World Bank Mining Investment and Governance Review assessment concluded little in the way of actual supplier development programming was in existence (World Bank 2016). The country also put in place a Citizen’s Economic Empowerment Policy in 2012 that was intended to consolidate various

scattered policies around the issue of support for SMEs (IGF 2018), but the poor score on supplier development by the World Bank shows that such policies can be put in place without much meaningful activity. These examples suggest that simply making best effort clauses in legislation do not provide meaningful inspiration for SDP activity on their own.

A step up from simply stating in legislation that companies should try to buy local where they can, is a requirement for EICs to submit local procurement plans, which tends to encourage companies to set out their supplier development efforts coherently. For mining, such an approach was added in Ghana (2012), and in Zambia (2015), and has now been added in Mali's new mining code passed in April 2020. In Ghana's case, companies must submit five-year local procurement plans to be approved by the government's minerals commission, and they must report progress on them each year. This type of regulatory approach however requires that the government is resourced to analyse and act on the plans, and this may not always be the case if a ministry does not have a deep technical understanding of the procurement needs and processes of EICs. In Ghana's case this approach has been linked to the goods and services list approach mentioned earlier, and the reporting should provide updates on progress towards those specific targets, allowing some specificity. Zambia requires such plans but there is little evidence this provision is enforced, or that any plans that have been created are actually informing any kind of policy. Believing the current approach is not working, Zambia's government in 2020 began to draft a statutory instrument (SI) with more stringent requirements. In the oil and gas sector, the structure of production-sharing agreements (PSAs), combined with the presence of more substantial state-owned petroleum companies, tends to give governments more leverage. Such "best effort" clauses are uncommon, and instead more overt requirements for companies to support suppliers are included in PSAs. Through the use of specific provisions in contracts



requiring oil and gas companies to carry out capacity-building efforts, the companies are in effect compelled to make plans that are easier to enforce, and part of contractual obligations.

Angola is an example of a country that was able to use this approach well. In the mid-2000s the Angolan government and its state-owned oil company Sonogol were able to require investing oil companies to carry out significant supplier development efforts (Tordo and Anouti 2013, 36–37). Sonogol was able to have Chevron create its Angola Enterprise Program in 2004, Total to create a microfinance initiative in 2005 called Zimbo Fund, and BP to launch a Business Support Centre, Centro de Apoio Empresarial (CAE) (Ovadia 2014) as part of its contract negotiations. Eventually the CAE institution became a focal point for several of the oil companies' efforts, with BHP providing training to suppliers for the wider sector (interview Ovadia). Levett and Chandler (2012, 8) argue this centre greatly enhanced the ability of Angolan SMEs to supply oil companies.

The Angola experience shows that substantial supplier development programmes can be created using contractual requirements. Another approach that has been tried is to require companies to buy certain percentages of products from national suppliers. Whether such tactics can be considered SDPs on their own is debatable, but in one sense they require companies to carry out capacity-building for suppliers – if enforced properly. While companies do not like to admit that such requirements can be effective, interviews with oil and gas companies will often reveal they have put in place activities because of regulations (Ovadia 2014). In mining, one company in South Africa stated they began their own SDP activity in anticipation of such targets, wanting to anticipate them and create the highest business value from compliance (Interview mining company).

In some countries procurement targets are set across all goods and services. South Africa's approach emerged in the 2000s, with the "Mineral and Petroleum Resources Development Act, of 2002 (MPRDA), and the codes of good practice for the minerals industry (Mining Code). The Development Act led to the creation of the broad-based socio-economic empowerment charter for the South African mining and minerals industry. Adopted in 2004 and amended in 2010, the charter's objective was to correct socio-economic imbalances created under the apartheid system, which had prevented HDSAs from meaningfully benefiting from economic production. A scorecard system was put in place in 2004 to monitor the provisions of the mining charter, and in 2010 minimum thresholds and procurement targets were set for mining companies to meet within five years (OECD 2017, 87-88).

In other regulations percentages have been applied to individual products. The 2010 Nigerian Oil and Gas Industry Content Development Act laid out 280 goods and services and specified the percentage which must be purchased from domestic suppliers. For example, 90% of low voltage cables, and 45% of high voltage cables must be purchased from Nigerian suppliers, and 65% of wastewater treatment

services (Government of Nigeria 2010). Another method is to specify a list of goods and services that have requirements for 100% of goods to be locally procured. This is the case in Ghana's mining sector where the government passed its minerals and mining regulations in 2012. These regulations required companies to submit a plan which allowed the minerals commission to create a "procurement list" of goods and services that must be procured locally. The original 2014 list had eight products which has since been expanded to twenty-eight.

These examples show that targets on their own have limits to what they can accomplish and need to be supplemented by efforts to build the capacity of suppliers and coordinate multi-stakeholder programing.

As a means of inspiring supplier development, targets and lists have shown great value in setting clear targets that EICs and stakeholders should achieve. However, experience shows that setting the right target is difficult, and there can often be unintended consequences. In the case of Ghana, products feature on the list of goods and services even if they are imported and resold by a Ghanaian registered business. Because of this, mining company Golden Star Resources engaged in the supplier development efforts of its own to support local tailors to create uniforms, and now the tailors are even sourcing some of the raw

materials from Ghanaian manufacturers. Importantly, Golden Star Resources has undertaken these efforts not because of the regulations – because they could easily comply with the rules if they purchased imported PPE from a Ghana-registered importer. Instead, their effort has been driven by a belief in shared value, and a desire to have a strong social licence to operate in the community. It should be noted that this year Ghana is reviewing its approach to local procurement regulations, suggesting this unintended consequence may be soon addressed. Another example of the potential for targets to miss the objective of supplier capacity building comes from South Africa. In the 2010 targets, compliance was based on who owned the business, rather than the level of value addition taking place within that business. There is evidence that locally produced products for the mining sector at times were actually displaced by imports sold by businesses compliant with the targets (OECD 2017, 96). The South African government has recognized this problem and the 2018 Mining Charter has addressed this by now requiring that 70% of all goods used in mining be manufactured in South Africa, within five years (Government of South Africa 2018, 18).

In addition, when targets cannot be met, uncertainty clouds the process when EICs claim they cannot purchase the products required locally. While Zambia has so far not used targets for mining in most cases, in one specific area it did – requiring that mining companies use Zambian rail for 30% of all freight services with a 2018 Statutory Instrument (Government of Zambia 2018). However, the capacity of Zambia's rail system could simply not provide this volume of freight services for the mining companies, leading to the government to provide waivers exempting

the companies from the requirement (Interview with industry representatives). In the case of Ghana, there are some cases where mining companies argue it is physically impossible to purchase an item from the target list, and dispute having to pay a fine. One example brought up from interviews is the case of grinding media (mill balls), where one company argues they have to use cast balls in their processes, but the two factories in Ghana can only produce forged ones (Interview with bilateral funded SDP). In this particular case the dispute about the imposition of the fine is still ongoing, and there is no publicly available information on what fines have been levied in the past.

These examples show that targets on their own have limits to what they can accomplish and need to be supplemented by efforts to build the capacity of suppliers and coordinate multi-stakeholder programing. Nigeria arguably provides the best case study for this. In addition to targets on 280 goods and services, Nigeria has put in place significant infrastructure to support these requirements. The Nigerian content development and monitoring board (NCDMB) was created to monitor and enforce compliance with the requirements, and to carry out targeted capacity building interventions. The board also includes a content intervention fund which provides finance to supply businesses. Before the act in 2006, Nigeria had also created the free zone of the Lagos deep offshore logistics base (LADOL), and in 2015 in partnership with Shell expanded its size. These steps demonstrate the Nigerian approach to supplier development has gone far beyond demand-side interventions. It should be noted that Nigeria, while showing many strengths in its approach to SDPs, also continues to issue numerous waivers where local producers cannot provide the product. It appears the government recognises this, and in 2019 it launched the "Project 100" project to provide support including access to market opportunities, capacity building, funding, and research and development support for 100 key supplier firms. The country is now also updating its entire local content legislation – including extending it to other sectors.

In Angola, in addition to using contract clauses to require the IOCs to invest in SDPs, the country put significant effort into coordinating and investing in the broader economic ecosystem of suppliers. A subsidiary of Sonogol, Sonangol Industrial Investments (SIIND) coordinated and promoted investments in businesses providing goods and services to the oil and gas sector, and supported skills development. In 2012, tax incentives were also provided for Angolan companies involved in exploration and production of petroleum (Ovadia 2012, 142). Through SIIND, the government of Angola invested heavily in special economic zones (SEZs) to promote manufacturing and industrial development. As of 2012, SIIND had coordinated the establishment of 73 factories in an SEZ called Viana, investing \$50 million in the first eight factories in 2011, and a further six factories opened in 2012 for a further \$78 million (Ovadia 2012, 143). While Angola did use demand-side measures to force the oil companies to carry out SDP activity through their contract, they also made significant contributions to develop the wider ecosystem for suppliers – even investing in the supplying businesses themselves.

Such comprehensive approaches have been much less common in the mining sector, where approaches as comprehensive as those in Angola or Nigeria has rarely occurred. Sierra Leone however, provides an example of a mining host country government that has engaged in SDPs in a way that mirrors some of these approaches, and that has not received as much attention due to its smaller relative mining sector size. Like Nigeria, it created a local content agency. Contracted by GIZ, the consulting firm DAI created the local content plan and reporting online platform that the government now uses to track local content performance in mining, and in other key sectors such as banking and hospitality. Scorecards for buyer companies are created in this platform, tracking progress on their local procurement efforts (DAI 2018). The 2016 Sierra Leone local content policy also created a fund to provide capital to SMEs wishing to supply the industries involved in the platform (Government of Sierra Leone 2016). While the country uses similar demand-side policies to other mining host countries such as Ghana, they are matched with reporting requirements and a monitoring system, an agency dedicated to steward capacity-building efforts, and a fund.

As Nigeria and Angola show, demand-side measures when combined with meaningful capacity building support and the provision of finance, have shown great potential to help build competitive suppliers. The challenge of providing support from government for supplier development is should not be underestimated requiring significant resources and time. The empirical record across Africa shows a multitude of government-led SDPs that were launched but lacked implementation or impact. In Botswana, the economic empowerment commission was intended to enhance partnerships and joint ventures with local and foreign investors, but appears to have few results (IGF 2018, 3). Ghana's mining supplier development programme officially launched in 2017 for example but has made little progress aside from the production of cables, and concerns have been raised about a lack of government involvement in the initiative (Interview with industry stakeholders). Finally, it is worth briefly noting that even in cases where SDPs have meaningfully supported supplier firms, that corruption has been a frequently raised concern from stakeholders. In the case of South Africa, Ramdoo and Korinek report that “the reported level of broad-based black economic empowerment (BEE) ownership was established to have been concentrated in a handful of black beneficiaries, contrary to the spirit and aspirations of both the Freedom Charter and Mining Charter” (OECD 2017, 94). In Nigeria, Ovidia notes that local content has a dual nature: it is both a mechanism for promoting large-scale economic development and at the same time a mechanism for the elite to capture oil rent by legitimising policies that benefit particular local capitalists (Ovidia 2012). As preference in local procurement can create the potential for abuse and corruption (OECD 2016), even in the example of the more successful SDPs led by governments, mitigation measures are needed to ensure such problems do not occur.



2.2 - EIC-Led SDPs

There have been some examples of relatively successful SDPs in Africa that are mostly led by companies themselves. In some instances, these have been implemented in anticipation of forthcoming requirements on local procurement, with little government involvement. Anglo American in South Africa is arguably the best example of this. In other cases, companies have made efforts in attempts to deter regulation, hoping to demonstrate that regulations were not needed. Some academics have argued that local content programmes are best accomplished through private sector initiatives alone (Levett and Chandler 2012). While privately many EICs will admit the threat of regulation inspires action on SDPs, it is also true that virtually all EICs will claim they do not need regulation to take action on SDP activity.

All EICs, even operating in advanced countries, will engage in some form of capacity-building support. For the purposes of this discussion, what is being referred to are well-resourced programmes that go beyond day-to-day activity. For larger SDPs, many EICs will run the bulk of training themselves. In other case, the training process will be purchased from a partner, such as the case of ExxonMobil purchasing DAI's services in Guyana to run its centre for local business development. Anglo American for has hired the services of a non-governmental organisation (NGO), Technoserve in several countries including Brazil.

Anglo American's Zimele programme is arguably the most successful example of an SDP spearheaded by a company. Anglo Zimele started well before statutory requirements came into affect but anticipated the need to ensure greater participation of HDSAs in the wake of the end of apartheid (African Natural Resource Centre 2016, 10). Zimele is a set of investment funds and a business

support initiative that uses the pipeline of Anglo American's large procurement spend to support businesses. The programme also consists of 24 community-based hubs providing support to business by 2016 (African Natural Resource Centre 2016, 13). As of 2016 the funds invested in local SMEs totaled \$150 million, and the programme had supported 1,885 enterprises since its inception. Anglo American has since applied the lessons learned to its SDP efforts in other countries, such as the Promova programme for its Brazilian operations.

Newmont Ghana is another example frequently cited as an example of a successful EIC-led SDP. Predating the more comprehensive government requirements that emerged in the 2012 regulations using a list approach and local procurement plans, Newmont's Ahafo Mine engaged in significant supplier development efforts in 2006 as part of a three-year programme in partnership with the IFC. Over the course of initiative, the value of contracts with local SMEs rose from \$1.7 million, to \$4.2 million in 2008. The number of businesses with the Ahafo mine contracts also jumped from 25 to 125. The programme involved Newmont creating a dedicated local suppliers and contractors development unit in its supply chain team (IFC 2009, 2). The IFC was heavily involved in this project, having provided \$125 million in financing for the Newmont mine which represented about 21% of the total (WBCSD 2019), and having three seats on a Steering Committee for the Ahafo Linkages Programme.

In addition to more substantial SDPs led by EICs like the Ahafo Linkages Programme, it is easy to find a multitude of smaller, yet meaningful, efforts by mining companies. Golden Star Resources in Ghana has been able to shift a significant amount of procurement spending to the "local-local" areas represented by what they term "catchment communities" close to their mine sites. While at times they have called on NGO partners such as the World University Services of Canada (WUSC) and the GIZ Employment for Development programme, the efforts of Golden Star Resources at the community level are really driven by the company, based on a shared value approach. Interviews carried out with procurement and community relations staff revealed a firm internalisation of the concept of shared value, with one procurement representative saying, "the purchase of something as simple as a pen from the community creates more value for the company than if we purchase it from Accra." The company's support for tailors was also due to this shared value approach and not because of the regulation which would have allowed them to import uniforms into an Accra-based reseller. Golden Star Resources has also consolidated different kinds of businesses supplying its Wassa Mine into one larger entity called LOCUMS, that it supports rather than having to provide training to multiple business owners.

For the oil and gas industry, SDPs initiated by operators without government regulation have been less common. In most cases where there has been significant SDP activity by IOCs, such activity has been mandated by the agreements in place, or the targets in force as in Nigeria. For offshore oil and gas activity, there is less

direct community impact and in turn, less motivation for supplier development stemming from a desire for a stronger social licence to operate. There are exceptions to this however, and one interviewee stated much of the supplier development and preferential procurement in the Niger Delta, where extraction takes place inland, is unrelated to the targets provided by the government. Instead, it is motivated by gaining the support of local elites and communities. Similar cases are found in Canada's oilsands operations in Alberta where companies like Suncor have been lauded for significant efforts to purchase from local Indigenous suppliers, though Canada does not have local content requirements like those in Nigeria. In addition, Royal Dutch Shell has a significant local content practice internally across the entire corporation – even operating in countries without regulations, so its SDPs should not be written off as entirely in response to government pressure.

However, a survey of the empirical record in Africa on SDPs shows that significant efforts like the Anglo American's Zimele programme are the exception rather than the rule. Many of the exceptions, such as Newmont in Ghana, which came to be in the absence of strict regulations, were IFC-financed projects. The IFC has much stricter conditions for the projects which it can finance than is typical for most lending institutions. Outside of Africa a similar dynamic is seen in the case of the Oyu Tolgoi mine in Mongolia, operated by Rio Tinto and also financed by the IFC. There, the company has been praised for its supplier development efforts in the absence of government local content regulations, but the IFC's presence is clearly a driving factor. There are few examples of SDPs the scale of Newmont in Ghana or Rio Tinto in Mongolia in the absence of regulations forcing EICs to buy locally. While Chile is often considered as an example of a more "free-market" SDP approach, this framing does not withstand scrutiny as the initial impetus towards major SDP activity came from Codelco, a state company pursuing a local content policy mandated by government. Later BHP worked on initiatives like the world class suppliers programme, but this was also driven by government involvement, and today the Chilean government makes efforts to fund supplier innovation programmes like Expande Minería.

The empirical record suggests that while it is still possible that EICs will engage in significant SDP activity without it being required by governments, the initial costs to which they will have to commit for capacity-building makes it uncommon for them to act on their own. It should also be remembered that in periods of low commodity prices where revenue for EICs is significantly reduced, activity that is considered "non-essential" is often curtailed. In the absence of government

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requirements, participation in SDPs is often deemed a non-essential activity. As Ovadia (2014) notes: “Strong state governance is required because the promotion of local content may involve short term loss to achieve long term gain. Even in the case of oil and gas, where investment decisions must anticipate long term commitment, the higher costs associated with local procurement and the time and money spent on training and skills development may seem too burdensome for international companies involved in mineral extraction”. It would be wise for governments in Africa to assume that in absence of their forcing the issue with some kind of mandatory requirements, cases like Newmont in Ghana will continue to be the exception rather than the rule.

2.3 - ODA-Funded Multi-Stakeholder Partnerships

There continue to be many ODA-led SDPs in extractive industry host countries in Africa. In these initiatives, usually funded by multilateral and bilateral ODA providers, executing agencies such as consulting firms or NGOs run programmes focused on natural resource management where host country communities and governments are the main client and beneficiary. While some of these programmes include EICs as part of the design and funding, they are usually approved without their direct involvement. In many cases these programmes have multiple workstreams, with SDPs being only one of several focus areas among issues like skills development for direct employment, or technical assistance to local governments on revenue management.



Examples of these programmes include the GIZ-sponsored skills for oil and gas (SOGA) programme in Kenya, Uganda, Tanzania and Mozambique, funded by a consortium of donors led by the United Kingdom’s Department for International Development (DfID); and the joint WUSC and Centre d’étude et de coopération internationale (CECI) efforts to design and implement the West Africa governance and economic sustainability in extractive areas (WAGES) programme, funded by the government of Canada. In both these

cases, building the capacity of suppliers was one component of a wider initiative focused on extractive industry governance.

There have also been ODA-funded multi-stakeholder partnerships where extractive industries represent one of several target sectors. In these programmes, usually funded by multilateral and bilateral ODA providers, executing agencies such as

consulting firms or NGOs run projects focused on broad economic development. Examples of these initiatives include the UNDP’s Botswana business supplier development programme, which focuses on mining as well as infrastructure, agro-processing, leather and textiles; and the private enterprise programme (PEP) Zambia funded by the DfID, which has a mining and mining services programme, but also other programmes on tourism, agriculture and handicrafts.

While governments are always nominally involved in these ODA-led programmes, interviews with other stakeholders suggest that their involvement is often rather minimal. In one case reported by a stakeholder interviewed, the government initially felt an ODA-funded project was a direct competitor to its own efforts to build up suppliers.

In the case of some of the more successful programmes where development assistance was involved, such as the Angola experience where USAID was supported some activities, the government was far more responsible for initiating the overall approach. In addition, because the Angolan government contractually obliged companies to participate, ODA providers were able to work with all parties. The Sierra Leone example is similar in that while DfID provided the funding for Adam Smith International to carry out an assessment to inform possible SDP activity, it was always framed as a government-led exercise. In both these cases the ODA support came as part of an envelope of funding dedicated to that one country, rather than a multi-country programme like the WUSC and CECI WAGES programme. This suggests that multi-country ODA programmes may be more difficult to align with specific government goals.

Examples of these programmes include the GIZ-sponsored skills for oil and gas (SOGA) programme in Kenya, Uganda, Tanzania and Mozambique, funded by a consortium of donors led by the United Kingdom’s Department for International Development (DfID)

These ODA provider-led programmes have often lacked the ability to ensure companies take part, which leads to significant challenges. Programmes where development assistance providers are driving activity inherently tend to run into challenges related to the structure of the aid, and political concerns from their home countries. While donor-led programmes have a long record in African SDPs, there is reason for policymakers to be skeptical of what they can achieve in comparison to more government-led programmes. For this reason, it is worth remembering the experience of the East Asian ‘economic miracle’ and later China, where supplier development in strategic sectors was always led by the government, and never the result of large multiple-country programmes funded by development assistance.

03

Mapping Stakeholders in SDPs

To provide an analysis informing the creation of effective SDPs in extractive industries which is useful for policy development, it is helpful to overview the groups of stakeholders often involved. Much of the existing literature and guidance on SDPs in extractive industries is very centred on the extractive companies themselves. In these analyses the stakeholder mapping very much positions the EIC and a partner development organisation as the main actors. Figure 3 from an IFC case study on the MozLink initiative in Mozambique for example ignores a number of other key players who influence the success of an SDP – most importantly the government.

SDPs that are designed without the government as a central actor (if not the leading actor), have a tendency meet numerous challenges. Governments set a multitude of policies and investments that will affect whether SMEs are successful. Such interventions include: regulations on businesses permitted to supply companies, trade policy, land title and property, infrastructure that affects business (e.g., roads, ports, electricity), the creation of free zone enclaves for business development, and funding and regulating education.

As a tangible example of ignoring the role of government in planning and designing an SDP, in Zambia, First Quantum Minerals wanted to support local tailors to provide PPE for its Kansanshi and Sentinel Mines. First Quantum also worked with the PEP Zambia programme funded by DfID in these efforts. However, under government policy governing a regional trade agreement, the mining company could import finished PPE from a neighbouring country without paying duty. However, local tailors could also not import the materials to make PPE without a 25% duty. Whatever capacity-building an SDP could achieve in this case would not alter the fact that uniforms could be purchased cheaper through importing, because tailors had to add in these additional costs to their final prices.

Finally, other actors have also been frequently overlooked in SPD programme design, especially in company-led and development assistance provider-led programmes. These include finance institutions, existing business training centres, and business associations such as commerce and manufacturing associations.

Partners	Role	Benefit
Company	<ul style="list-style-type: none"> • Be the lead sponsor for the program • Identify work packages for SMEs • Select SMEs to participate in the program • Clarify and adjudicate submitted bids • Identify categories for technical capacity building and facilitate training • Provide and allocate technical mentors. 	<ul style="list-style-type: none"> • Access to tenders and contracts • Exposure to and experience in global industrial standards • Technical support • Access to capacity-building initiatives • Available SME vendor list
Development institution	<ul style="list-style-type: none"> • Design program • Mobilize cofunding • Provide program coordination • Monitor and evaluate program results • Mobilize business mentors 	<ul style="list-style-type: none"> • Access to financial resources • Access to technical expertise • Access to best practices from other countries • Other support from a globally recognized organization
Local business organization	<ul style="list-style-type: none"> • Be the local knowledge and information center • Provide SME database • Create awareness for program, using its SME network • Interface with government and media, when needed 	<ul style="list-style-type: none"> • Access to databases of local businesses and resources such as office space and staff • Local expertise • Access to networks of government officials and local experts

Figure 3: An overview of partners in SDPs provided in the IFC's Developing SMEs through business linkages: a manual for practitioners based on the MozLink mentorship experience in Mozambique (2008, 18)

04

Analysis: Best Practices, Critical Success Factors, and Pre-conditions

This section is informed both by the empirical record, as well as the stakeholder interviews carried out as part of this study. These stakeholders represent the executing agencies of SDPs, extractive companies and their industry organisations, funders, and other relevant stakeholders, all of whom are currently involved in SDP activity.

In order to create tangible and practical guidance for SDP stakeholders on how to implement best practices, it is useful to dissect the structure of SDPs into the factors that affect their outcomes, so they can be analyzed systematically for policy implications. The analysis and discussions below follow the typology of factors in SDPs for this purpose:

- Defining the scope
- Duration of SDP
- Role of EICs
- Structuring of SDPs
- Supplier identification and databases
- Communication
- Access to finance

4.1 - Defining the Scope

Scoping for SDPs involves governments, EICs, ODA providers and executing agencies of SDPs researching whether there is a need for an SDP, whether it is feasible, and the broad parameters of such a programme. For smaller scale SDP efforts, especially at the community level, such activity is most often initiated by an extracting industry company itself, because most SDPs across Africa and developing countries in general, are started by companies seeking to build a supplier base to

reduce costs and supply times and to strengthen their social licence to operate. For more significant efforts, especially those with the goals of developing large-scale manufacturing, governments tend to take the lead, such as in Nigeria and Angola discussed above.

The other actors who commonly initiate a scoping process for an SDP are development assistance providers who make an envelope of funding available and receive proposals from executing agencies bidding to execute the work. In most cases ODA funding for SDPs comes from either a headquarters-based programme with a thematic focus (such as extractive industry governance for example), or from the in-country representation of the bilateral.

The scoping process should aim to identify capacity gaps and propose appropriate interventions required to enhance the capacity of those SMEs interested in supplying EICs. Scoping greatly benefits from detailed market assessments, as was the case for Sierra Leone's mining sector. Their supplier development efforts were scoped out in detail by Adam Smith International, funded by DfID, over 2012-2013 (Adam Smith International). The resulting report recommended many of the items eventually adopted by Sierra Leone, such as improved information sharing from all relevant stakeholders, and the Local Content Support Fund (Adam Smith International 2013, iv). Adam Smith International also carried out a similar gap analysis for Kenya, though interestingly that analysis was more targeted towards informing the Kenya Extractives Programme that was funded by DfID from 2015-2019, rather than the government's policy approach. Another scoping example is from Ghana, where the 2012 regulations on local procurement were followed by a gap analysis in partnership with the Chamber of Mines to identify the list of goods and services that should be required to be purchased internally. While Ghana's example shows that such analyses do not guarantee a comprehensive SDP will follow, the accurate scoping of the types of goods and services realistic to target is a foundational step that will inform all stakeholders involved.

For an example of a more company-led effort, illustrated in Figure 4 below, the China National Offshore Oil Corporation, Total and Tullow examined the current environment for suppliers to the oil and gas industry in Uganda, looking at supply capacity for different types of products. This type of scoping allows all actors in potential SDP activity to understand what interventions will be most fit-for-purpose. In this case, such scoping allows one to see some of the suppliers with a capacity gap would be better served by access to finance than training, while the ones with a capability gap would be better served by training.

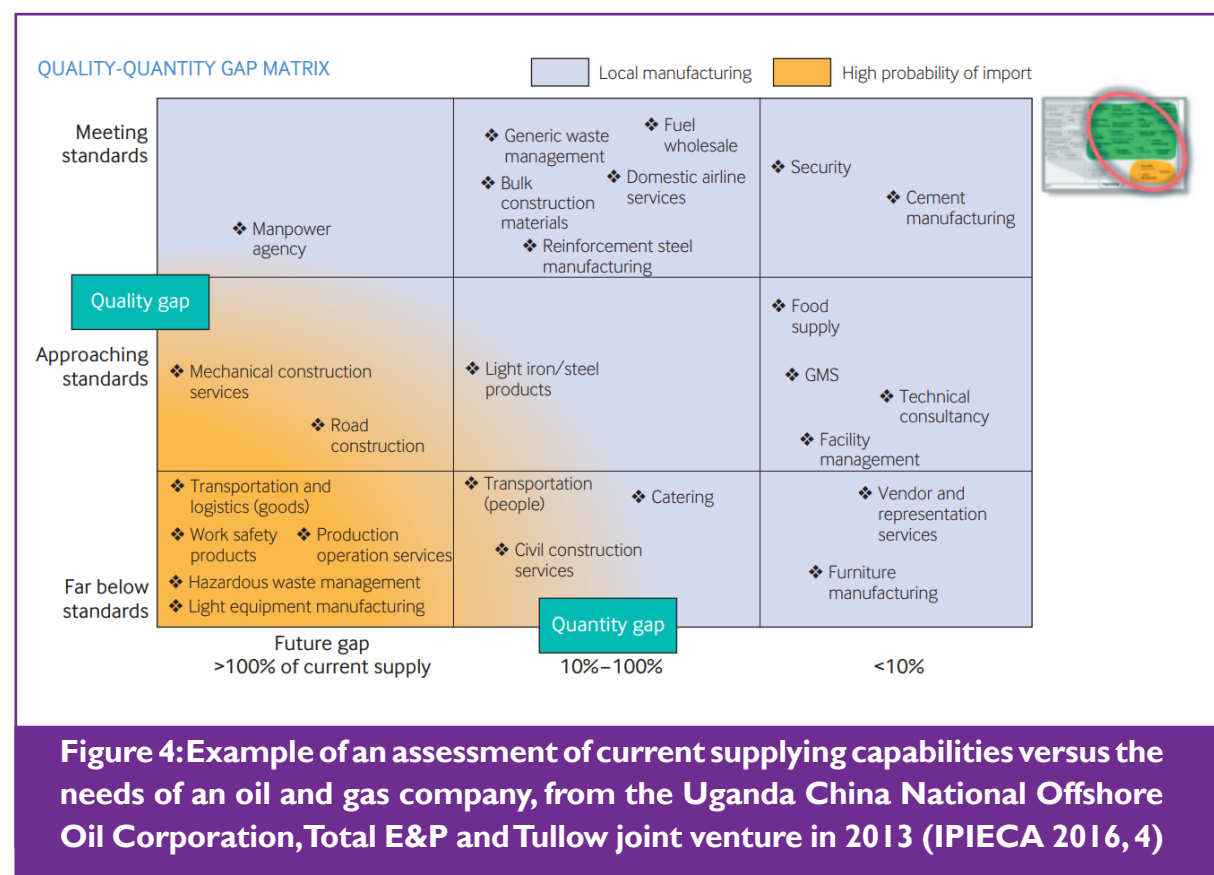


Figure 4: Example of an assessment of current supplying capabilities versus the needs of an oil and gas company, from the Uganda China National Offshore Oil Corporation, Total E&P and Tullow joint venture in 2013 (IPIECA 2016, 4)

Empirical evidence and information collected during the course of interviews identified frequent pitfalls in scoping SDPs – in particular for ODA-led SDPs. Regrettably for development assistance-led initiatives there is a ‘chicken and egg’ phenomenon where undertaking detailed scoping takes significant resources, but bilateral and multilateral agencies are not generally structured to support in this way. Teams providing funding for programmes are small and have an incentive to work on a small number of very large grants, rather than many smaller ones – such as those required for an in-depth scoping study like the one above. This challenge provides another reason why governments should be the main player in scoping out the need for an SDP, supported by the ODA providers.

Many examples emerged where ODA providers funded SDP activity without adequate review of other SDPs already under way in the same country. In interviews it was frequently lamented that many bilateral ODA providers only inform existing SDP executing agencies of their plans to start another SDP once a programme is announced. A representative of GIZ for example, which states that it places a strong focus on coordinating with other bilateral partners to prevent duplication, shared they only learned of a new SDP from another agency as they launched it. In another case, an executing agency reported that their European bilateral funder for the SDP was actually funding an alternative one with the same mandate and goals in the very same country. He lamented this other SDP even competed for talent for their work (Interview bilateral aid institution). In addition, in-country representation of bilaterals is often unaware of other SDPs being funded in other

countries by the same bilateral, and often their programming does not engage with a headquarters-based thematic programme. For example, DfID’s PEP Zambia programme with a mining supplier element, has little to no engagement with the extractive industry programming run out of London.

In other cases, proponents of SDPs plan, design, and fund programmes without undertaking the due diligence of understanding the existing supplier support infrastructure and needs. In one example which emerged from the interviews, a business training centre was funded in a capital city, even though there was already a glut of training centres in the market to which potential suppliers could turn (Interview bilateral aid institution). While the eventual training centre did offer good quality training by working with a mining company to prepare graduates to supply that mine, in this case the same result may have been possible more efficiently if the programme had instead focused on supporting existing institutions to tailor their training. Multiple interviewees said that where they operate, the lack of SDPs is not the problem– it is the lack of low-cost credit for suppliers. In such cases, with more adequate scoping an ODA provider might conclude its money would be better spent on creating or supporting a fund for suppliers, instead of starting a new SDP.

Likewise, SDPs are often scoped without an in-depth analysis of the regulations and operating context for SMEs in each country. As discussed in Section 4, government regulations play a major role in affecting whether a supplier can be competitive, independent of their level of capacity. In one case a mining company interviewed for this study had significant plans for a business park and supplier development efforts in partnership with a bilateral-funded project. However, the local government would not agree to give land title to the area for the business park and after two years the company gave up. The bilateral funded support had gone ahead before understanding this land title challenge and so the efforts for that EIC largely sputtered (Interview with industry stakeholders). Such a situation can also happen when governments lead the scoping process if the extractive industry ministry does not adequately engage other relevant ministries such as commerce or trade to understand the full regulatory picture.

In other cases, SDPs are planned and funded without first scoping the types of goods and services the relevant EICs will buy. For example, the PEP Zambia programme funded by DfID which targets the mining sector, did not undertake such an analysis ahead of its funding and spent much of the first part of the project trying to understand the demand profile and procurement processes of the mining sector. The programme was already nearing the end of its funding before it had a more meaningful understanding of the needs of the sector.

Therefore, it is argued a critical success factor for the planning, design and execution of SDPs is to undertake a comprehensive scoping process before resources are allocated. While scoping studies like the Adam Smith International research for the

government of Sierra Leone and the Uganda oil and gas services analysis come at a high cost, they allow for a much better return on investment in terms of money spent on eventual SDPs funded.

BEST PRACTICES:

- As a first step, governments require a comprehensive picture of the state and potential of local procurement from EICs. This information should be made available to ODA-providers so they do not begin designing and planning funding for SDPs without understanding which products should attract realistic support. Such information should be made available to all EICs so they have sight of what their peers are doing and how they might collaborate or extend projects and to avoid duplication.
- Governments, ODA providers and executing agencies should conduct a full mapping of existing SDP activity in a host country to ensure a new programme will actually add value. Such mapping should also examine existing capacity-building support available for SMEs not connected necessarily to the extractive industries, such as local business schools and chambers of commerce.
- Governments and SDP partners should also conduct a full examination of relevant regulations on business activity, including taxes, infrastructure quality and cost (e.g., electricity rates), tariffs, and other factors to understand if other laws and policies seemingly unconnected to SDP activity, could actually undermine it. Adequate coordination between the extractive industry ministry and partners such as trade and commerce ministries is needed to align the scoping process.

4.2 - Duration of SDPs

This refers to the duration of a dedicated SDP and clarifying the process for renewal for a second phase. Companies will always engage in some form of supplier development, ranging from occasional workshops for suppliers, or written materials, and governments always have a mandate to support commerce. In that sense, this kind of SDP activity is permanent and continuous. For the purposes of this section, what is being referring to are dedicated and funded efforts to build up suppliers in a defined period of time, particularly in the case of development assistance-funded programmes that are time-limited. For example, Newmont's Ahafo Linkages Programme was originally set up as a three-year programme, and WUSC's WAGES programme in Ghana, Burkina Faso and Guinea runs from 2016-2022. Governments could theoretically require a dedicated SDP with a fixed length of time as well, although no examples of this were found in literature or reported in interviews.

Many SDPs are designed with an explicit plan for a second phase because the executing agency is confident of success and believes it can crowd in other funders later. In some cases these are major programmes operating across several countries (such as GIZ's SOGA programme), and in other cases, an SDP is framed as a "pilot" project to build a proof of concept and then seek funding for repetition or extension in other host countries. Most of the SDPs funded by ODA providers for this study all started with hopes of programme extension. Only a small minority anticipated no further funding, and so explicitly planned for a full handover to local partners at the end of the programme.

There was broad agreement that three years was the absolute minimum amount of time that would be required to carry out any significant SDP. One interview for an East African SDP stated, "It takes a year or year and a half to even realize what was wrong with the initial proposal for the programme and to readjust the programming" (Interview with industry stakeholders). While better scoping before the start of SDPs will shorten the time needed for meaningful capacity-building efforts to get under way, the initial process of creating buy-in from stakeholders, and the creation of strong governance structures takes significant time.

Some interviewees, particularly from extraction companies, expressed the concern that supplier development was being seen as a "programme" in the first place. In framing supplier development as something that is only carried out in stand-alone programmes, one oil and gas company sustainability representative said it acts to make the issue seem "outside" the company, and not a part of how core business should be done. Another stated that there is a "cottage industry" of expensive Western-based consulting firms who seek out and execute these programmes and their effectiveness is very mixed. In this regard a perception of perpetually renewed SDPs has the potential to appear problematic and risks undermining participation from EICs and other actors. This provides yet another reason why governments should be seen taking the lead on SDPs to ensure there is not a perception risk that such activities are driven by the concerns of executing funders and agencies from other countries.

The findings of this study are that a longer duration drives better quality in SDPs, and that there is a risk that framing SDP activity as stand-alone initiatives may undermine the buy-in from a company, especially when carried out by large NGOs or consulting firms that are seen as a "cottage industry" and less concerned about results.

BEST PRACTICES:

- The guiding principle is that the resourcing needs and duration should be established based on a realistic understanding of the time to deliver objectives, rather than arbitrary durations. In general, from the study, it was found ODA-funded SDPs should ideally be considered a minimum of 3 years with adequate funding for the entire duration.
- Governments should drive the agenda for ODA-funded SDPs, set timelines, and ensure executing agencies for activities are integrated into government planning, rather than work being solely accountable to the ODA provider. One approach would be to ensure a government representative is present in the management team and steering committee.
- SDPs that use Official Development Assistance must ensure they do not frame them as projects disconnected from the core business of the companies or host governments involved. It would be better to frame SDPs as an engine of change within a longer, wider economic development plan.

4.3 - Role of EICs

This refers to the role relevant EICs play in the SDP. In some cases, an SDP may be tied to a single mining site or oil field, and in other cases multiple locations. The majority of SDP activity in host countries will ultimately be based on the ongoing supplier support provided by individual companies, and may not necessarily involve partners. For more significant SDPs that are designed, funded, and executed by entities outside an EIC, the role the participating companies play is vital and a key determinant of success. The experience of Angola shows that legally requiring EICs to play an active role in SDPs can ensure meaningful capacity-building is built in. By contrast, many other SDPs, particularly those funded by ODA, do not have meaningful involvement of the companies in the host country, leading to challenges and wasted resources.

EICs play a key role in acting as an “anchor” and provide a guaranteed offtake customer for SMEs who participate in SDPs. Companies communicate to partners and participating suppliers important information about the goods and services they require immediately and in the future and provide critical technical specifications and standards for suppliers to meet. Their internal procurement processes play a major role in whether suppliers are able to manage contracts. For example, their speed of payments significantly affects the abilities of SMEs to manage cashflow, and so has a direct impact on businesses taking part in SDPs. Extracting companies

also have technical and business management expertise that they can share as one element of training and mentorship. For these reasons, the more engaged an EIC becomes in SDP activity, as well as the extent to which they tailor their processes to enable SDPs to achieve their outcomes, the greater likelihood of success it will have.

In the case of ODA funder-led SDPs, they are often approved by ODA providers, and being able to demonstrate EIC participation in the country of operation is usually a key factor in deciding whether an SDP will go forward. However, many ODA-led SDPs are approved without any commitment from an EIC to take part. For example, DfID agreed to fund the PEP Zambia programme in 2015, but mining was not added as a target area until halfway through the programme (Interview PEP Zambia). Even when EICs agree to take part in SDPs, there is always uncertainty and risk around their involvement because projecting their participation into the future can be difficult. Participating EICs in an SDP may even sell the asset during the period of the SDP, and a new company may not wish to participate. In some cases, an SDP will be planned around an anticipated increase in extraction which may not go ahead. In the case of the SOGA programme in Kenya, the programme was originally structured around an anticipated surge in investment into oil and gas activity. However, due to a number of factors including lower oil prices, such anticipated activity did not come, and the programme had to pivot (Interview GIZ Kenya). In this case, the team proactively reached out to Base Titanium to explore whether they would participate. Had they been unable to secure Base Titanium’s participation, it would have resulted in significant ODA being provided for an extractive industry SDP – with no extractive company taking part.

Once involved, there are significant efforts an EIC needs to take both internally and in engaging with actors involved in capacity-building to support an SDP as much as possible. In the procurement process, companies can provide significant support to SMEs taking part in SDPs through low-cost process changes internally. For example, unbundling work packages into smaller pieces so local suppliers can pursue contracts marginally increases staff time in procurement processes, but makes a significant difference in terms of participating suppliers experiencing a reliable market.

Adopting shorter payment times makes a significant difference as well, at little additional cost. Shorter payment times support the cash management of suppliers, which is especially important where lack of access to capital is a challenge. This is also recognized in advanced extractive industry jurisdictions. For example, the Business Council of Australia and its member companies created the Australian supplier payment code, in which participating companies agree to pay suppliers within 30 days of invoices. Signatories for this code include EICs Alcoa, BHP, Chevron, ExxonMobil, Fortescue Metals Group, Rio Tinto and Shell (Business Council of Australia 2020).

Arguably the most helpful function an EIC can play is to proactively communicate as much information as possible on procurement processes and product requirements to participating SMEs. Providing information on product specifications, health and safety standards, and other details to the executing agencies speeds up the creation and execution of SDP activities. Not only does providing such information support the SDP itself, it helps to support other organisations SMEs may also be dealing with outside an SDP, such as a local Chamber of Commerce. For more information on the role of communications, see 4.6 - Communication

Experience shows that while gaining the participation of the EIC is important, it requires internal processes and promotion to sustain their involvement. In the case of Newmont's Ahafo Linkages programme, a team dedicated to the linkages programme was established and one of their tasks was to promote the programme internally. This team held internal workshops with end-users of the goods and services on site. Given the natural concerns over quality and safety that end-users will have about products they buy, proactive efforts are needed. For example, in the commonly cited case of PPE, poorly fitting and uncomfortable coveralls were an example where additional effort would be needed to keep the staff bought into the cause of local procurement (Interview with industry stakeholders).

The literature and interviews also demonstrated the importance of shared value in successful extractive companies' participation in and execution of SDPs. Anglo American's Zimele programme is a private sector led, and non-philanthropic approach, based on meeting the company's procurement needs (African Natural Resource Centre 2016, 8). As the Zimele programme provides loans to Anglo American's suppliers, the company has a commercial interest in the success of those suppliers so they can repay their loans. The case of Golden Star Resources also shows the importance of stressing a shared value approach internally. The company has done a commendable job internally to promote how locally procured goods and services supports their social licence. Finally, Shell stated its SDP to support local manufacturers of oil wellheads in Nigeria was guided by a commercial desire to shorten lead times, and that low oil prices and the need to cut costs helped bring everyone on board (ELLED CoP Webinar: Supplier Development 2019). However, a company needs to bear upfront costs to build up suppliers to eventually lower costs, so governments often have to force companies to take part – even for those companies who understand the benefits of the shared value concept.

While it is clearly best practice for extraction companies to be as involved as possible in SDPs, there is a often conflict in the case of ODA-funded SDPs and those carried out by NGOs in particular. While host country governments may seek development assistance to provide funding for SDPs, bilateral ODA providers often must be careful to not be seen to be subsidizing their own EIC, and to work with what at times is a controversial sector. In one case of a West African SDP that was brought up in several interviews, a large pool of funding was made

available from a bilateral for NGOs to apply to carry out projects in mining host countries. However, by the time the programme started the government's stance had changed to one that was apprehensive about appearing to be subsidising community investment of EICs. The programme was never even publicised. This lack of communication also inherently meant that other bilateral agencies at the time were unaware of the programme, risking duplication.

The executing agency for one of the programmes reported they had to be very careful to not be seen working with the mining company in a problematic way. This led to less outreach and potentially undermined the ability to learn from the EIC involved, and also led to them not devoting time to finding other extractive companies in the region to work with. The organisation also had to spend significant resources on engaging with the controversy, distracting from the actual SDP activity.

This is not to advocate whether bilateral and multilateral agencies should be providing development assistance for supplier development in extractive industry host countries. It is rather to show that there are serious reputational, and communications challenges involved in such programmes, and that SDP actors should address these early to mitigate the issues reported. This challenge can be addressed by several strategies including setting clear communication protocols for all actors from the very announcement of the programme, providing a transparent rationale for the SDP and the involvement of each actor, and communicating clear breakdowns of roles and responsibilities.

BEST PRACTICES:

- As much as possible, SDPs should be designed and approved with their participation secured in advance of approval. Requiring company participation through contractual agreements between the government and EIC is a model that has proven successful in Angola.
- EICs taking part in SDPs should focus on building support for the SDP internally, through internal championing of the initiatives, and using a shared value lens as much as possible.
- As far as possible, ODA-led SDPs should focus on goods and services that are required by other sectors in the region of activity, so that if the EIC involvement ends (or the extractive industry activity simply does not start, or ends prematurely), the SDP programme can still support SMEs in other ways.
- EICs should adjust their internal processes to support potential suppliers in a practical way, such as agreeing to faster payment times, and these process changes should be defined as part of SDP activity.

4.4 - Structuring SDPs

How SDPs are structured naturally has a significant impact on their success. It is no surprise that those structured with the greatest participation of government and local institutions have the most prospect of success. Coordination is key as the nature of increasing backward linkages from EICs to suppliers is about identifying opportunities, finding the right businesses, ensuring they have access to finance, and that the extractive company will buy the product. As Ana Maria Esteves states, “the impact of this type of policy on the local supply depends on the timely coordination of complementary industrial, educational, technological and local content policies” (Esteves et al. 2013, 15). The central importance of coordination continued to be raised in all of the interviews carried out for this study.

Much of the reason for this is that economies of scale are required for particular goods and services to be competitive. While in Ghana companies like Golden Star Resources have done a good job at the local level, with the assistance of partners like GIZ and WUSC, there is a limit to what they can accomplish without combining their demand with other mines. In some cases, a single mine site simply has so much demand it can support a new factory on its own, such as the Zambian mill balls factory which attracted investment from China and Chile (Interview First Quantum Minerals). However, this First Quantum Minerals mine is particularly large and is not typical of the demand profile for most single sites. More commonly, no single mine site or oil and gas sector operation will be able to guarantee sufficient offtake to allow a local manufacturer to be competitive. This has regional implications as in some cases an individual extracting company’s neighbouring site with which it could pool demand will be across a border (see 6 – Regional considerations).

Sierra Leone’s local content agency on the mining side provides an interesting model. The Sierra Leone Local Content Agency Act, 2016 created the local content agency, with a board constituted of key stakeholder groups representatives, including the National Minerals Agency, the Sierra Leone Investment and Export Promotion Agency, and the Sierra Leone Chamber of Commerce, Industry and Agriculture (Government of Sierra Leone 2016, 4-5). The duties of this agency include using a scorecard system to evaluate buyer companies on their local procurement efforts and building the capacity of national businesses.

For oil and gas, the NCDMB is structured with an Executive Secretary that overseeing activities, and a board chaired by the Minister of Petroleum Resources. The board also includes representatives of key institutions in the oil and gas sector, such as the state-owned petroleum company, Council of Registered Engineers of Nigeria, and the National Insurance Commission. Such a board structure allows the concerns of the various stakeholder groups to be visible, with a direct link to policy via the Chair. This structure could arguably be strengthened further with a representative of the IOCs, and some concerns raised by interviewees does

suggest at times the NCDMB has taken action without aligning with industry first. While the experience of Nigeria shows that strong government coordination is a key factor for successful supplier development, when SDPs are led by extractive companies there are also useful models to consider in planning. Newmont’s Ahafo Linkages Programme provides useful lessons in how it was structured, particularly in engaging local partners. Figure 5 below shows its organisational chart. A dedicated programme manager reported to a Steering Committee that brought together representatives across the company incorporating user perspectives. By providing a Safety and Quality Control Officer to support the SDP, suppliers were able to understand the quality specifications they would need to meet to supply the required products. It should be stressed that the IFC has significant experience in setting up and executing SDPs, so achieving a similar success to the Ahafo Linkages Programme without government involvement and resources is not a guarantee based on this structure.



Experience shows that while examples like Newmont in Ghana demonstrate that well-structured SDPs with robust governance mechanisms can work well at a local level, there are limits to what can be accomplished by one single EIC operation. While companies like Newmont and Golden Star Resources have succeeded at the local level in Ghana to support local suppliers and gain benefits from their social licence to operate, there has been less success at the national level in coordinating SDP activity. Many goods and services, including those on Ghana’s procurement list, require economies of scale that exceed the purchasing power

of a single mine. One positive example from Ghana has been the production of cables, where the Chamber of Mines has supported producers through training workshops, and now a much larger percentage of cables is being manufactured locally rather than imported. However, for other products such as lime and grinding media, similar increases in local supply has not yet been achieved, even following sustained coordination among the government, mine sites and other partners, and improvements in capacity has been inadequate. Progress has been slow: despite the government and other actors officially launching the Ghana National Supplier Development Programme in 2017, a steering committee only came to exist in late 2019.

Zambia is another country where industry and government have not yet convened to create a national steering committee for supplier development, although PEP Zambia has attempted since 2018 to convince all players to form this committee (Interview PEP Zambia). The fact PEP Zambia is an NGO and lacks the ability to place requirements on mining companies, has hindered its ability to have extractive industries take part. Also showing the limits of what can be accomplished without government stewarding a system-wide approach, it is worth noting in Zambia that the IFC carried out the Copperbelt SME Suppliers Development Programme from 2007-2010, with limited results. The project lacked company participation in risk-taking and supplier training, and match-making efforts could not solve the challenge of finance for suppliers (Lombe 2019, 7). Thus, even institutions with strong records in SDP activity can struggle without a structure that involves all relevant partners.

One SDP executing agency raised the challenge turnover presents for the formation of effective steering committees and other governance structures. Creating the structure of an SDP's management, including steering committees, takes some time and it is common to have a high level of turnover in actors involved over the course of the process. Building the buy-in for a programme partner often has to restart and be repeated. This suggests a further role for the government anchor, in effectively demonstrating the value companies will obtain by taking part in the committee, and also suggests that ways to manage and mitigate this challenge should be considered – for example clear succession policies for each representative.

Another challenge consistently raised in the interviews was the structure of development assistance which often hindered the professional coordination of SDP activity. ODA funding tends to have the provision that each year's budget must be spent or the subsequent year's funding risks being reduced. In one example, the SDP executing agency stated they were in a rush to spend their budget in the first two years of the programme and so invested in failing activities, and that they would have instead have preferred to set aside the funds to use in later years once they had refined their systems. In addition, different ODA providers have different interests in supporting programmes like SDPs and sometimes these conflict – sometimes even with the goals of the government. In one case a participating

mining company stated they believed the assistance provider was only funding the SDP to create a route to market for businesses from their home country. One representative of the IFC stated a key lesson from their work was to ensure each actor's interests are transparent and public, to ensure programming matches all the goals of each party (Interview IFC). Such feedback shows the need for strong governance of SDP activities such as the use of a local content agency to convene all stakeholders and manage ongoing progress.

Data collected in interviews and the empirical record show that SDP activity coordinated by a single body representing all of the relevant stakeholder groups is highly effective. The NCDMB in Nigeria has been able to continue to steward and coordinate support for suppliers for nearly a decade, despite consistent turnover in people, and changes to commodity prices. Newmont in Ghana shows that a strong multi-stakeholder structure at the local level can achieve significant results. The lack of broader success in Ghana however shows that coordination among a larger number of buyers is required. Without permanent structures put in place to ensure coordination amongst multiple mine sites to harness their cumulative demand, African extractive industries have seen many cases of SDPs sputtering.

BEST PRACTICES:

- Dedicated agencies to coordinate SDP activity, such as a local content agency, have proven an effective mechanism for coordinating partners and resources towards SDP goals.
- In the absence of a government agency, SDPs should involve a steering committee of the key stakeholders, and clear responsibilities should be set out to prevent confusion and conflict.
- The interests of each partner in the SDP needs to be made clear at the outset and the programme structured around where those interests align. The roles and responsibilities for each partner should be codified in a strategy document agreed by all parties.
- Mechanisms should be put in place to allow ODA funds to be carried over into the next budget year to enable programme spending to be most effective and carefully planned.
- Management and steering committees for SDPs should establish systems to mitigate the impact of turnover among the relevant stakeholder groups, such as ensuring key representatives have a delegate who can manage their organisation's involvement if the representative leaves.

4.5 - Supplier Identification and Database

The process through which suppliers are selected to take part in SDPs is vitally important in determining their success. Four dimensions are identified:

- Whether the SDP is open to any current or prospective supplier to participate, or whether they are subject to a selection process;
- The maximum number of prospective or current suppliers who can participate in the SDP at any one time;
- The goods and services offered by the suppliers;
- Whether current and prospective suppliers have to pay a registration fee for participating in the SDP (e.g., fees for training courses or skills workshops).

There was general agreement among interviewees that providing more in-depth training to a smaller number of suppliers brings more strategic benefits. On this point there can be tension between funders and executing agencies who are often incentivized by the number of businesses trained – rather than by the number of participating businesses which supply an extractive industry site. As participants who take part in SDP activities but ultimately do not gain contracts can be a further source of tension and undermine confidence in the SDP, this is also an important manner for social licence to operate.

Recruiting suppliers to take part in SDPs requires extensive outreach, and time and resources invested in mapping out suppliers will yield better quality participants to build capacity. Large companies often do not have access to a comprehensive database of local SMEs. This results in poor outreach of procurement opportunities and leads to a suboptimal number of applicants for contracts, low quality, and high price. For example, ExxonMobil in Chad initially had a list of only 17 local SMEs that they could consider for local procurement. After the enterprise center conducted an SME mapping exercise, the list expanded to more than 1,300 SMEs. This provided ExxonMobil with a much richer pool of SMEs to work with for local procurement and training (IFC 2008). Developing a comprehensive database based on an industrial baseline survey such as the example visualised in Figure 6 should be a top priority. While in the case of Chad, this task was originated by enterprise center staff making on-the-ground surveys, existing sources of SME databases should be used if available from a local chamber of commerce, business associations, and government ministries (IFC 2009, 32). While having more suppliers interested in taking part in an SDP is not a guarantee of success – as the Ghanaian Enterprise Development Centre case shows – having a better pool of suppliers greatly enhances find the ones who will benefit from support.

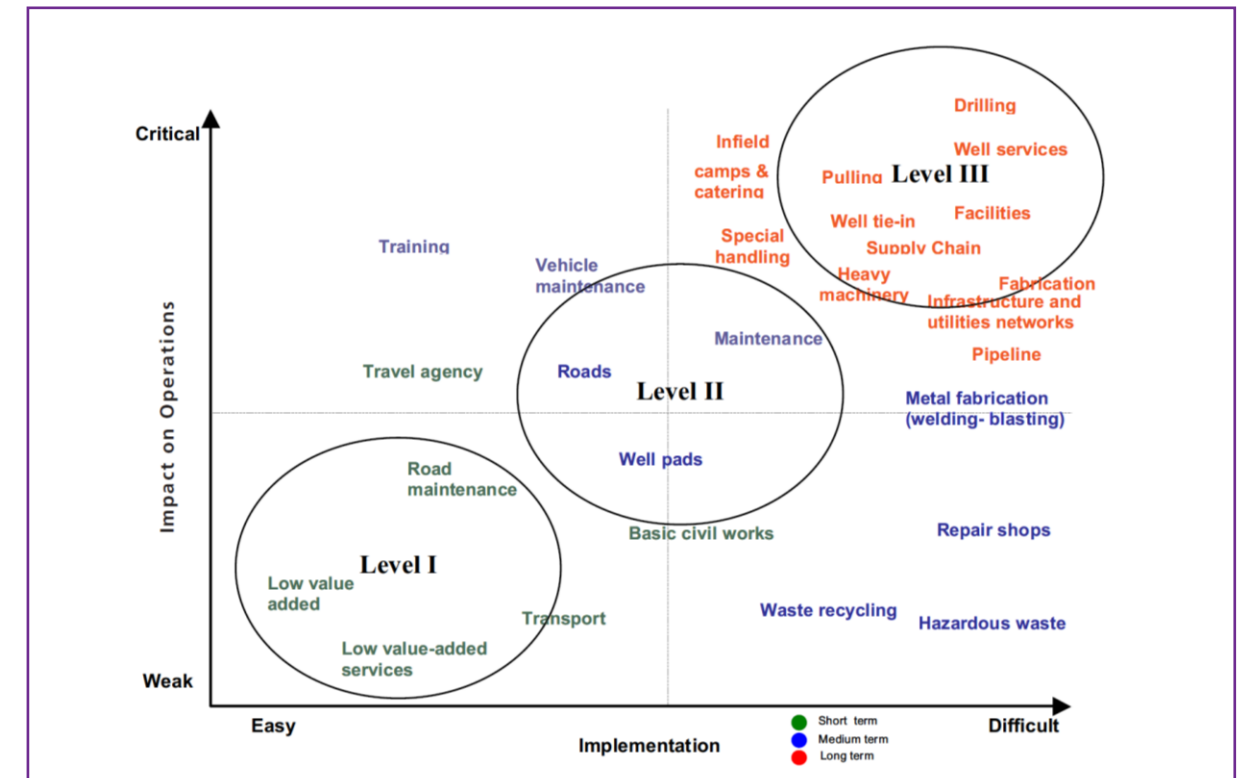


Figure 6; A mapping of supplier development opportunities from the IFC's *Developing a Transparent System for Local Contracting: A Manual for Practitioners Based on the eProcurement Experience in Chad, 2008, p. 56.*

A better solution if there is sufficient funding and buyers available, may be to create a supplier website that can be used by several EICs, and potential companies from other sectors. For an example of an EIC specific portal, the supplier and partnership marketplace in Guinea (La Bourse de Sous-traitance et partenariats in French, BSTP) is run as part of an IFC programme funded by a consortium led by the Global Affairs Canada. Currently it has four mining company members who post tenders, and over 1200 domestic suppliers. In having a centralised procurement site, BSTP can notify suppliers across all the mining companies. The BSTP collects information such as submitted business registrations, certifications, and proof of compliance with various standards, and engages in supplier training so no individual company must go through the process of pre-qualifying bidders.

For an example of a multi-sector platform, Invest in Africa's African Partner Pool in Ghana has the involvement of EIC's Newmont Ghana, Tullow Oil, AngloGold Ashanti, as well as extractive industry linked companies such as drilling and engineering companies. It also includes however non-extractive sector corporations such as Guinness Ghana Breweries (owned by Diageo) and Absa Bank. In this example more potential suppliers can be found by EICs, and there is an added benefit that businesses supplying EICs can use the portal to find non-EIC buyers helping to diversify their market and make them less dependent on a single EIC's purchase. Nigeria has a government-run portal as part of the NCDMB,

but concerns were raised by oil and gas companies that it duplicates a portal they have created on their own. This challenge of conflicting supplier portals has been a common experience in SDPs and provides a further case for ODA providers to ensure they map existing initiatives before providing resources to create an unnecessary portal. While there can be technology challenges in using an online portal, these are surmountable. BSTP, realising businesses may have challenges with reliable internet access, provides computers at their office so members can register, submit documents, and access tenders. In BSTP's case, they used documents submitted by suppliers as well as site visits to identify 150 suppliers for capacity-building support (Interview BSTP).

There was also broad consensus in both the literature and in interviews that a focus on suppliers with a minimum level of capacity, rather than trying to incubate suppliers was more successful. For example, in South Africa, Zimele “only supports start-ups or the scaling of existing businesses so they are financially sustainable and have sufficient cash-flow and equity to access more traditional capital providers” (African Natural Resource Centre 2016, 12). There is a further option that should be considered to attempt to encourage several entrepreneurs to merge into a better-scaled business entity. Golden Star Resources in Ghana followed this approach and at their Prestea mine helped several entrepreneurs and employees form one entity called LOCUMS. Canadian NGO WUSC are now supporting this entity through their WAGES project rather than having to provide training to multiple entrepreneurs. Based on the success of LOCUMS, Golden Star Resources is now seeking to pursue a similar model at its nearby Wassa Mine, but to date have experienced challenges convincing locals to collaborate in a merged approach.

Types of goods and services

The choice of goods and services selected to be included in the SDP is vital. If a mine site, for example, buys 2,000 uniforms a year and a local supplier is already producing them, training another business to supply uniforms will lead to frustration and tension. At best, the newly trained supplier will simply replace the existing one, leading to value displacement, not creation.

For this reason, understanding what an operation currently buys, and can be expected to purchase in the future, is a key component of selecting which local businesses should take part in an SDP. One of the key success factors for the IFC's programme in Chad, was a deep understanding of the lead company's value chain by the Enterprise Center staff (IFC 2008, 33). Ideally data on the types of goods and services can be provided in a public manner to help an SDP understand the opportunities, but engagement with procurement representatives to confirm numbers and figures should follow. Kumtor Gold in Kyrgyzstan offers a model to do this, showing potential suppliers their spend on different broad categories of goods and services (see Figure 7).

In the case of GIZ's work in Kwale with Base Titanium, they were able to obtain a list of goods and services from the extractive industry company. Then GIZ was able to use this list to determine which businesses to seek out to participate in the programme. This has worked better than providing training to anyone who wants it, regardless of the demand for goods and services (Interview GIZ Kenya). However, regrettably it is still common to see ODA-led SDPs focus on the number of suppliers trained, and in two such interviews it was clear more businesses were allowed to take part than the market required.

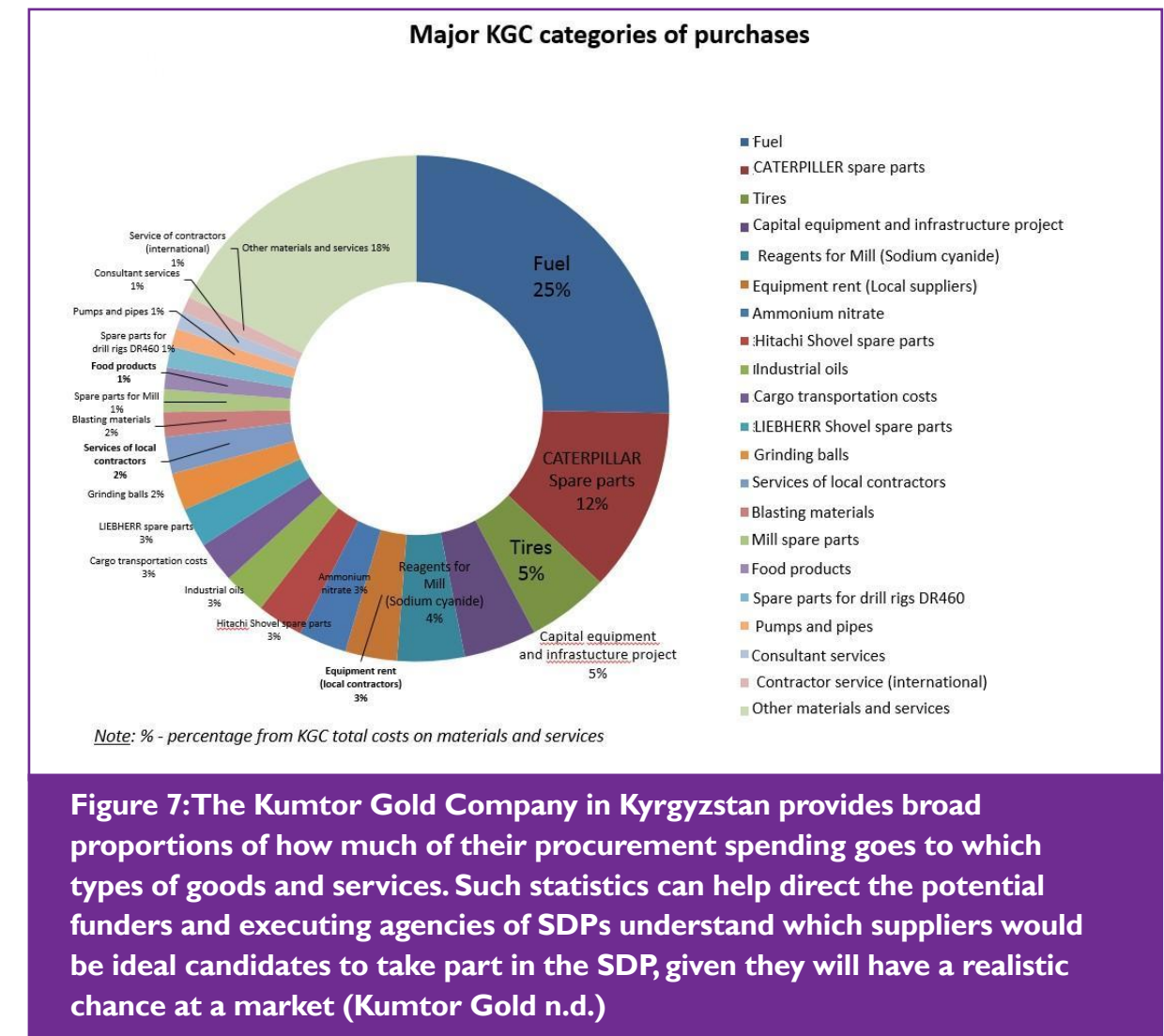


Figure 7: The Kumtor Gold Company in Kyrgyzstan provides broad proportions of how much of their procurement spending goes to which types of goods and services. Such statistics can help direct the potential funders and executing agencies of SDPs understand which suppliers would be ideal candidates to take part in the SDP, given they will have a realistic chance at a market (Kumtor Gold n.d.)

Companies making proactive efforts to increase local procurement can often reach a limit on the suppliers they can support on their own. The minimum efficient scale for goods and services may be beyond the requirement for one extractive industry operation. In this case, providing training and technical assistance to a host country business without coordinating with a second buyer is unlikely to succeed. In the case of Golden Star Resources at the Wassa mine, there was a sense that most of the goods and services that could be competitively supplied at the highly local level had already been reached, and that the next set of opportunities would need to be based on goods and services at efficient scale that required more than one

buyer. Initiatives like the Ghana Minerals Commission's gap analysis to create the list of goods and services procured is an example of best practice. No single EIC has the data or mandate to conduct a gap analysis for the entire extractives sector, so without governments taking the lead on such a process to identify realistic products to target, it is unlikely such scoping will occur.

Fees

There was broad agreement among most interviewees and from the literature review that charging businesses for taking part in SDPs is beneficial. In the case of GIZ's Business Training Center in Mongolia for example, all participating businesses pay a fee in line with costs of other courses on the market for businesses. Because the course specifically informs and brings businesses up to speed with the specific requirements of the Oyu Tolgoi mine, with exams and certification possible, the course is sought after even with a cost (Interview GIZ IMRI). This echoes the finding of the IFC's Newmont case study which states "SMEs are willing to pay a nominal fee if there is demonstration affect" (IFC 2009, 2).

In cases where a nominal fee is not possible because the level of poverty is too high, another way to prepare the conditions for success is to ensure suppliers commit consistent, significant time to the SDP, on the grounds that suppliers are in effect spending money by attending the course. In one case, an SDP executing agency reported a key measure of whether a supplier was serious about the programme – and in turn, whether they are likely to actually succeed in building up their capacity – was to notice if they started sending lower ranked staff as the programme carries on.

Gender

Ensuring women-owned businesses are selected to take part in SDPs takes proactive efforts. As such, Business for Social Responsibility (BSR)'s Women's Economic Empowerment in Sub-Saharan Africa Recommendations for Business Action, recommends "At the most basic level, companies can provide more transparent information about processes for securing contracts and expectations of suppliers and business partners." (BSR 2017, 47). Local women-owned businesses often lack access to the same business and community networks that male-owned businesses do, meaning that they might not know about upcoming tender opportunities and they might have a harder time competing against more networked competitors" (BSR 2017, 7). For example, in some cases, such as in Zambia, local chambers of commerce are heavily relied on by EICs to find suppliers and provide capacity building support to them, such as through training from the social enterprise Agova (PEP Zambia interview). When a chamber of commerce or other business association is dominated by men, as they often are, women members in the chamber membership may not be called upon. As such, to help ensure female businesses are included, it is important to have clear and public communication. This is another advantage of an online supplier portal. In some countries there are women's business associations or directories that provide a

list of women's suppliers. WeConnect International is a US-based international organisation that creates directories of businesses they certify as women-owned. Currently ExxonMobil is an EIC member of the organisation. While such active communications does not guarantee success for women entrepreneurs, it does empower them with information they might otherwise be unable to access.

BEST PRACTICES:

- To identify the most suitable businesses to take part in SDPs, the use of supplier portals which should be promoted widely is an efficient practice. Including non-extractive industry companies in such portals also helps participating suppliers to diversify their market.
- A detailed analysis of the goods and services currently being supplied and those which can be realistically supplied following capacity-building support, is a key component to ensure the suppliers identified to take part in SDPs will have a realistic market for their goods after their participation.
- Participating suppliers should make a commitment to the process through charging fees to ensure the entrepreneurs who are really invested in their success will take part. For those who do not have the financial means to take part, time commitments can also be used to gauge a business owner's willingness to carry through with capacity-building.
- Proactive measures are necessary to ensure women-owned businesses are not overlooked in supplier selection for SDPs, including clear and public communication to ensure male dominated networks do not exclude information and opportunities from local women.

4.6 - Communication

Communications between the various partners in SDPs serve a number of functions, including letting current and potential suppliers know which SDPs are taking place and how they can get involved, crowding in partners and other resources, and helping to deter duplication. As discussed in the scoping section, utilising comprehensive information is a critical success factor for the prudent design of SDPs. Finally, when the results of SDP activities are not publicly available, there is weakened accountability for the efforts of governments and all of the partners involved in SDPs, so communication has an important role to play. While significant progress has been made in increasing transparency on payments to governments through the Extractive Industries Transparency Initiative (EITI), information about EIC procurement practices and results is more difficult to

find in the public realm. While this is beginning to change, the majority of SDPs across Africa have taken place in a context where the ultimate results of local procurement regulations and SDPs – the figures and percentages of procurement spend that goes to national suppliers – are not easy to find. This has resulted in an accountability gap for all parties involved, not least the ODA-providers who have provided significant funding for SDP activity. While some of the challenges of coordinating ODA in extractive sector governance and SDPs go far beyond just this particular type of activity, improving communication would help deter many of the most glaring mistakes.

Nigeria is one exception. The NCDMB has been a very public-facing institution from the start, showcasing case studies of suppliers that have been developed to supply the oil and gas sector, and providing statistics on figures of procurement spending they claim have been shifted to local suppliers. For example, the NCDMB has a significant social media presence and engages in regular outreach in the media through press releases. They also hold regular events such as research and development fairs, and have a quarterly “Local Content Digest” magazine. Some have raised questions regarding the accuracy of the figures they publish of spend shifted to local suppliers but the public sharing of statistics provides a foundation for the public to interrogate what actual progress has been made.

Senegal is more recent example of a country which has begun publishing figure for both mining and oil and gas. Annual reporting on the proportion of procurement spend to national versus international suppliers has started, as well as the numbers and each types of supplier from which each EIC purchases are now available (See Table I). This information comes as part of annual EITI reporting, which has the additional benefit of being governed by a multi-stakeholder group (MSG) who can raise concerns about information provided in the reconciliation reports. Senegal joins a growing number of EITI countries who are now including the issue of local content in their reporting. As of March 2018, there were 24 countries publishing some information on this topic, and this number is likely to further increase due to the 2019 decision by the EITI board to start sharing best practices on reporting on procurement and subcontracting (EITI 2019). Between the experience of Senegal and the proactive communication efforts of the NCDMB in Nigeria, there are models that other countries can consider for ensuring the actual results of SDPs are better communicated.

Company	Workforce	Full-time	Contract	Men	Women	Total Payroll (In CFA Francs)	Number of Suppliers	Total Supplier Payments (2018) (In CFA Francs)
SOCOCIM	Domestic	330		303	27	6 081 312 325	567	64 568 550 953
SOCOCIM	International	9		9	0	212 569 119	240	32 549 051 675
SGO	Domestic	309	1009	1201	117	14 727 054 180	267	87 395 850 722
SGO	International	86	2	85	3	1 707 587 510	228	22 050 719 958
CDS	Domestic	746		678	68	4 785 920 000	242	45 102 451 831
CDS	International	8		8	0	253 916 000	164	43 358 807 965
DANGOTE	Domestic	253	463	676	40	4 192 163 432	307	17 997 789 985
DANGOTE	International	19	31	49	1	1 477 982 648	95	34 931 467 813
GCO	Domestic	723	167	779	111	7 181 452 253	372	53 575 845 356
GCO	International	62	0	59	3	2 045 496 689	220	15 133 716 668
PMC	Domestic	244	0	195	49	2 160 890 000	195	45 078 743 224
PMC	International	53	0	52	1	4 382 360 000	111	12 639 283 734
COGECA	Domestic	399		378	10	1 028 036 952	285	19 996 846 625
COGECA	International	11		11	0	70 361 027	55	4 468 534 725
ICS	Domestic	1564		1511	53	13 872 286 074	621	55 642 973 786
ICS	International	56		56	0	2 541 967 152	453	247 222 094 659
SOMIYA	Domestic	130	237	258	99	914 402 350	110	15 793 688 968
SOMIYA	International	4	0	3	1	233 862 795	27	837 779 267
AGEM	Domestic	55	53	51	4	526 579 594	137	1 611 930 260
AGEM	International	5		5		422 274 687	8	227 014 665

SMC	Domestic	26	13	39	0	685 251 851	22	483 777 883
SMC	International	0	0		0	0	3	47 529 117
SEPHOS	Domestic	103		95	8	n/c	131	1 900 321 486
SEPHOS	International	1		1	0	n/c	14	134 824 497
AIG	Domestic	12	3	10	2	171 688 854	n/c	n/c
AIG	International	1		1	0	105 105 672	n/c	n/c
MIFERSO	Domestic	9	9	6	3	147 186 877	38	184 020 730
MIFERSO	International							
SSPT	Domestic	82	2	73	11	336 172 989	181	2 967 748 765
SSPT	International	2		2		49 456 148	27	2 748 171 438
GECAMINES	Domestic	220	0	203	17	529 100 700	225	19 163 474 706
GECAMINES	International	4	0	4	0	16 260 100	32	2 981 881 533
SODEVIT	Domestic	164	1	159	6	348 338 000	151	6 771 645 404
SODEVIT	International	3	0	2	1	17 512 300	16	555 826 882
Total Mining Sector	Domestic	5369	1947	6615	625	57 687 836 431	3851	438 235 660 684
	International	324	33	347	10	13 536 711 847	1693	419 886 704 596
Total Mining Sector		5693	1980	6962	635	71 224 548 278	5544	858 122 365 280

Table 1: Spending on national versus international suppliers, and numbers of each. Table reproduced from the Senegal's Extractive Industry Transparency Initiative's Reconciliation Report for 2018 data, Rapport de Conciliation 2018, p. 184, launched in December 2019. (n/c – not communicated)

In terms of practical information, providing accessible detailed information on EIC procurement policies and processes significantly supports SDPs. It also helps inform potential partners about SDPs in which they may participate, helping to crowd in further resources and deterring duplication. In most African countries, there is no shortage of NGO activity dedicated to SME support, but most of these organisations know little about how EICs operate. EICs can also help all

potential funders and executing agencies in SDPs by providing broad information about the types of products they purchase in relative amounts. Such data helps to show where opportunities to build capacity for suppliers makes sense – and just as importantly, where it does not. It is important to note that in some countries this data is already being collected, such as Ghana with its annual reporting on local procurement plans. An example of reporting on broad categories that is public, is provided by Rio Tinto's Oyu Tolgoi Mine, as seen in Figure 8.

Spend Family	Total		In Country			National			Southgobi		
	Total Spend Budget 2017, m\$	Total Spend 2017 YTD, m\$	Target, %	Spend YTD, %	Spend YTD, m\$	Target, %	Spend YTD, %	Spend YTD, m\$	Target, m\$	Spend YTD, m\$	Spend YTD, %
Construction	\$ 14.2	\$ 9.0	99%	100%	\$ 9.0	90%	100%	\$ 9.0	\$ 0.1	\$ 1.3	14%
Fuel and Lubricants	\$ 63.6	\$ 52.5	100%	100%	\$ 52.5	100%	100%	\$ 52.5	\$ 0.2	\$ 0.0	0%
Fixed Plants & Equipment	\$ 70.1	\$ 62.8	40%	42%	\$ 26.1	8%	17%	\$ 10.8	\$ 0.0	\$ 0.0	0%
Logistics	\$ 19.0	\$ 16.7	100%	80%	\$ 13.3	97%	79%	\$ 13.1	\$ 18.2	\$ 12.7	76%
Mobile Equipment	\$ 77.0	\$ 74.1	99%	93%	\$ 69.2	43%	56%	\$ 41.7	\$ 17.9	\$ 27.8	37%
Repairs and Consumables	\$ 43.0	\$ 76.9	85%	91%	\$ 69.6	65%	74%	\$ 56.7	\$ 6.5	\$ 16.6	22%
Production Consumables	\$ 42.2	\$ 35.9	96%	90%	\$ 32.2	88%	87%	\$ 31.1	\$ 20.0	\$ 18.7	52%
Services	\$ 125.6	\$ 158.4	78%	84%	\$ 132.6	65%	76%	\$ 120.9	\$ 20.1	\$ 15.8	10%
Total	\$ 453.1	\$ 486.3	83%	83%	\$ 404.5	62%	69%	\$ 335.9	\$ 83.0	\$ 92.8	19%

Figure 8: Procurement spending by category of goods and services at Oyu Tolgoi, Mongolia. In breaking up goods and services and also showing amounts of spending going to local-local versus national suppliers, it shows where opportunities lie in both geographies, and helps build accountability (Oyu Tolgoi, n.d.)

There are many models of best practice EICs can consider to communicate what they are doing in terms of supplier development. For oil and gas, IPIECA in March 2020 released its 4th edition of its Sustainability reporting guidance for the oil and gas industry. This reporting framework encourages oil and gas companies to provide practical information on their procurement practices and results, as seen in Figure 9 below. In mining, the Mining Local Procurement Reporting Mechanism (LPRM) was launched in 2017 by the mining shared value of engineers without borders, commissioned by GIZ with the financial support of Germany's federal ministry of economic cooperation and development (BMZ). It is a set of disclosures intended to be provided for each individual mine site which a company operates. The exact format of the reporting is not specified, and companies can choose to report on a mine site in accordance with the LPRM via their websites, sustainability reports, or any other format, as long as disclosure is public.

REPORTING ELEMENTS

CORE

- C1** Describe your strategies, programmes and procedures that are designed to improve the ability of local suppliers and contractors to support operations and projects, such as actions that help local suppliers meet company and international standards.

ADDITIONAL

- A1** Provide your expenditure on locally sourced goods and services.
- A2** Use case studies to illustrate how your local procurement policies, programmes and procedures are implemented locally, including results and lessons learned.
- A3** List countries / regions where you have carried out local capacity assessments.
- A4** Quantify the number (or percentage) of your organizational entities that are covered by formal agreements or legislation within host countries regarding local content.
- A5** Describe how your procurement process helps or encourages your first level of suppliers and contractors to source locally.
- A6** Describe further activities designed to assist supplier development, such as engagement in collaborative groups (e.g. with other companies or chambers of commerce) to promote local enterprise and economic development.
- A7** Demonstrate how your activities can lead to indirect job creation and economic development, for example providing case studies / examples of local business development that are a result of the economic activity and opportunities created by a project, even if not directly meeting current company needs.
- A8** Provide case studies that discuss the socio-economic effects of your local procurement activities on the host community / country. This may be linked to your reporting of indicator SOC-9.

Figure 9: Reporting elements for local procurement from IPIECA (2020)

In both cases, the reporting guidance provides a common template for EICs to provide information on their procurement processes and SDPs. Moving towards having all companies use such systems, would provide a rapid scoping of the current state of play for a potential SDP, drastically reducing research and transaction times for all stakeholders. Sustainability reporting however is not an ideal format to provide information to suppliers, government, and other stakeholders. Such reports come out well after the end of the year – generally as early as April but often not until September – and such reports are not necessarily easy to find for site-level stakeholders. In many cases the name of a particular extractive industry site does not tell local stakeholders anything about the parent company, leading to confusion. As such, up to date information is better provided on a website for an

EIC, and possibly available in printed form at community relations offices. A detailed “procurement” or “Suppliers” section of a website, such as that modeled by Rio Tinto’s Oyu Tolgoi mine in Mongolia, is an ideal format for online communication. Another option being pursued in some African host countries is the use of supplier websites to communicate additional practical procurement information. Such supplier sites are useful for consolidating information on tender opportunities for suppliers sourced across multiple EICs, but they can also convey information about SDP activities. Guinea’s BSTP website provides such information as well as sites created by Invest in Africa. Invest in Africa’s African Partner Pool site in Ghana has a business growth hub resource library for suppliers, as shown below in Figure 10. One challenge is that the Ghana Chamber of Mines has also created a portal of its own where SMEs can register and obtain information on required goods and services. That said, this brings up the need for better coordination, rather than raising doubts about the portal model.



Figure 10: The African Partner Pool’s “Business Growth Hub” resource library for suppliers (Invest in Africa n.d.)

For providers of development assistance and executing agencies of SDPs, current reporting requirements usually come in the form of providing project information in “project browsers”, such as the one provided by Global Affairs Canada on their website. However, these are difficult to navigate even for skilled practitioners working in development or host country governments and are not well suited for the purpose of sharing information on SDPs. Finding information about past SDP projects funded by ODA is a difficult task and undermines the ability of governments and other stakeholders to build on past efforts. It is also very difficult in many cases in ODA reporting to understand how successful a programme was. For example, the USAID-funded Ghana Supply Chain Development Programme, executed by Pyxera Global, claims to have trained 650 individuals from 254 SMEs in 96 training workshops, and that 78 contracts were awarded worth \$18,499,280 (Pyxera Global 2018). However, the only way to determine the programme cost is to struggle with the USAID Foreign Aid Explorer, where one finds the cost of the programme was \$789,899 (USAID 2020). Leaving aside the problem of understanding how much of the increased supplier contract value actually resulted from the training and would not have happened anyway, it is difficult to assess the return on investment for this programme without better information.

BEST PRACTICES:

- EICs involved in SDPs should communicate as much information as possible about their SDPs, including the partners involved. In the oil and gas sector, IPIECA's sustainability reporting guidance provides a useful model for information that can be provided. For mining, the Mining LPRM can also be helpful. Information sharing though should be "mainstreamed" as much as possible, be updated and available on a regular basis via websites and at community relations offices.
- Governments should compile and report information on local procurement efforts and results of EICs. Nigeria's NCDMB and Senegal's EITI reporting offer models of good practice.
- SDP executing agencies, and their ODA funders, should provide consistent and easily accessible reporting on their activities, including the value of contracts attributed to the capacity-building activity.

4.7 - Access to Finance

A constant theme in the literature and in interviews, is that having an affordable source of finance is a necessary pre-condition for SDPs to succeed. The relative failure of the IFC's programme in Zambia shows that improving the business skills and technical capacity of suppliers is insufficient to help domestic business secure contracts. In fact, it was suggested by three SDP actors during this study that ODA providers should only focus on creating supplier funds mechanisms, rather than funding more SDPs.

Most SDPs have some component of helping suppliers gain access to finance. Such efforts can include companies providing finance themselves, such as Anglo American in its Zimele programme, but usually the role EICs tend to play is providing training on financial literacy and other business management skills to help SMEs navigate lending institutions. In some case EICs can work with local financial institutions to give undertakings to purchase from the borrower SME, so that the borrower can demonstrate the viability of their plans for the loan. However, with Zimele being a notable exception, in most cases EIC-led SDPs have not provided adequate access to finance.

For this reason, the model of the Nigerian content development fund shows promise for policymakers considering how to ensure suppliers in SDPs have improved access to finance. The fund was created by the same Nigerian Oil and Gas Industry Content Development Act of 2010 that set targets for 280 goods and services

to be procured locally and created the NCDMB. One percent of all contract values in the upstream sector of oil and gas activity is provided to the fund. The NCDMB uses this fund to allocate lower-interest loans to suppliers and to invest in other projects and programmes to promote local content. Effectively Nigeria's legislation creating local procurement requirements creates its own finance source that can be then loaned to the suppliers who benefit from the preferences. It also helps provide an incentive for the NDCMB to engage in effective SDP activity to maximize its likelihood of the loans it provides to suppliers being repaid.

Where such a national government fund is not available, SDP executing agencies will often seek out financial institutions to create such funds, though the extent to which these efforts have been successful is not promising. One advantage an IFC offers as an executing agency for SDPs is that its strong background in finance can help these efforts. In addition, the IFC works with many financial institutions across host countries, and has expertise in their governance. For example, in the case of Rio Tinto's Oyu Tolgoi mine in Mongolia which received IFC finance, the IFC has seats on the board of the Bank of Mongolia (Interview IFC). This has allowed the IFC to work with that bank to help secure credit facilities for the suppliers of Oyu Tolgoi.

BEST PRACTICES:

- Access to finance for suppliers needs to be put at the centre of any SDP programme.
- Governments and ODA providers should consider starting supplier-specific funds of low-cost credit and in many case ODA providers should consider prioritising such a fund instead of starting another SDP.
- International and regional finance institutions should be considered as executing agencies for SDPs due to their pre-existing links with financial institutions and ability to influence their lending behaviour.
- Proactive measures are needed to ensure female entrepreneurs also have access to credit and financial institutions partnering in SDPs should demonstrate they have systems in place to ensure women are not underserved.

05

The Impact of WTO Trade Related Investment Measures

In an effort to increase local procurement by extractive industries, governments in Africa and beyond have often used policies which could be considered to conflict with the World Trade Organisation (WTO) Trade Related Investment Measures (TRIMs) rules. Whether developing countries have the “policy space” to impose regulations on investing companies has been a subject of intense debate in recent years.

However, there is reason to argue that there remains policy space for host countries to adopt local content policies. A deeper analysis of the TRIMs agreement sheds light on the reasons why SDPs are mildly or entirely unaffected by them. There are already several exceptions in the articles of the TRIMs regarding developing countries in areas such as services, customs duties and charges, and subsidies. In addition, practice has shown that the most successful approaches have not been affected by the measures because of their scope and arbitration relating to local content restriction disputes in extractive industries has not increased, suggesting these regulations are not, in practice, being challenged.

Though WTO regulations are specific in trade and investment commitments impacting local content regulations, developing countries are treated very flexibly. For example, TRIMs provide exemptions for policies that foster technology transfers, joint ventures, local equity participation and requirements for the use of local service providers. Furthermore, TRIMs only include restrictions in goods and not in services, especially for those countries which have not yet made restrictions on market access for natural persons or service providers. State-owned companies

A deeper analysis of the TRIMs agreement sheds light on the reasons why SDPs are mildly or entirely unaffected by them.



and exclusive service providers are also exempt from TRIMs restrictions. TRIMs also provide space for special and differential treatment for developing countries where countries are required to follow TRIMs, but they can adhere to the derogations laid out in the GATT treaty 1994 which allows for the needs of developing countries. These exceptions include support to nurture infant industries and address balance of payments problems, which are specific to developing countries (Johnson 2016).

Secondly, some of the most the most successful approaches on SDPs are not affected by the TRIMs agreement, because their focus has been on technology transfers and capacity building which are not restricted under TRIMs. The establishment of a dedicated local content agency like Nigeria’s NCDMB is not prohibited by the rules, nor is having companies provide local procurement plans and reporting. SDPs, contrary to target related programs have less probability to be contended given that they engage the private sector in the goals of helping local suppliers reach the requirements companies need in order to create a sustainable impact. Furthermore, disaggregated, and continuous reporting has also proven to be positive for developing accurate SDPs and such reporting requirements are not forbidden under WTO agreements.

Thirdly, and perhaps one of the most practical reasons why local procurement initiatives have not been contested is because in order to dispute the enforcement of TRIMs, it needs to be settled through the WTO’s settlement system which is usually a costly and long process. Such disputes will involve a state-to-state process which discourages private firms from persisting with the claim (Ramdoo 2016). Despite their increasing use of local content practices which are prohibited or discouraged, no country has yet brought a complaint regarding an African country’s local content regulation in any extractive industry (Interview Ovadia).

This is not to advocate that host country governments in Africa intentionally violate the TRIMs agreement, but it does mean a dispute is unlikely.

However, to avoid the risk of a potential WTO challenge, one strategy is for governments who want to use targets to ensure they include sunset clauses, ensuring EICs (and their home country governments) know they will end eventually

Governments in Africa have a number of strategies they can pursue to mitigate the potential negative impacts of TRIMs. Many of the most successful practices identified in this study, such as the creation of a local content board to coordinate SDP activities, clearly do not conflict with TRIMs and governments can pursue these types of strategies. The fact there have been no challenges to date in host countries local content requirements that do conflict (hard targets on goods for example), which suggests governments can continue to use targets. However, to avoid the risk of a potential WTO challenge, one strategy is for governments who want to use targets to ensure they include sunset clauses, ensuring

EICs (and their home country governments) know they will end eventually. This may help deter any future challenges. It is worth noting that sunset clauses for targets are also in line with best practice for local procurement requirements in the first place and put pressure on suppliers and the SDPs who support them to get things right early in the process.

While it is clear that most of the key aspects of SDPs are not significantly impacted by TRIMs, what constrains the possibilities of countries establishing SDPs more are bilateral and plurilateral investment treaties. Usually these agreements are designed to favour investors and end up eroding the flexibilities endowed by the WTO. It is possible though for governments to exempt specific sectors or products from particular provisions, or the entire agreement. That said, there appear to be no examples in mining or oil and gas where a country has signed a bilateral treaty that has exempted either sector, or their supplying industries.



06

Regional Considerations

Amidst the growing impetus for local procurement in extractive industry host countries in Africa over the last decade, there has also been a slowly emerging realisation that many backward linkages from extractive industry activity can only be realised on a regional basis. In some cases, the level of demand required to be competitive may be beyond what the operations in a single country can offer. After exhausting opportunities to build up businesses at the local level, groups of EICs should pool their demand for key products to create enough offtake to create sufficient economy of scale.

To date, based on the available literature and case study material, there appears to have been no attempts at such a regional approach to SDPs in extractive industries. There may be examples of company-led SDPs, where an EIC has built the capacity of a local supplier in country in order to also supply its operations in another country. For example, a major IOC operating in Nigeria may have focused on one supplier in the hopes it could competitively supply its operations across the Gulf of Guinea, though interviews with EICs for this study did not uncover any examples of such proactive efforts. That said, there are some examples of supplier associations and portals that may provide some of the infrastructure necessary to think about how regional efforts to support suppliers could be enabled. There are for example some multiple country supplier portals, such as Achilles, which allows EICs like Sasol to access suppliers from multiple countries in Africa. Such a portal system could also be a mechanism to build up the capacity of suppliers to supply across a region. Invest in Africa, which runs supplier sites that include EICs in Ghana, Kenya, and Senegal, and offers capacity building support for registered suppliers, also could offer a platform for multiple countries and EICs to work together in a regional approach. Finally, many business associations have an explicit goal of helping member firms export to regional markets, such as the Petroleum Technology Association of Nigeria (PETAN). For mining there are less obvious examples in Africa but supplier associations in Canada and Chile may offer ideas. Convening such industry associations, along with the governments of their

respective countries could offer a foundation to explore such regional SDP activity. While detailed case study materials do not exist for this more innovative regional approach, some SDPs have sought to develop suppliers to supply the wider region as an explicit goal, and the case study material reviewed as well as expert interviews did provide some learnings on the need to factor in regional considerations. Interviews for example uncovered the implications of regional trade agreements that have an impact on the potential for SDPs. The Zambian tailors example, seeking to supply PPE to mining companies and who have to pay a 25% import duty on the materials required, when mining companies can import the finished products from Zimbabwe without duty under the terms of the SADC Free Trade Area, demonstrates that trade agreements within regions have major implications for the outcomes of SDPs. Trade rules like this effectively mean that any SDP activity, no matter how well coordinated and resourced, will result in situations where local suppliers cannot offer a price cheaper than the import.

In general, it is also common practice for countries to grant exemptions on import duties or taxes on imports of “equipment” used in both mining and oil and gas. However, in many cases the definition of mining or petroleum “equipment” has been expanded to include many goods that in reality are not of highly sophisticated nature. Governments should ensure they are not including products that could realistically be produced locally in such exemption lists. One policy option to consider building up regional suppliers however, might be to implement such exemptions on imports only from regional countries, rather than outside of Africa, for example.



07

Conclusion – Interdependency and the Weighting of Factors

This study has profiled many of the best practices that governments should consider for important factors in SDPs, based on a combination of case study material and interviews. By deconstructing the components of SDPs into the factors that affect their likelihood of success, it has been possible to draw out best practices for the planning, funding, and execution of SDPs. Exactly how much of a role each factor has played in past SDP successes is a difficult question to answer without comprehensive research beyond the scope of this paper, but it is still possible to identify patterns in how the factors in each SDP have impacted each other. The ultimate outcome of examining these past SDPs and conducting interviews with practitioners, is that each factor analysed significantly affects the others, and that it is difficult for initiatives to succeed unless all of them are effectively addressed concurrently.

For example, if there has been inadequate scoping – or no meaningful scoping whatsoever – it undermines all the other critical success factors. Without adequate scoping there is no way to determine the appropriate duration for a proposed SDP or what kind of resources will be needed. Without understanding the willingness to participate and potential roles of the EICs, programme design will consistently fail to fully utilise the capacities and resources that can come from industry. The PEP Zambia experience is especially telling, where the programme was approved in 2015 without adequate scoping of the mining sector, and the management of the programme struggled to gain traction with the key stakeholders until the end of the funding was approaching.

Likewise, without meaningful involvement from EICs, it is very difficult for SDPs to succeed. Governments and executing agencies for SDPs need data from companies on what goods and services they purchase in order to target the right businesses, with the right interventions. If EICs cannot be reliably counted on to take part in SDP activity, it is difficult to develop a coherent structure for activity. Similarly, without companies assuring finance institutions that they can indeed provide a market for a

good or service for which a business is seeking finance, lending institutions will be hesitant to lend. Table 2 below compares how each of the factors discussed in this study have played out in the SDP activity of PEP Zambia versus that of Nigeria and the NCDMB. It shows this interplay between the different critical success factors, indicating how success or failure on one, affects the performance of the others.

Factor	PEP Zambia (2015-2020)	Nigeria NCDMB (permanent)
Scoping	The SDP was approved before adequate scoping of the mining sector and its needs were understood. In addition, the programme was originally designed without government involvement.	Scoping SDP activity is an ongoing process of the NCDMB, which utilises data on local procurement spending to identify where opportunities exist to build up domestic suppliers.
Duration	PEP Zambia was initially approved for five years. Uncertainty of whether the project would be renewed deterred involvement from EICs and potential partners. The renewal of funding in 2020 for five years for the new Prospero initiative yields promise for move involvement from other actors due to the secured length of the initiative.	The NCDMB is a permanent institution and gives confidence to actors that support will continue, affecting their willingness to contribute on the other factors. For example, finance institutions are more likely to lend to businesses knowing the capacity-building support for suppliers will continue.
EIC Role	There is no government pressure on mining companies to take part in PEP Zambia's activities, and no demand-side regulations on local procurement. PEP Zambia struggled to have EICs take part in their activities. With a forthcoming statutory instrument putting stricter local procurement regulations on mining companies, this may change.	Due to the demand-side measures consisting of targets for 280 goods and services, IOCs are compelled to be involved with SDP activity to meet those requirements. Currently IOCs have expressed concerns about the NCDMB not engaging enough with them and duplicating a supplier portal system.
Structure	With no permanent involvement of EICs or the Zambian government, the SDP struggled to gain traction. Because scoping had not identified relevant government initiatives, the government was skeptical of the SDP. Starting in 2018, new management at PEP Zambia recognised this problem and began attempting to create a Steering Committee for local procurement in Zambia in 2018. Prospero is now continuing this effort, with more government involvement than before.	The NCDMB has a structure with representatives from most of the key stakeholder groups, allowing different resources and competencies to be drawn upon in programme design. One shortcoming of the current structure is the lack of an IOC representative on the Board, and the outcome of this can be seen in some of the concerns from industry that SDP efforts are being duplicated.

Supplier Identification	Without EICs involved, PEP Zambia struggled to understand what goods and services would be best to target. The Zambian government and AfDB in 2018 commissioned a study to identify goods and services to potentially target; such a study could have greatly enhanced PEP Zambia's efforts had it been carried out as part of the scoping process	The NCDMB runs a supplier portal, and through its Project 100 initiative is now targeting suppliers to focus on goods and services currently being provided by international providers. The centralisation of data on local procurement spending through the NCDMB has enhanced the ability to understand what the most realistic opportunities are.
Communication	PEP Zambia's design and execution suffered from a lack of communication from relevant parties. Due to lack of public communication on local procurement from both the government and mining companies, PEP Zambia was unaware of other SDP efforts underway in the country, leading to frustration from stakeholders that PEP Zambia was a conflicting programme.	Consistent communications via media and social media, as well as frequent events, mean the SDP activities of the NCDMB are well publicised. EICs and ODA providers considering their own SDP activities can understand what initiatives are already underway, hopefully deterring duplication.
Access to Finance	Training for SMEs involves instruction on accessing finance, but PEP Zambia has no source of funding for the suppliers it supports. This has led to reluctance on the part of some EICs to take part in capacity-building efforts.	The Nigerian Content Development Fund is a source of finance for suppliers that are supported by the NCDMB. The EICs are forced to contribute to the fund, so their involvement in supplier finance is guaranteed by law.

Table 2: A comparison between the SDP activities of PEP Zambia and Nigeria's NCDMB

It should be noted that PEP Zambia's original funding came to an end in early 2020 and the programme has been granted a second phase of funding under a new name, Prospero. Before this renewal, starting in 2018, with new management PEP Zambia's team has begun to implement many of the best practices outlined in this study, and the current team at Prospero has continued to build on the initial successes from those changes starting in 2018. As such, it is important to associate the early mistakes made in the PEP Zambia SDP with the original structure, and not the team in place since 2018. This is also not to suggest the NCDMB is perfect in its approach, and there have been several concerns noted in this study, such as the lack of EIC involvement in the Board's Executive Committee. However, on the whole the way in which the Nigerian government and NCDMB have approached SDP activity has been to address all of the critical success factors, and also to structure its work in such a way as to coordinate the actors in a systemic fashion. Interviewed IOCs operating in Nigeria for this study raised concerns about individual aspects of the government's approach, but also said they have seen

significant growth in the sales and competitiveness of suppliers in the past decade. There is a small minority of cases where poor performance on one of these factors may not entirely undermine the others. Even with a less than ideal structure in place, there are ways to carry out effective SDP activities. Anglo American has done a good job on building up suppliers even in cases where the government has not been involved as much as they ideally should. It should be noted that part of the way Anglo American was able to do this was because they brought some of the key factors to the table themselves – most importantly the provision of finance. Another example of some relative success being achieved without considering all of the critical success factors, arguably would be SDPs with weak communications. First Quantum Minerals in Zambia for example was able to secure foreign investment in a mill ball factory from Chinese and Chilean investors, entirely independently from the activities of any other actors, and without communicating these efforts or attempting to crowd in additional support (Interview First Quantum Minerals). Addressing these additional steps would have brought significant benefits to both these examples.

Such efforts that have achieved moderate success without taking a system-wide approach do face risks to their long-term sustainability. First Quantum's mill ball factory remains highly dependent on the company purchasing from it, as at the time of this study it did not supply any other mine. This means that should First Quantum sell its two mines in Zambia to another mining company with its own preferred international supplier of mill balls, the factory would face the prospect of having no customers. A much more concrete guarantee of longevity for the factory would be if the chamber of mines and government worked together in a more formal structure to continuously seek improvement for the products of the factory, and to convince the other mining companies to try the products. The government could also be called upon to help support the business, perhaps by improving infrastructure in the region to help lower production costs (e.g. by providing more reliable electricity). It is clear the more critical success factors have been addressed, the more likely a positive outcome.

7.1 - Coordination as the Foundation

It would be better for African governments and other SDP stakeholders to work from the position that all these critical success factors are crucial, and need be addressed. Each factor will have a different weight on the ultimate outcome of an SDP, but this study has shown that accounting for each of the factors is undoubtedly associated with greater success. While a minimum level of performance is required for all the factors, one outcome of this study has been to demonstrate the absolutely essential nature of coordination. There is a very clear pattern in the empirical record, supported by findings from the interviews, that the better the coordination for a SDP, the better the overall outcome. None of the more successful SDPs in this study lacked this coordination, even if the driving force

differed. In the case of Nigeria, a strong central organisation, the NCDMB sources information, and coordinates activities across the sector. Despite challenges, the NCDMB has created a body of knowledge and institutional memory that can be drawn on for all SDP activity going forward. Having now marked ten years since the 2010 Act which created the board, the government is now working to finalise the Nigerian Local Content Development Regulation Bill, 2020, and having this central body to draw information from increases the likelihood the legislation will be well informed by past experience.

For an example of this dynamic in EIC-led SDPs, in Newmont's Ahafo Linkages Programme, a strong steering committee coordinated the resources and time of the various institutions necessary to ensure capacity-building for businesses was successful. Newmont Ghana also put significant effort into building understanding and support for the programme internally and allowed for concerns from end-users to be incorporated into the LC&SD unit's activities. Even in success stories for smaller SDPs like that of Gold Star Resources, the role of coordination is clear through the work of a community level committee that allows the perspectives and resources of various actors to be integrated. Even at the supplier level in this example, the role of coordination is clear with the LOCUMS company that brought together multiple suppliers. Having only one business entity to engage with rather than several, has enabled Golden Star to better plan programming and to draw on the support provided by other initiatives like the GIZ Employment for Development programme.

By contrast, there is a recurring theme that SDPs without adequate coordination have struggled to deliver impact. For PEP Zambia, the first two or three years of the programme were characterised by ad-hoc efforts at supporting SMEs across the country without any kind of coordination body set up to specifically address the needs of the mining sector. Based on the challenges that resulted from this, since 2018 PEP Zambia, partnering with the government, has been striving to create a national steering committee for mining supplier capacity-building to address this challenge. Likewise, it is reasonable to argue that Ghana's limited success on their national supplier development programme since it was formally launched in 2017 can be attributed to a lack of consistent convening and coordination of the key actors. It is promising however that a steering committee did form in late 2019, and it also has been clear that their planned revision of regulations for mining local procurement has involved significant consultations.

The fact that coordination is the basis for successfully addressing the critical success factors also touches on the many concerns raised throughout this study regarding ODA providers failing to meaningfully engage with governments, and each other. The bewildering experience where two SDPs in the same host country and funded by the same bilateral were effectively duplicating efforts and competing for the same talent for staffing, demonstrates that a lack of coordination results in wasted resources. By contrast, when ODA funding has been utilised by government for a



specific purpose, such as with Adam Smith International's study for Sierra Leone to inform its local content strategy, it is clear that ODA has the potential to meaningfully support government efforts.

It is also worth stressing that the nature of any attempts at developing suppliers on a regional scale can only realistically succeed with strong coordination. With the challenge of managing competing interests within even a single country, the importance of having strong coordination mechanisms in place becomes all the more important in interstate efforts. While there are currently no government-led regional SDPs in extractive industries, the experience of supplier portals with multiple countries such as Invest in Africa, or major EICs who operate across several African countries, may provide some initial experience that can be drawn upon by governments and other actors.

08

Strategy and Policy Recommendations

Having laid out best practices and critical success factors for the important aspects of SDPs, there are several overarching policy implications that emerge to set conducive conditions for each factor in SDPs. Because this study found so many examples of ODA-led SDPs failing to achieve their full potential, many of the recommendations for government touch on policies and initiatives to better harness this external support. A set of recommendations is also provided specifically for ODA providers.

8.1 - Strategic Opportunities and Policy Recommendations for Host Country Governments

The following recommendations represent opportunities for governments to develop policies, and to institute new programming, that helps to create many of the necessary pre-conditions identified in this study for successful SDPs. Some of these are policies that can be implemented as part of existing or upcoming local content regulations, and others represent more strategic opportunities outside such direct local content requirements.

1. Governments are encouraged to create a dedicated local content agency which acts as a focal point for SDP activity – coordinating and monitoring progress and drawing on the resources of all relevant government ministries.

The empirical record and interviews with stakeholders show that there are significant limits to what meaningful supplier development can take place when the government is not coordinating the activities. While setting target percentages for purchases and procurement lists for goods and services sets clear direction for EICs, a well-resourced and dedicated agency is necessary to convene and

coordinate all the relevant actors who have an influence on the capacity of suppliers to be competitive.

In addition, ODA, while helpful for providing resources to SDPs, needs to be steered by the government for it to be most effective. Without government involvement to require EICs to take part in SDPs, and to work with potential ODA providers and executing agencies to co-design initiatives, time and resources will continue to be wasted building scattered and often conflicting programming.

2. Governments need to ensure there is a source of affordable finance for suppliers to EICs to ensure SDPs work, either by creating their own funds, or mandating another actor create them.

The relative success story of Nigeria in building up its supplier base for the oil and gas industry, as well as the frequent failures in SDPs in other countries due to SMEs having insufficient access to finance, show that the existence of affordable finance is one of the most important pre-conditions for the success of efforts to build up suppliers.

Following the examples of Nigeria and Sierra Leone, it is recommended such a fund should be created under the direction of a dedicated local content agency to ensure that realistic supplying opportunities can be matched with the right businesses and lending need.

3. Governments may need to consider requiring EICs to report publicly on their local procurement efforts and results, including what any SDP activities in which they participate.

The lack of public information on the procurement needs and processes of EICs was a consistent theme in the both the empirical record of SDPs in Africa, as well as in consultation interviews for this study. From lack of adequate scoping, to training designed without understanding the types of goods and services actually needed by EICs, many of the challenges and barriers to successful SDP design and implementation stem from a lack of information. In addition, without public statistics on how local procurement has changed year to year, it is difficult to judge the progress of government interventions and SDPs, and it is therefore difficult to create accountability mechanisms.

For the oil and gas sector, IPIECA's sustainability reporting guidelines, and for mining, the Mining Local Procurement Reporting Mechanism, offer existing robust frameworks that EICs could be required to use to provide site-level information to both the public and a dedicated local content agency. In addition, as member countries of the EITI increasingly include reporting on local procurement in their annual reconciliation reports, participating countries could be encouraged

to include procurement reporting from EICs based on the two models above in each year's report. This would allow a yearly snapshot of activities, statistics and other information that could be used to inform future SDPs.

The Global Reporting Initiative (GRI) may also be considered, as it requests data from companies on their local procurement spending. However, experience to date shows most extractive industry companies do not follow the specific requirements properly and do not provide meaningful data. This may change with the expected release of new Sector Standards for the oil and gas sector, coal sector, and mining sector, over the course of 2021 to 2023.

4. Governments may require ODA providers and executing agencies for SDPs in extractive industries to publicly report on their progress, including the value of new contracts created because of their activities. This reporting could be collected and compiled by the dedicated local content agency as well.

Very little public information is available on most of the SDPs referenced in this study. As a means of creating accountability for SDP activities supported by ODA, as well as to inform other providers considering funding new initiatives, governments should require reporting from the funders and executing agencies. This reporting should be more accessible than the current types of information available on available "project browsers", such as the one in use by Global Affairs Canada.

A dedicated local content agency could utilise such reporting to identify strategic opportunities to harness current programming, and to identify where additional ODA could be helpful to expand SDP activity.

5. Governments may consider avoiding limitations of their policy space regarding SDPs in bilateral trade agreements and could put in place sunset clauses for any local procurement regulations that conflict with WTO rules.

Many of the most important factors of SDPs do not actually conflict with WTO rules, and in many cases, there are also exemptions specifically for least developed countries. However, where current government interventions could technically conflict with such rules, governments should consider putting in place sunset clauses which will confirm activities are time-bound.

However, many more interventions governments use frequently are banned in bilateral and plurilateral trade and investment agreements. Governments should not enter into such agreements that restrict such measures or seek exemptions for extractive industry suppliers as strategic sectors.

6. As an initial step to explore efforts at building up suppliers on a regional basis, governments could consider convening the industry organisations representing suppliers across several countries to take stock of capabilities and explore potential SDP activity.

Such convenings of government, EICs and supplier bodies would allow an exploration of which goods and services could be produced competitively on a regional basis, rather than all the countries continuing to import them from outside Africa. In meeting regularly, governments can also identify strategic opportunities for resource corridors and other investment in infrastructure that would aid suppliers for EICs across the wider region.

Given the global supply chain disruptions caused by the COVID-19 pandemic, such meetings could also work to identify supply chain vulnerabilities across the wider region to attempt to build up suppliers and ensure EIC activity can continue during any future disruptions through regional cooperation.

8.2 - Strategic Opportunities and Recommendations for ODA Providers

It is striking that while there are some low-level successes from the ODA-led initiatives profiled in this study, none of them have reached the success of Nigeria's government-led approach, or for that matter Anglo American's success with the Anglo Zimele programme (which can arguably be traced back to the government's push for BEE). It is not possible to find any examples where a participating EIC claims to have shifted a particular large amount of procurement to local suppliers. It is quite possible that programmes like the SOGA programme have indeed been able to put up similar figures as those claimed by the Nigerian government, or Anglo American for that matter, and that they have simply not communicated these figures. However, the lack of unambiguous success stories, as well as the many concerns raised by stakeholders in ODA-led SDPs in this study, suggest there is a real problem with the way these programmes are being designed.

I. The various bilateral and multilateral ODA providers who fund SDPs in extractive industry host countries across Africa should form a working group to collaborate on their work and avoid duplication of efforts.

Such a working group could be convened by a regional government organisation such as the AfDB, the African Union Commission, or the IGF. This working group meeting regularly would help ensure future SDPs are informed by the best practices of the wider working group, and to deter duplication. In each recipient country

there could also be the opportunity to maximise efficiency and impact, based on their capabilities. Instead of two ODA providers funding two supplier training centres for example, one could focus on the training and another on a technical assistance programme to support the government to improve particular aspects of the operating environment for businesses taking part in the training.

In addition, such a working group, in coordinating with regional government organisations, could discuss regional SDPs that could help the creation of larger-scale manufacturing plants for goods used by EICs, that need significant economies of scale to be competitive.

2. An online community of practice and resource library should be created by the ODA providers who fund SDP activity in Africa for the purposes of sharing resources, posting requests for proposals (RFPs) and for reporting on outcomes.

In order to mitigate what is clearly a significant problem of duplication and the funding of SDPs without a full understanding of other initiatives being funded simultaneously by other ODA providers, an online community of practice should be created

While even the creation of an electronic mailing list would help significantly in this regard, a more effective method would be for one actor (such as the AfDB or African Union Commission) to create an online platform with a dedicated coordinator to ensure consistent participation. Alternatively, a sub-group could be created on an existing platform such as the World Bank's Extractives-led Local Economic Diversification (ELLED) Community of Practice, or the Extractives Baraza platform.

3. ODA providers should consider restructuring their funding of SDPs away from larger, multi-country programmes, to smaller, more targeted SDP activities, at the request of governments.

Large multi-country projects like the SOGA programme cannot provide the targeted interventions that can best support suppliers for EICs. Projects where executing agencies are under pressure to spend large sums of money regardless of government policies and initiatives are concurrently taking place should be redesigned. In restructuring ODA funding for extractive industry host countries so that governments could make more targeted requests for support for their own SDP activity, this would address many of the inherent problems that have characterised the siloed and less successful ODA projects in this study.

In moving to smaller targeted interventions, it should be noted there is an even further heightened need for better knowledge management and information-

sharing on such programming, to prevent some of the problems found in this study.

4. A significantly higher share of ODA spending on SDPs could be used for scoping studies to support governments in understanding the profile of EIC procurements, and identify the most effective interventions to build the capacity of domestic suppliers.

The Sierra Leone example, where DfID funded a comprehensive study and gap analysis of the current conditions for mining local content in the country, is relatively rare. The bulk of SDP activity funded by ODA providers appears to be very large, multi-country projects like the SOGA project, many of which have been funded before the kind of analysis provided by Adam Smith International for Sierra Leone and Kenya was available.

A programme to provide a scoping studies requested by a host country government would fill a need that would help SDP efforts excel on all the critical success factors covered in this study. In addition, scoping studies for one country would also provide insights from which other countries could draw.

5. ODA providers should explore options for providing and facilitating finance for firms taking part in SDPs.

In virtually every SDP, access to finance emerged as a decisive factor in whether an SDP could succeed. Without access to finance, it is clear much SDP activity will struggle to go beyond the low value opportunities present at the community level. To make the kinds of high value shifts possible, capital is needed to finance manufacturing facilities.

In many countries it is quite likely technical skills can be provided by an EIC and business management support provided by existing training centres. In these cases, ODA providers with a focus on extractive industry governance should really consider funding low-cost capital funds as this is where they can add the most value. Such funds could also be made available on the regional level. For example, businesses supported by multi-country ODA-led SDPs like the SOGA programme or WUSC-CECI WAGES programme, would greatly benefit from a fund accessible by businesses in all participating countries.

09

Further Research

The single largest knowledge gap for SDPs in African countries which host extractive industry activity is detailed, comprehensive impact assessments of current and past initiatives. While the case study literature combined with insights from current practitioners can provide confidence on its conclusions regarding critical success factors and best practices, it should be stressed that reliable data on the ultimate impacts of the programmes discussed was not available for the majority of the SDPs examined in this study. A small number shared self-reported figures, such as Anglo Zimele in South Africa and Piera Global in Ghana, but further evaluation would be required to understand the portion of the procurement spending could be attributed to SDP efforts alone, versus what would have taken place in their absence. There is also the possibility that some of the suppliers that were helped went out of business after the case studies were produced. Further in-depth research on these past SDP case studies would provide additional validation for the findings of this study, and also shed light on which factors and activities resulted in the largest increases in procurement spending, as well as the most competitive suppliers in the long run.

Other desk-based research and research initiatives that would help SDP actors across Africa improve programming and avoid duplication, suggested next steps include:

- A comprehensive mapping of all extractive industry SDPs across Africa. This could be a valuable resource supporting the creation of the online community of practice to bring these actors together to promote and share their experiences using best practices on the ground;
- Remote consultation with lawmakers and regulators in Africa's major mining, and oil and gas producing countries to create a baseline of

current knowledge and understanding of best practices in SDPs, with the goal of eventually tailoring appropriate training for governments;

- A comprehensive mapping of the funders of SDPs across Africa (such as bilaterals, multilaterals, and foundations) to inform the creation of a working group of major funders to ensure best practices in the planning and funding for SDPs are applied and funding is used most effectively.

Finally, the impacts of the COVID-19 pandemic will be far-reaching, even if the virus is controlled earlier than is currently expected. The crisis exposed the fragile nature of supply chains and highlighted the risk of dependency on imported goods or services from international providers. This crisis has been most overtly felt in the goods required in healthcare, but EICs too now have additional reason to examine ways they can assure the reliability and resilience of their supply chains by having more capable suppliers close to their operations. As Kaplan and McKenzie (2020) recently noted, "Pandemic risks must now be factored into the upfront cost of investing in local supply chains at the early stages of investment assessment".

This alignment of interests between EICs and governments seeking to build up local suppliers offers an opportunity to examine which products are most susceptible to supply chain disruptions like a future pandemic, and to target those with SDPs. In addition, there may be a strategic approach possible to target products used by EICs that are also used in healthcare, most notably PPE. Valuable research could be carried out to review any multi-sector approaches to SDPs can be targeted to help mining, oil and gas, and other sectors all at the same time.



10

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Annex:

Interviews

Interviews were carried out with representatives of the following organisations, as well as several individual experts such as academics. In some cases, several representatives were interviewed, such as from the International Finance Corporation.

- *Agova*
- *Amir Lebdioui*
- *Anglo American*
- *Base Titanium*
- *Blue Sky Economic Development*
- *Bourse de Sous-traitance et partenariats*
- *Business for Development*
- *ExxonMobil*
- *First Quantum Minerals Limited*
- *Ghana Chamber of Mines*
- *GIZ – Employment for Development, Ghana*
- *GIZ – Employment for Development, Kenya*
- *GIZ – Employment for Development, Uganda*
- *GIZ – Integrated Mineral Resource Initiative Mongolia*
- *Global Affairs Canada*
- *Golden Star Resources*
- *Invest in Africa*
- *International Finance Corporation*
- *Ivanhoe Mines*
- *Jesse Ovidia*
- *Nigerian Content development and Monitoring Board*
- *Private Enterprise Programme Zambia*
- *Prospero Zambia*
- *Shell*
- *Thilasoni Chikwanda*
- *Tullow Oil*
- *WAGES Programme Ghana (a WUSC and CECI joint initiative)*
- *Zambia Chamber of Mines*



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