

Local content policies in the mining sector: Lessons, challenges and new tools

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1. Local content is a complex issue

Local employment



Local suppliers

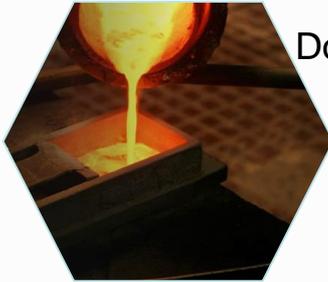


Horizontal and inter-sectoral linkages

“Local” development



No agreed definition but converging objectives



Downstream processing

Ownership



R&D, technology and Innovation

2. Implementation: Different mechanisms and tools

a. Government-led initiatives

Regulatory requirements	Incentives
<p>Mandatory: Based on <i>quantitative</i> requirements (numerical targets in volume or value; procurement plans); or <i>Qualitative</i> requirements (such as reporting, information sharing, contract unbundling etc).</p>	<p>Government acts as a facilitator and provides incentives, in the form of financial support (loans on favourable terms) or tax rebates, provided companies meet certain local content objectives</p>
<p>Best efforts: Requires 'preference' to be given, but without specifying target or timeline</p>	<p>Horizontal: applies not only to mining sector but to economy in general (clusters; corridors; R&D efforts; training)</p>
<p>Monitoring mechanism: Monitoring is more or less stringent and compulsory</p>	<p>Specific to the mining sector: some facilities may be provided on the proviso that the company 'buys local' (e.g. Australia); or invest locally (Finland)</p>
<p>Contractual arrangements: primary legislations provides the overall framework within which extractive firms should operate at the local level. Firms are mandated to consult or enter into community agreements, which include local content targets or best efforts</p>	

b. Voluntary business initiatives

Relevant to local content, business initiatives generally relate to:

(i) Support to **local supply chains**, through:

- Local business initiatives (Eg. Ambatovy, Madagascar);
- Suppliers' development programmes (e.g. Chile);
- Creation of vendor qualification systems (E.g. Antofagasta, Chile);
- Creation of vendor portals (E.g. Vale, Brazil)
- Suppliers of excellence programmes (e.g. Antamina Peru); and

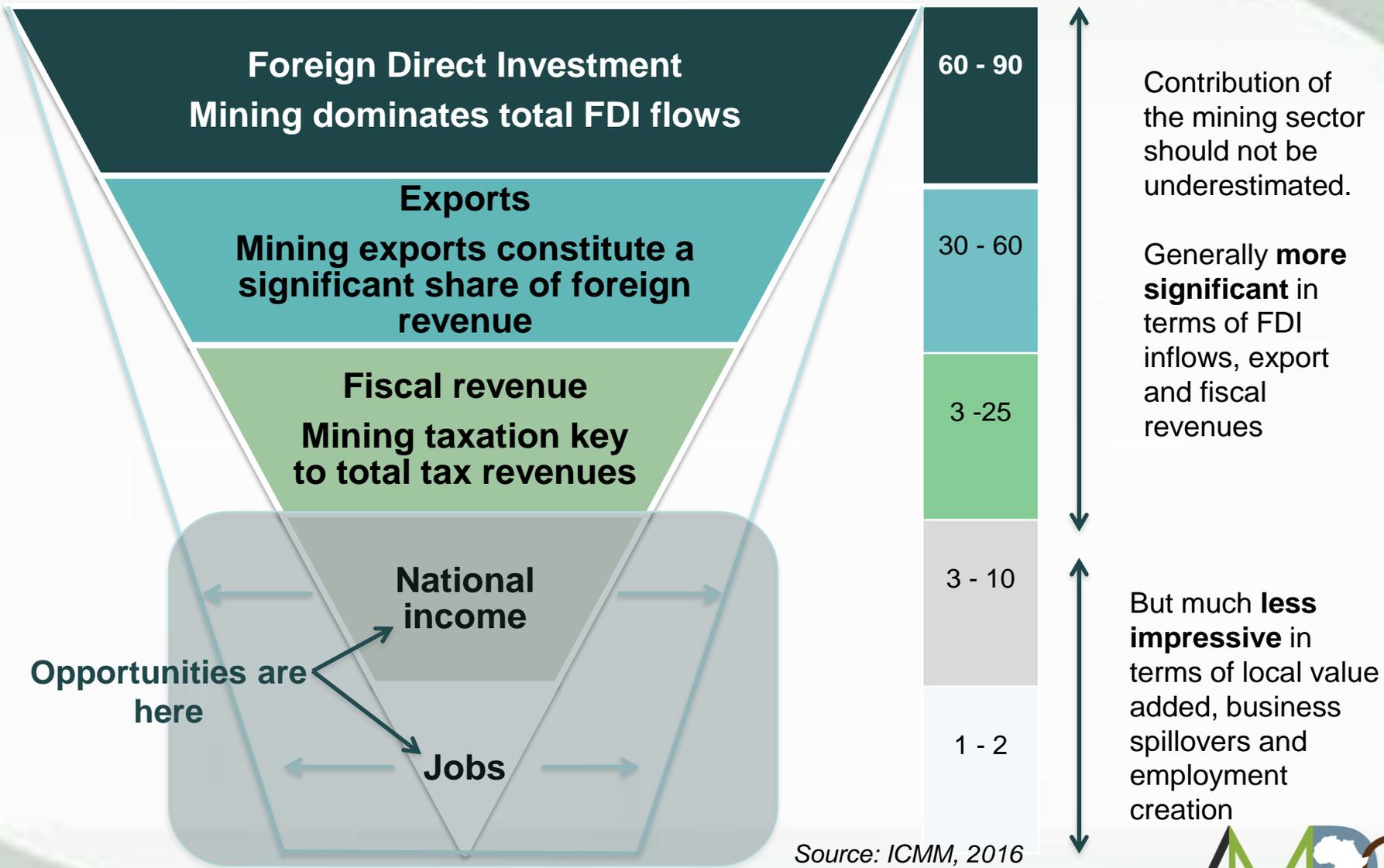
(ii) Support to **local workforce** development. Efforts to support workers' productivity include:

- Identifying the skills gap with a view to support local initiatives to close the supply deficit;
- Financial support to local training and vocational institutions;
- Providing scholarships and bursaries to students; and
- Provide continued access to training and skills development to employees, including through intra-corporate internships

3. Opportunities and challenges

(i) Economic contribution of mining in a nutshell

Av. national contributions of mining in low and middle income countries, (%), 2016



Source: ICMM, 2016

Challenges facing local content implementation

Many resource-rich countries have found it difficult to increase the participation of local stakeholders in mineral value chains because of:

- ✓ **Systemic challenges:** Industrial tissue is weak, institutional challenges; business climate sometimes stiff; access to finance for SMEs; small market size; large informal sector; small size of firms;
- ✓ **Low productivity and competitiveness**, hindering local firms from taking advantage of procurement;
- ✓ **Chronic infrastructure deficits** (in particular energy), driving up costs of doing business and affecting productivity;
- ✓ **Skills and capacity challenges** (skills gap, mismatches and quality; low spending on R&D);
- ✓ **Insufficient monitoring mechanisms**
- ✓ **Lack of structures dialogues among government, firms and local communities**

4. Examples of tools to support policy objectives:

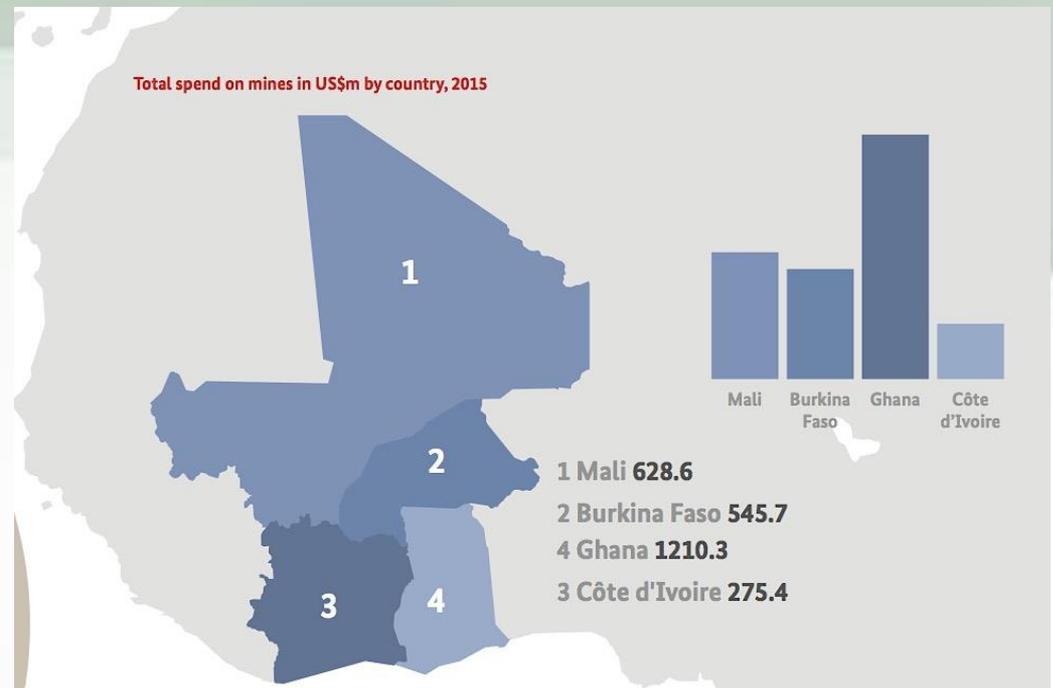
1. Local content guidelines and decision tree: IGF developing a tool to help better understand local content policy objectives, tools and legal environment. Also a pedagogical tool to help in the decision making process, when a country want to design a local content policy.
1. National supply chain development programme: Tailor-made national programmes, aimed at (i) supporting the development of **local supply chains** and **local workforce**, (ii) developing **in-country** industrial capacity, (iii) supplying the mining industry nationally and beyond, and (iv) creating linkages between the mining sector and other economic sectors. Such programmes exist in Chile, Peru, Brazil and now being developed in Ghana.
1. Procurement model (BGR): A supportive tool to help decision makers in understanding the market size, the demand and opportunities in mining procurement.

Breakdown per country

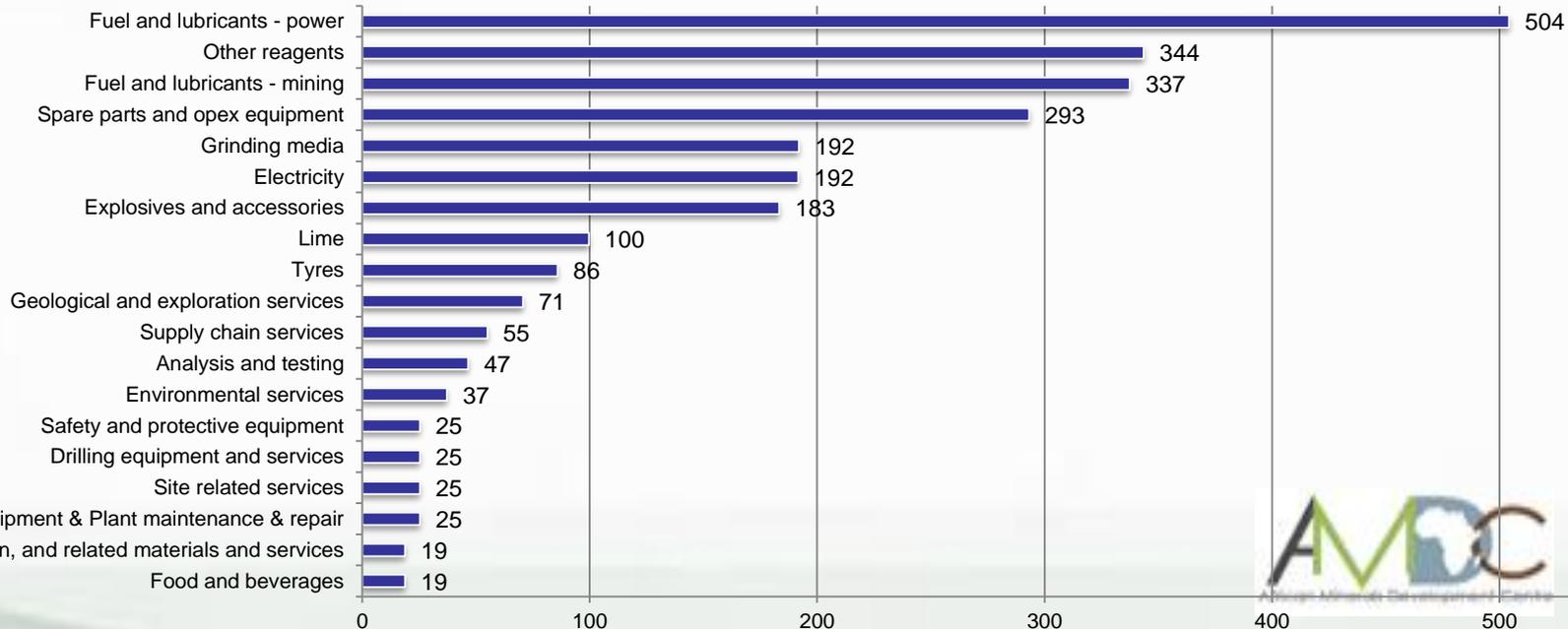
(OPEX):

Total (4): US\$ 2.66 billion)

For example Ghana's total GDP for 2015 was estimated at around US\$38 bn. Gold mining total procurement spend would equate to around 3 per cent of GDP



Total procurement spend by top categories, all 4 countries, 2015, \$m



Estimates and analysis conducted by:

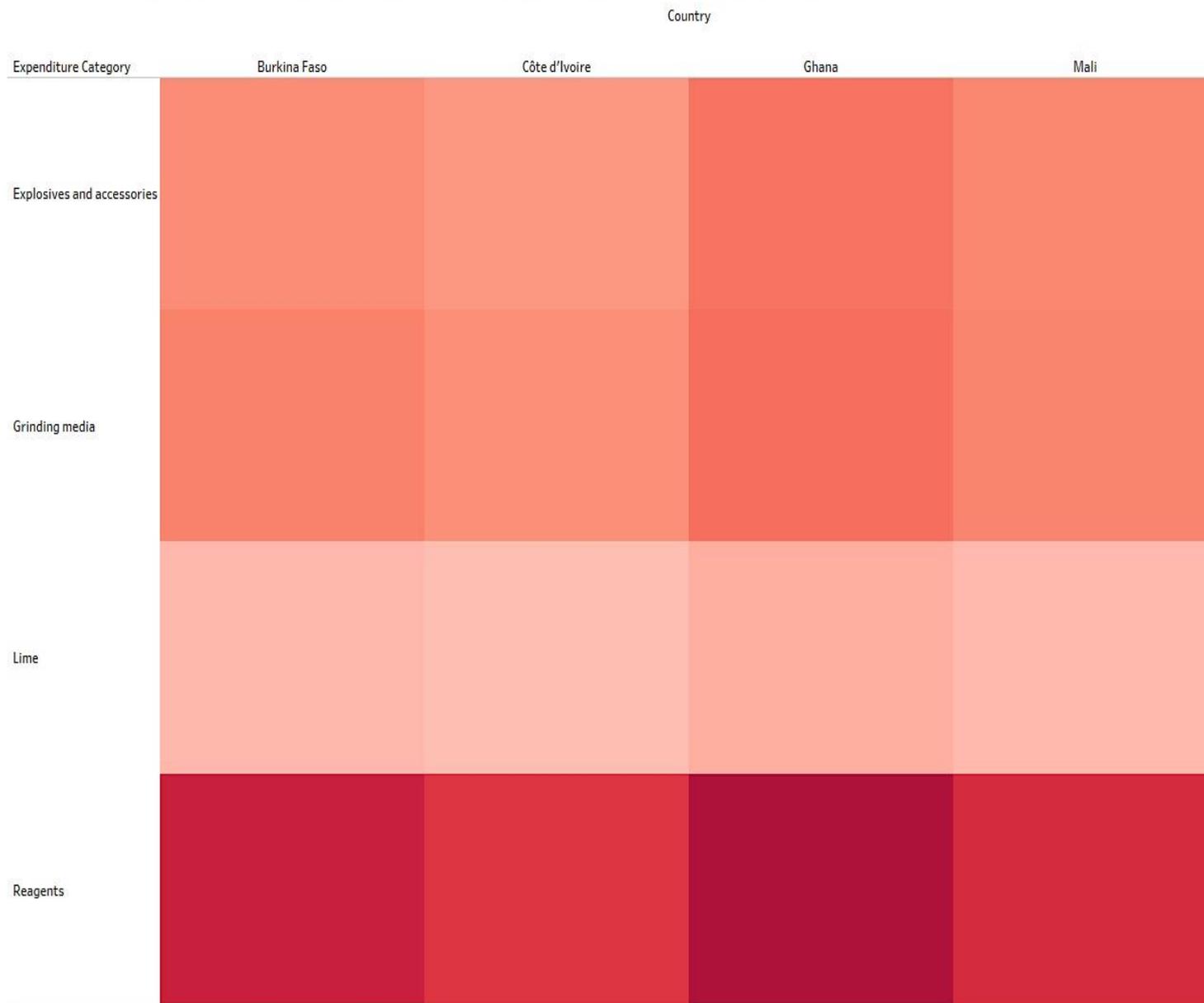


AMDC



A Glimpse of Analysis: Cost Efficiency in key Product Categories across West Africa (2015)

Cost Efficiency Ratio (\$/oz)



Estimate and analysis conducted by :



THANK YOU

Annexes

Examples of requirements

Requirements	Examples of requirements
Quantitative Requirements	
Requirements based on numerical targets	Compulsory requirement to employ % of local labour
	Specific categories of procurement reserved for local suppliers
	Permits or licensing requirements
Requirements based on monetary value	Specific local content target for specific products
	Numerical requirements regarding technological transfer
	Numerical requirements regarding R&D spending locally
	Value of wages paid to expats should not exceed a % of total payroll
	% of local procurement spending to be attributed to local suppliers
	Preferential price premium exclusively for local suppliers
	Ownership requirement: Compulsory state participation or joint venture with local companies to obtain licenses
Qualitative Requirements	
Reporting & justification	Mining companies to report and justify hiring foreign labour or sourcing inputs from abroad
Information sharing	Requirement to advertise job vacancies or publish tenders and procurement requirements
Capability & knowledge development	Requirement for the training of local labour or certification of local suppliers
R&D contribution and transfer of technology	Companies required to transfer technology to local firms; or Companies required to carry out some levels of R&D locally
Preferential treatment	Companies to hire local labour or source inputs from domestic suppliers only if available on a competitive basis

Further readings:

1. Hufbauer, G. et al. 2013. "Local Content Requirements: Report on a Global Problem." Draft June 2013.
2. OECD (2017a). Local Content Policies in Minerals-Rich exporting countries, Part I.
3. OECD (2017b). Local Content Policies in Minerals-exporting countries, Case Studies.
4. Ramdoo, I. 2016a. Local content policies in mineral-rich countries. An Overview. Discussion Paper 193. May 2016. ECDPM, Maastricht.
5. Ramdoo, I. 2016b. Local content, trade and investment: Is there policy space left for linkages development in resource-rich countries? Discussion paper 205. December 2016, ECDPM. Maastricht.
6. Stone, S., J. Messent and D. Flaig (2015), "Emerging Policy Issues: Localisation Barriers to Trade", OECD Trade Policy Papers, No. 180, OECD Publishing, Paris