



A guide to getting started in local procurement

For companies seeking the benefits
of linkages with local SMEs

In collaboration with

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Contents

What you'll find in the guide

This guide covers the four principle steps you need to follow to create a local procurement policy and lay the groundwork for a successful program.

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We have included several tools to help make the process more rigorous. They are:

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Introduction

Local procurement refers to the purchase of goods and services from local businesses. Typically, this occurs in emerging markets and in developed markets where local communities have expectations about participating in new opportunities (such as Australia and Canada). Also known as business linkages, local supplier development, local content or local sourcing, local procurement is increasingly favored as a strategic business tool by international companies in the extractive industries.

There are three main reasons:

- To mitigate risk to company operations
- In response to government regulations or investment agreements stipulating local content levels
- To provide benefits to the local community by creating sustainable business opportunities with local enterprises

Local procurement requires a real commitment from the company to work with and build capacity of local suppliers in a way that enables them to become more competitive and profitable.

Typically these suppliers will be small and medium enterprises (SMEs). To compete for bidding and contracting opportunities local SMEs will often need training to bring them up to the required operational, safety, environmental and technical standards. A local procurement program (LPP) seeks to bridge the gap between the standards of the contracting company and the existing capacity of SMEs.

It does this externally, through the provision of training, mentoring, and other support for SMEs, and internally, through a concerted effort to identify opportunities, communicate the business case and incentivize staff to commit to local procurement.

Who should read this guide?

This guide is intended for any company that wishes to develop local procurement. Local procurement involves many different departments within the company – from Community Relations to Health & Safety – but in practice it tends to be co-ordinated and driven by the Procurement Department.



Definitions and abbreviations

Company

The large extractive industry company concerned

CSR

Corporate Social Responsibility

End-users

A person/department who uses a product (good or service) and provides the specifications for this product to their procurement department.

EPC(M)

Engineering, Procurement & Construction Management; common form of contracting for a construction phase of the project, whereby contractor delivers commissioned plant.

HSE

Health, Safety & Environment

LP

Local procurement

LPP

Local procurement program

MOU

Memorandum of Understanding

OGM

Oil, gas and mining

SMEs or local businesses

Local, small to medium-sized enterprises that are operating in the country, region or community where the company has its operations.

Background

Since 2001 IFC has partnered with several oil, gas and mining (OGM) companies to enhance and promote local procurement. Together, we have implemented programs dedicated to training local businesses to produce goods and services that meet the standards and requirements of multinational operators. Building on many years of experience in emerging markets, IFC has already produced several good practice manuals on implementing local procurement programs¹.

This short guide takes a step back. It is designed to help project site operators in companies in the extractive industries to create a policy and strategy for local procurement.

It aims to achieve this through:

- The identification of business drivers that make local procurement a strategic business tool and not just a goodwill initiative
- A methodology for determining an appropriate definition of *local* as well as templates for drawing up a local procurement policy and designing a program
- Advice on assessing the company's state of readiness to undertake a local procurement program

Companies are encouraged to devise a rationale for a LPP that can be embraced by a variety of departments, such as Procurement, HSE, CSR and operational end-users.

This document expands upon Business Linkages Practice Notes² first published in 2007.

Keys for success

To be successful, local procurement must:

- Be driven by business needs
- Have a business case that everyone in the company understands
- Have the support of senior management
- Have a dedicated team
- Start early. Building the capacity of local businesses takes time – the earlier the program starts, the greater the opportunities.

¹ http://www.ifc.org/ifcext/advisoryservices.nsf/Content/Business_linkages_Practice_Notes

² http://www.ifc.org/ifcext/advisoryservices.nsf/Content/Business_linkages_Practice_Notes

Chapter 1

Conducting a company self-assessment

Click here for tool in Annex 1:
Company Self-Assessment Tool

A self-assessment is a good way to assess the degree to which your company is already engaged in local procurement and the level of its commitment. We have created an online Excel-based Self-Assessment Tool³ to help you identify any gaps. You can find this in [Annex 1](#). The tool evaluates the local procurement process in three phases:

1. Supporting structure assessment: any existing policy, alignment of programs, dedicated staff or incentive system within the company
2. Existing process assessment: the process for identifying and structuring procurement opportunities and managing contracts
3. Support for SMEs: any existing development support, information or resources for SMEs

The self-assessment takes the form of a quiz, with key questions and a scoring system. The quiz should be directed at senior management and managers of the supply chain/procurement as well as end-users, since a commitment to local procurement requires staff across departments to work together and think creatively.

Once the self-assessment has been completed, the results will be displayed in spider/radar chart format (see [Annex 1](#), page 40) for six main areas: leadership, staffing, budget, strategy, targets & opportunities and SME & partner mapping. The tool also contains sample solutions to address any shortcomings in the six areas.

A dedicated local procurement team is essential to optimize opportunities

Experiences at the Yanacocha mine in Peru since 1993 have made it clear that it is necessary to establish a dedicated office to help SMEs with bidding and managing contracts. As a result of their experiences, the lead sponsor Newmont set up a LPP with a fully-staffed local procurement unit office at its new operation – the Ahafo gold mine in Ghana⁴.

With a dedicated team of 3-4 people Newmont Ghana developed a set of comprehensive operating procedures, a clear communication plan and requirements for validation. Among the team's responsibilities were establishing customized procedures for the company to buy locally, educating local suppliers on the client's standards of doing business, helping to make local SMEs compliant, helping SMEs to diversify their activities and training them in how to bid.



3 <http://www.commdev.org/content/document/detail/2626/> p. 21

4 <http://www.icmm.com/document/733>

Chapter 2

Developing the business case

It is important that the rationale for local procurement is aligned to your company's core business objectives.

For some companies, the primary motivation for local procurement may be to meet a legislative, government or contractual requirement. For others, the goal may be more strategic. For example, they may wish to maximize local economic benefits for greater development impact while helping to earn a social license to operate.

Evaluating the financial return of local procurement

On the CommDev website you will find a Planning and Financial Evaluation Tool (FV Tool)⁵. Designed by Deloitte, Rio Tinto and IFC, the tool helps you to measure the financial return of your company's sustainability and community investment programs – specifically the extent to which they create or protect value.

Using Excel, the tool estimates the expected net present value of site-specific investments, for example, training local businesses to be part of the supply chain. In the case of local procurement, an evaluation will balance the costs of the program, such as resources and training, with the returns to the company in terms of value creation (cost savings or positive cash flow) and value protection (risk mitigation/ costs avoided).



⁵ <http://www.commdev.org/content/document/detail/2596/>

The key business drivers

There are seven key business drivers:

1. Government regulations
2. Competitive advantage
3. Social license to operate
4. Energy and environment
5. Cost reduction/increased quality
6. Business continuity (logistics and efficiencies)
7. Long-term economic diversification

A clearly-articulated rationale for local procurement will encourage new thinking and new approaches. It will demonstrate to staff that this change in doing business is fundamental to the company's success. You will also find that identifying the business drivers helps you in the design and implementation of your LPP.

The Ahafo experience⁶

When Newmont Ghana Gold Ltd (NGGL) opened a gold mine in the Brong Ahafo Region of Ghana, 1,700 households were displaced, physically or economically. Complex compensation clauses were put in place. The communities which were most impacted demanded priority in receiving benefits. For example, following the construction phase local SMEs regarded access to NGGL contracts as an automatic entitlement, regardless of their professional abilities. These demands acted as a signal to NGGL that they needed a social license to operate.

In response, the Ahafo Linkages Program (ALP) was launched by NGGL and IFC in 2005. The ALP promoted the use of formal business practices to foster competition and established clear rules for accessing NGGL contracts through a LPP and a dedicated local procurement office. The program offered training in record keeping, business management, market diversification, finance facilitation and technical capacity-building to over 210 local small and medium-sized businesses.

As a result, between 2007 and 2009, 99 suppliers from Ahafo host communities were awarded contracts by Newmont Ghana worth over US\$14 million. Local businesses also generated \$6.8 million in new business contracts from other clients.

⁶ <http://www.newmont.com/sites/default/files/Ahafo%20Linkages%20Program%20-%20Lessons%20Learned%20-%20IFC%20Case%20Study%20Final.pdf>
http://www.newmont.com/sites/default/files/Ahafo_Linkages_Program_Wins_Award-04_30_2010.pdf

Seven key business drivers

The chart provides a brief definition of each driver and its potential benefits, as well as key questions to ask when trying to align these drivers to your company's objectives.

| Driver | Benefit | Questions to consider |
|---|---|--|
| Government regulations or contract requirements | <ul style="list-style-type: none"> Keeps company in compliance with agreements, contracts and/or expectations Increased government support | <ul style="list-style-type: none"> Does the government require local procurement? Is local procurement becoming an issue that the government may require of companies? Do the tender documents require sub-contractors to use local businesses? |
| Competitive advantage | <ul style="list-style-type: none"> Demonstrates company's ability to deliver economic development through its incorporation of local businesses in the supply chain Leads to access to new concessions or clients and increased likelihood of winning new government concessions as a result of government contracts | <ul style="list-style-type: none"> Are competitors working with local suppliers? What are the advantages in demonstrating success at local procurement to win future concessions? |
| Social license to operate | <ul style="list-style-type: none"> Builds local support through an activity that can provide continuing opportunities for SMEs Creates a partnership between the company and communities Improves ease of operations (such as access to roads) Visibly delivers local benefits or impact | <ul style="list-style-type: none"> What is stakeholder perception and expectation of the company? How frequent are work stoppages? How frequent and where have protests occurred? What are the costs of these protests? |
| Energy and environment | <ul style="list-style-type: none"> Reduction of carbon footprint Reduction in energy costs | <ul style="list-style-type: none"> What is the environmental footprint of the supply chain? What is the cost? What part of the supply chain can be localized and what would the impact be? |
| Cost reduction/increased quality | <ul style="list-style-type: none"> Reliability of supply, reducing risks and lead times on delivery (particularly for remote locations) Increased ease in design and production changes Improved capacity for quality oversight and for innovation and service improvements through easier interaction between internal service users and suppliers Promotes diversification of suppliers | <ul style="list-style-type: none"> How can local procurement decrease cost and increase quality? Is there evidence of growing cost, disruption or risk associated with a reliance on international suppliers? |
| Business continuity (logistics and efficiencies) | <ul style="list-style-type: none"> Proximity to suppliers reduces delivery time Proximity also means ease in collaboration | <ul style="list-style-type: none"> Are there areas in the supply chain that are losing efficiency? |
| Long term economic diversification | <ul style="list-style-type: none"> A local procurement process helps build a diversified local economic base which can be self-sustaining if the OGM exits | <ul style="list-style-type: none"> Is economic diversification a stated goal of the development of the region of operation/host countries? Is economic diversification an element of the company's closure guidance or plans? |

The key business drivers

continued



Turning upfront costs into savings

When BP set up its local Trinidad & Tobago subsidiary (bpTT) its goal was to create a local business with sustainable returns. It forged alliances of businesses and professional and educational institutions in the oil and gas sector to support local capacity development. Two joint ventures were created:

- Fluor/Summit, an engineering and construction management venture between US-based Fluor Corporation and local enterprise Summit.
- Trinidad Offshore Fabricators Unlimited (TOFCO), a partnership between US-based Chet Morrison Contractors Inc. and the locally-owned Weldfab Ltd.

The JV's allowed for the transfer of technology, knowledge and skills between partners while giving the foreign partner the benefit of the local partner's knowledge of conditions in Trinidad & Tobago.

In 2002 TOFCO fabricated the Cannonball platform in southern Trinidad. The cost of construction was almost US\$10 million greater than the cost of production in Louisiana, where the company's previous platforms had been developed. However bpTT calculated that developing local businesses had the potential to generate considerable long-term savings for the company.

In 2006 bpTT engaged the same local firms for the design and fabrication of two new platforms, Mango and Cashima. Thanks to the suppliers' experience and standardization of the platform, bpTT saved an estimated US\$11million in design costs. In addition, process improvements reduced fabrication time from 16 months (Cannonball) to 12 months (Mango and Cashima).⁷

⁷ http://www.hks.harvard.edu/m-rcbg/CSRI/publications/report_18_EO%20Extractives%20Final.pdf (see page 25)

Chapter 3

Defining local

Before assessing the contracting opportunities for local enterprises you should define the type of enterprises you are targeting. Creating a clear definition of *local* will give your program focus and help to manage the expectations of government, community and other stakeholders.

Depending on the priorities and business drivers for the LPP, several criteria can be used to arrive at the appropriate definition. Some of the main ones are:

- Regulatory
- Geographic
- Ownership
- Size of enterprise
- Vulnerable groups

This section has been adapted from a Briefing Note by Engineers Against Poverty: *Maximizing the contributions of local enterprises to the supply chain of oil, gas and mining projects in low income countries*⁸.

Anglo-American's definition of local⁹

"Local procurement refers to the purchasing of goods or services from a local supplier. Local includes host communities, indigenous and previously disadvantaged communities, as well as at provincial, national and regional levels where appropriate."



Click here for tool in Annex 2:
Sample form for validation of a community enterprise

Click here for tool in Annex 3: Case study of a
joint venture between an SME and a mining company

Click here for tool in Annex 4:
Questionnaire for supplier diversity

⁸ http://www.engineersagainstopoverty.org/db/documents/EAP_Briefing_Note_-_Local_Enterprise_Participation.pdf

⁹ http://www.angloamerican.com/aal/siteware/docs/SC_LocalProcurement_Policy.pdf

Criteria for defining local

Regulatory requirements

Regulatory requirements (those prescribed by legislation or production-sharing agreements) may explicitly define what is meant by *local* content or *local* enterprises. A country's regulatory requirements are usually framed in terms of 'national' firms, where ownership may be defined by place of registration, composition of key staff or shareholdings, or place of manufacture of products.

Geographic region

Communities that are directly impacted by operations often have high expectations for jobs or may consider the new operation problematic. It is worth investigating to see if local procurement can play a role in creating sustainable business opportunities within these communities. Make it a priority to engage your company's community affairs staff to determine the local context¹⁰. During your company's environmental and social impact assessment (ESIA), the community affairs department will accumulate information that is also relevant for a LPP – for example, the economic activities of the communities and the existence of business organizations, employment data and skills levels. If there are businesses that can supply goods and services to the company then it is worth considering making a special effort to incorporate these businesses into your company's supply chain.

The more rural the area, the more difficult it will be to find suppliers. You may consider breaking down contracts or facilitating the creation of joint ventures ([Annex 3](#)) to give local rural businesses a greater chance of winning contracts.

See *Creating the Foundations for a Linkage Program in a Rural Setting*¹¹ by IFC and Newmont Ghana Gold Ltd.

Certification of local suppliers at Ahafo¹²

To ensure that micro, small and medium enterprises (MSMEs) from outside the area of operation did not take advantage of contracting opportunities at the cost of local MSMEs, Newmont Ghana Gold Limited (NGGL) designed a domicile validation process. A validation form required a signature, from relevant local chiefs or other representatives of the community that the MSME was indeed local and thus eligible for preferential treatment. If you think such validation is necessary, you will need to create the validation form and ask all interested local MSMEs to fill it in and obtain the necessary signatures. See [Annex 2](#) for a sample verification form.

In the case of Ahafo, local was defined as a supplier within a 12 km rural radius from the NGGL operations. Local firms were obliged to be verified and certified by the village chiefs.

Click here for tool in Annex 2:
Sample form for validation of a community enterprise

Click here for tool in Annex 3: Case study of a
joint venture between an SME and a mining company

¹⁰ For a more detailed guide to evaluating the risk profile of communities see the Strategic Community Investment Handbook http://www.ifc.org/ifcext/sustainability.nsf/Content/Publications_Handbook_CommunityInvestment

¹¹ http://www.ifc.org/ifcext/advisoryservices.nsf/Content/Business_linkages_Practice_Notes

¹² <http://www.newmont.com/sites/default/files/Ahafo%20Linkages%20Program%20-%20Lessons%20Learned%20-%20IFC%20Case%20Study%20Final.pdf>
http://www.newmont.com/sites/default/files/newmont_ghana_local_procurement_policy.pdf

Criteria for defining local

continued

Local ownership

According to this definition it isn't enough for a supplier to be operating in a country: it's the nature of its ownership that counts. Here is an example of how one company defined *local* according to ownership.

Level 1

Supplier owned by foreign capital but located in country x

Level 2

Supplier partly owned by locals with foreign majority stake

Level 3

Supplier partly owned by locals with local majority stake

Level 4

Supplier wholly owned by locals

Ownership in South Africa¹³

Ownership criteria can be adapted to local context. In South Africa, BHP Billiton defined 'local-owned' as *Historical Disadvantaged South African (HDSA) owned*, as distinct from *immigrant/long-term resident owned*. They ranked levels of ownership as follows:

- *Local community owned company*: over 50% owned and managed by HDSAs residing in the 'local community' of the company's operations
- *Black owned company*: over 50% owned and managed by HDSAs residing outside the local community area
- *Black empowered company*: over 25% but under 50% HDSA owned and managed
- *Black influenced company*: over 5% but under 25% HDSA owned and managed

Where a purchase transaction takes place with a company designated as 'Black Economic Empowerment' (a program launched by the South African government to give economic opportunities to HDSAs), BHP Billiton policy states that the entire transaction amount – rather than an amount calculated in proportion to the black ownership and management – will be recorded as BEE spend for reporting purposes.

¹³ A Sustainable Perspective: BHP Billiton's Sustainability Report 2005 Case Study page 2
<http://www.bhpbilliton.com/bbContentRepository/docs/SustainableDevelopment/policiesAndKeyDocuments/BeeProcurementPol.pdf>

Criteria for defining local

continued

Size of the enterprise

Your LPP may seek to target only those enterprises that are SMEs. Involving SMEs in the supply chain is important because of the vital role they play in creating jobs and distributing the benefits of economic development. In practice, local firms are often all SMEs because of under-development in the region.

As with a geography-based definition, your company may adopt the 'size of enterprise' definition as part of its strategy to build a social license to operate.

How Newmont Ghana Gold Ltd classified SMEs

| | |
|---------------------|---|
| SME | <ul style="list-style-type: none"> • A business entity licensed and registered (including for taxation purposes) at the Registrar General's Department • Total employees of no less than three and not more than 99 • Total fixed assets not exceeding USD \$1,000,000.00 |
| Local SME | <ul style="list-style-type: none"> • A SME licensed and registered (including for taxation purposes) at the Registrar General's Department • Has at least an office established at the mining lease area which has been validated by community representatives (as per the Business Validation Form in Annex 2) and confirmed by External Affairs |
| National SME | <ul style="list-style-type: none"> • A micro, small or medium-sized enterprise licensed and registered (including for taxation purposes) at the Registrar General's Department • Requires no validation from community representatives |

Criteria for defining local

continued

Under-represented groups

Note: although focused on women, the advice in this section applies to any minority-owned or historically under-represented group.

It is a good idea for large corporations to create opportunities for groups who may be disadvantaged or marginalized, such as women and young people. By diversifying its suppliers to include under-represented groups, an OGM company can increase its pool of eligible SMEs. This in turn creates more competition, leading to better quality, service and efficiencies in the supply chain. Addressing the female dimensions of poverty and family welfare also strengthens the company's social license to operate¹⁴.

Creating opportunities for women can be achieved through provision of better education, training and opportunities for access to finance. Although provision of this kind adds another dimension to a company's procurement policy it can also complement it.



Verifying that a business is women-owned

- Is the owner an active participant in the business?
- What are her specific duties?
- What are the hiring practices?
- What is the number of female employees?

¹⁴ [http://www.ifc.org/ifcext/africa.nsf/AttachmentsByTitle/Lonmin_WomenInMining_Manual/\\$FILE/IFC-LONMIN_Manual.pdf](http://www.ifc.org/ifcext/africa.nsf/AttachmentsByTitle/Lonmin_WomenInMining_Manual/$FILE/IFC-LONMIN_Manual.pdf)

Criteria for defining local

continued

Here are some practical steps to take:

- Adopt a widely-accepted definition for what constitutes a women's enterprise
- Analyze the existing supply chain to identify suppliers that meet the above definition and create opportunities to strengthen partnerships with them
- Target women-owned businesses in advertising
- Host women-only information sessions with advice on how the supply chain works, the goods and services your company needs and how SMEs can register and compete for contracts
- Launch challenges for innovation by women or women-owned firms
- Hire female staff to be women enterprise champions, to liaise with women-owned firms and become mentors
- Establish targets to raise the budget for procurement from women-owned firms and increase the number of women-owned firms in the supply chain
- Distribute to colleagues and staff a list of potential suppliers for inclusion in the procurement process (particularly at the 'expression of interest' stage)

If the potential supplier is larger than an SME you should consider:

- Working with a third-party organization that can help identify, verify and certify women-owned businesses in the organization's supply chain
- Appointing a 'women's enterprise champion' within the organization's procurement department to keep track of supplier-diversity statistics

A sample questionnaire to help determine if the SME is part of an under-represented group can be found in [Annex 4](#).

Why take specific measures to include women?

Female entrepreneurship is often overlooked in the traditionally male-dominated extractive industry. Moreover, in countries where OGM companies operate, women-owned enterprises often face disadvantages over and above those experienced by ordinary SMEs. Cultural values often limit opportunities for women. Some traditional societies do not accept women in business positions¹⁵. Access to finance and training, restrictions on property rights and poor literacy levels can also be major challenges.

Experience shows that without specific measures to ensure their inclusion, the most vulnerable groups are typically excluded from, or underrepresented in, the development process. When this happens, the interests and opinions of these groups are likely to be overlooked, resulting in further marginalization. Addressing local community gender imbalances is a particularly challenging matter. Gender-responsive facilitation and techniques, accompanied by attention to gender in monitoring and evaluation, can help to address these issues.

Adapted from: Community Investment Handbook

Joint ventures for training purposes

To facilitate training and mentoring, some OGMs invite large local firms to form joint ventures with smaller firm or under-represented groups (see [Annex 3](#)).

[Click here for tool in Annex 3: Case study of a joint venture between an SME and a mining company](#)

[Click here for tool in Annex 4: Questionnaire for supplier diversity](#)

¹⁵ http://epress.anu.edu.au/apem/gendering_field/pdf/whole.pdf

A framework for defining local

Needless to say, situations and requirements vary widely. It may be impossible to provide one overriding principle for defining *local*. Instead, we have designed a framework to help you arrive at a definition appropriate to the needs of your LPP.

| Step | Description | Example |
|---------------|--|--|
| Step 1 | Determine what expectations/requirements your definition of <i>local</i> is addressing | <ul style="list-style-type: none"> • Government requirement: does the government require a certain amount of local content? How do they define <i>local</i>? • Social license to operate: are there expectations of jobs or economic development that can be addressed through a LPP? |
| Step 2 | Determine the areas you would like to prioritize, taking account of risk factors | <ul style="list-style-type: none"> • Liaise with community affairs office to find out which communities provide a social license to operate and which therefore may need to see sustainable benefits from the company's operation • Establish what kinds of SMEs are identified in the communities • Establish what kinds of opportunities can be reasonably 'localized' based on existing skills of community businesses • Establish what kinds of opportunities can be 'localized' after community businesses undergo training/mentoring programs • Create a SME map organized by proximity to firm to evaluate potential for this program to address community concerns • If there are no SMEs in neighboring communities then other programs managed by the CSR department will take priority. Consider joint ventures with entrepreneurs to develop SMEs in these areas |
| Step 3 | Analyze your risk assessment in conjunction with the desired areas of focus to arrive at an appropriate definition of <i>local</i> | <ul style="list-style-type: none"> • <i>Geography-based</i>: SMEs within a specified radius surrounding your operation or within a specified geographic location, possibly requiring certification from a third party. Alternatively, <i>geography-based</i> may depend on the SME having: <ul style="list-style-type: none"> - Local registration - Local tax number - Local domicile • <i>Input-based</i>: the bulk of inputs into the product are locally made • <i>Ownership-based</i>: a certain percentage of staff and/or the majority of shareholders are local |

Chapter 4

Creating a local procurement policy

Click here for tool in Annex 5:
Description of Task Force

Click here for tool in Annex 6:
Tool to identify and prioritize local business opportunities

Click here for tool in Annex 7:
Questionnaire for SME focus groups

Click here for tool in Annex 8:
Sample LPP design

Click here for tool in Annex 9:
Sample LPP work plan

Click here for tool in Annex 10:
LPP budget considerations

Click here for tool in Annex 11:
Key Performance Indicators for a LPP

Click here for tool in Annex 12:
Sample language for SME contracting

This section will help you draft the language of your local procurement policy.

Having a corporate procurement policy demonstrates your company's commitment to local procurement and helps to embed the practice throughout the company. It enables the company to formulate strategies, systems, plans and programs to address the gaps between local supplier capability and corporate procurement standards. As procuring from local firms requires training support, your policy should also outline the company's proposals for ways in which it will maximize the opportunities for SMEs.

Establishing the business drivers, undertaking the company self-assessment and arriving at an appropriate definition of local should provide sufficient information to convince senior management and relevant departments of the rationale for developing a local procurement policy.

Anglo American's local procurement policy¹⁶

"Local procurement is of strategic importance to Anglo American. It plays a key role in securing and maintaining our right to mine, developing thriving and healthy host communities, creating efficiencies in our supply chain and ensuring reliable access to critical supplies. The objective of the Local Procurement Policy is to enable access by local businesses to supply chain opportunities that arise from the presence of our projects and operations.

We hold our leaders, line managers and supervisors and all those who engage with suppliers on Anglo American's behalf accountable for actively supporting responsible local procurement."



¹⁶ http://www.angloamerican.com/aal/siteware/docs/SC_LocalProcurement_Overview.pdf
http://www.angloamerican.com/aal/siteware/docs/SC_LocalProcurement_Policy.pdf

Rapid assessment

To establish what should be included in the LPP you first have to assess the external environment and refer to head office internal policies and procedures.

Identifying contracts: creating a Task Force is a useful way to identify contracts, particularly at the outset of a LPP. See [Annex 5](#) for a description of the role of the Task Force and [Annex 6](#) for a tool to help you identify and prioritize contracts.

An assessment of the external environment – particularly the capacity of local businesses and the activities of government institutions and competitors – will define the context in which your company operates. It will also highlight areas that need developing for local procurement to thrive. See the questionnaire in [Annex 7](#) for questions you could ask in focus groups of local SMEs. Meanwhile, an understanding of existing internal procedures or charters will help you align your policy with corporate policy.

For example, some local procurement policies contain a statement regarding financing or special payment terms for SMEs. However, this may be unnecessary if there are existing systems in place within the company to provide financing to SMEs. The following rapid assessment is a series of interviews that your local procurement team can use to help your company make a decision on what it would like to address through the LPP.

Rapid Assessment Questionnaire 1: your company

| Who | Sample questions |
|----------------------------|--|
| End-users | <ul style="list-style-type: none"> • What is your experience sourcing from local suppliers? • Where are these suppliers located? • How is their performance? What are the challenges the suppliers struggle with most? • What process did you undertake to identify local companies? • What is the quality of the goods and services you have procured locally? • What is the cost of the goods and services you have procured locally in comparison to those you procure through the regular procurement channels? |
| Procurement staff | <ul style="list-style-type: none"> • What is your experience sourcing from local suppliers? • Where are the SMEs located? How is their performance? • What are the challenges the suppliers struggle with most? • In what industries are the local SMEs working? • What process did you undertake to identify local companies? • How can these local suppliers move into the company's core business? • What challenges have you encountered in sourcing from local suppliers? How have you addressed these challenges? |
| Community relations | <ul style="list-style-type: none"> • Who are the businesses in the community? • Who are the business associations? • What are the community expectations from our company? |

Click here for tool in Annex 5:
Description of Task Force

Click here for tool in Annex 6:
Tool to identify and prioritize local business opportunities

Click here for tool in Annex 7:
Questionnaire for SME focus groups

Rapid assessment

continued

Rapid Assessment Questionnaire 2: other companies and institutions

| Who | Sample questions |
|---|---|
| Procurement staff | <ul style="list-style-type: none"> • What have been your experiences in sourcing from local suppliers? • Where are the suppliers located? • How is their performance? • What process did you undertake to identify local companies? • How high is the quality of the goods and services you have procured locally? • What challenges have you encountered in sourcing from local suppliers? <p>How have you addressed these challenges?</p> |
| Chamber of commerce / industry chamber | <ul style="list-style-type: none"> • What market opportunities are available to small businesses? • What resources are available for these businesses? • What are the challenges facing small businesses in the area? • Are there government or private sector initiatives that are seeking to address these challenges? • What initiatives have you carried out in relation to local SMEs? • Are there potential areas you see for collaboration? |
| Financial institutions | <ul style="list-style-type: none"> • What sort of financing is available to SMEs? • Do you provide working capital or equipment loans? • What kinds of loans have you given to other companies? |
| Accounting and legal firms | <ul style="list-style-type: none"> • What is the business environment for local suppliers? • How do SMEs incorporate themselves? • How do business registrations work? What is the time required? <p>See also: http://www.doingbusiness.org</p> |
| Sample group of SMEs | <ul style="list-style-type: none"> • Are you incorporated? If so, what kind of license do you have? • Do you have a business plan? • How many employees do you have? Do you have an expansion plan? • What kinds of services have you provided in the past? What companies did you supply to? • Do you have references? • What business or technical training do you need and to what level? <p>See also: Sample questionnaire for focus group in Annex 6</p> |
| Local training companies | <ul style="list-style-type: none"> • What types of companies have received training? • What kinds of training are most in demand in this area? <p>See also: http://www.businessedge-africa.com and http://www.businessedge-me.com</p> |

Drafting a local procurement policy

The policy should start with the vision and the purpose behind increasing local procurement. These statements should be inspirational and forward-looking. At the same time, they should be clear about what your company wants to achieve.

The policy should also outline proposals on key issues like staffing, procurement, HSE and budgeting. The policy document can give a general overview, like the policies from Anglo American¹⁷ and BHP Billiton¹⁸.

Once the policy is approved, you can proceed to the next step: designing a strategy and program for the implementation of local procurement. You can find a tool to help with this step in [Annex 8](#). Tools to help you draft a work plan, budget and key performance indicators can be found in [Annex 9](#), [Annex 10](#), [Annex 11](#) and [Annex 12](#).

Template for preparing a local procurement policy

| Section | Description | Sample language |
|---------------------------------------|--|---|
| The purpose | <ul style="list-style-type: none"> The purpose of the document and key information relating to policy implementation e.g. the geographical focus and the date of launch Can include an overview of company operations, the community & regulatory contexts, and key social, political & environmental issues | <i>The purpose of this document is to set out our global local content policy. This policy is effective from January 1st 20xx and will be subject to detailed review in January 20xx</i> |
| The vision | <ul style="list-style-type: none"> An inspiring, forward-looking statement | <i>Our vision is sustainable, responsible local procurement that positively contributes to a resilient supply chain and the economic and social development of the communities and countries in which we operate</i> |
| Strategic goals and objectives | <ul style="list-style-type: none"> The general outcomes that will result from the policy | <ul style="list-style-type: none"> 'To obtain goods and services for (name of company) at the best possible value, taking into account quality, price and after-sales support and services while giving preference to the procurement of such goods and services from (country/region/area) based and citizen-owned companies'. (Example taken from Global Expo¹⁹) To meet our local content obligations in respect of production sharing contracts (and their equivalents) and/or other legislative and regulatory requirements |

Click here for tool in Annex 8:
Sample LPP design

Click here for tool in Annex 9:
Sample LPP work plan

Click here for tool in Annex 10:
LPP budget considerations

Click here for tool in Annex 11:
Key Performance Indicators for a LPP

Click here for tool in Annex 12:
Sample language for SME contracting

¹⁷ http://www.angloamerican.com/aal/siteware/docs/SC_LocalProcurement_Overview.pdf

¹⁸ <http://www.bhpbilliton.com/bbContentRepository/docs/SustainableDevelopment/policiesAndKeyDocuments/BeeProcurementPol.pdf>

¹⁹ http://www.globalexpo.co.bw/upload/file_38.pdf

Drafting a local procurement policy

continued

Template for preparing a local procurement policy *continued*

| Section | Description | Sample language |
|---|--|---|
| Strategic goals and objectives <i>continued</i> | | <ul style="list-style-type: none"> • To increase the proportion of goods and services that are sourced locally without compromising on cost, quality or safety • To increase the quantity and quality of jobs created • 'Local procurement is of strategic importance to Anglo American. It plays a key role in securing and maintaining our right to mine, developing thriving and healthy host communities, creating efficiencies in our supply chain and ensuring reliable access to critical supplies. The objective of the Local Procurement Policy is to enable access by local businesses to supply chain opportunities that arise from the presence of our projects and operations'²⁰ |
| Scope | <ul style="list-style-type: none"> • The area(s) the policy will apply to and the operations it will affect • A definition of local | <ul style="list-style-type: none"> • This policy encompasses (name(s) of relevant operations/company subsidiaries). It will also be enforced with large third-party contractors • Local businesses are defined as businesses which are incorporated and which operate within x kilometers of (name(s) of relevant operations/company subsidiaries) • This policy applies to all acquisition activities regardless of value |
| Definitions | <ul style="list-style-type: none"> • A glossary giving the precise meanings of key words and concepts | <ul style="list-style-type: none"> • Local procurement: refers to goods, services and labor that are sourced locally • Local SME: a licensed business registered at the Registrar General's Department (including for taxation) in (name of country), with at least an office established at (name of mining lease area), which has been validated by the community representatives as per our Validation Form and confirmed by External Affairs • Local: encompasses town x, town y and town z |
| Internal procurement processes | Details of: <ul style="list-style-type: none"> • Changes to procurement processes that make them more inclusive to local suppliers • Supplier accreditation (to confirm the status of ownership, directors, management, facilities etc) • Tendering support for companies | <ul style="list-style-type: none"> • When soliciting tenders for goods and services priority will be given to local SMEs that meet the necessary technical, commercial and safety requirements, as outlined in our prioritization matrix • We will offer assistance to ensure participation by SMEs in the tender process • Local suppliers will not be treated differently to other suppliers with regard to price, service, safety, environmental impact or any other commercial or technical requirements |

²⁰ http://www.angloamerican.com/aal/siteware/docs/SC_LocalProcurement_Policy.pdf

Drafting a local procurement policy

continued

Template for preparing a local procurement policy *continued*

| Section | Description | Sample language |
|---|---|---|
| Internal procurement processes <i>continued</i> | <ul style="list-style-type: none"> • Changes to tender classifications to take into account the type of tender and use of a different scoring sheet, if necessary • The schedule to be developed in advance of the time limit for tenders to ensure the supplier development manager has time to develop programs • Identifying contracting opportunities by unbundling larger contract packages (or encouraging third-party contractors to do so as well) | <ul style="list-style-type: none"> • <i>Our evaluation system will give special support to businesses owned by women and young people under the age of 35</i> • <i>We will minimize the barriers for SMEs to participate in our supply chain by creating a local procurement team dedicated exclusively to optimizing local procurement</i> • <i>We will simplify our processes and clearly and transparently communicate our requirements and standards so that they are intelligible to all interested SMEs</i> • <i>We will create a database of potential local vendors and use it as the source for each and every bidding process</i> • <i>All our contractors bidding on packages greater than US\$[x] will include a strategy for incorporating SMEs as sub-contractors (Annex 12)</i> |
| Capacity building | <ul style="list-style-type: none"> • Business development support offering business diagnostics and trainings for local entrepreneurs • Joint venture assistance to enable core skill transfer | <ul style="list-style-type: none"> • <i>We will target SMEs using the most appropriate communication methodology</i> • <i>We will support management training and technical training for SMEs in key areas</i> • <i>We will provide on-the-job training by consultants or mentors. At least one mentor will be appointed by each of our end-user departments. Mentors will devote x hours every month to mentoring</i> • <i>Our training and mentoring program will give special attention to young people judged to be at risk</i> • <i>We will offer assistance in organizing joint ventures between local SME suppliers and world-class companies</i> |
| Staffing and budget | <ul style="list-style-type: none"> • Staffing resources to support implementation of policy • Budgeting assumptions and main sources of financing | <ul style="list-style-type: none"> • <i>We will have a cross-functional task force or working group to meet policy objectives</i> • <i>We will devote the appropriate financial resources that can be leveraged to train SMEs</i> • <i>Our suppliers will be required to work with us to improve local procurement outcomes across our supply chain</i> |
| Financing assistance | <ul style="list-style-type: none"> • Assisting SMEs to obtain financing from financial institutions • Developing policies that facilitate financing to companies in the form of cash advances or other means | <ul style="list-style-type: none"> • <i>We will help with finance, including providing loans of up to x% (subject to conditions) and facilitating access to financial institutions</i> • <i>We will offer a cash advance of x % of a contract to a company after the tender has been awarded and the contract has been entered into</i> • <i>Our payment terms will accommodate the needs of SMEs</i> |

Drafting a local procurement policy

continued

Template for preparing a local procurement policy *continued*

| Section | Description | Sample language |
|--|--|--|
| Accountability and responsibility | <ul style="list-style-type: none"> Overview of the relevant departments or individuals and the aspects of the policy for which they are responsible | <ul style="list-style-type: none"> <i>Our supplier development manager will identify goods and services to go out to tender</i> <i>We will create a task force consisting of representatives from a cross-section of departments to begin prioritizing contracts for local procurement</i> <i>We will take into account achievement of personal local procurement targets for relevant staff and departments when evaluating performance</i> |
| HSE standards | <ul style="list-style-type: none"> Health, Safety & Environmental standards | <ul style="list-style-type: none"> <i>We will ensure that our company as well as our suppliers comply with HSE standards</i> |
| Third party clauses | <ul style="list-style-type: none"> Tender documents will include a requirement that Engineering, Procurement & Construction (EPC) or other third party contractors use local businesses to the greatest extent possible. This can be a key element of the evaluation results. | <ul style="list-style-type: none"> <i>Bidding documents will require third party contractors to outline a plan identifying which goods and sub-contracted services can be progressively sourced from the local community. If training is necessary to bring local businesses up to the required standard for inclusion, the tender should request a provisional plan which will include any additional costs and a detailed schedule for its implementation. (See Annex 12 for sample contract language.)</i> |
| Monitoring and evaluation | <ul style="list-style-type: none"> Evaluation of the program's successes and failures according to predetermined criteria | <ul style="list-style-type: none"> <i>We will develop metrics and monitor performance across strategic goals that will ensure the creation of long-term benefits for local SMEs and the communities in which we operate</i> <i>We will monitor progress on a monthly basis</i> |

Conclusion

Local procurement is a site-specific activity. Launching a successful LPP requires a thorough understanding of the company's business drivers and the local business environment.

There are two broad areas of focus. The first covers internal corporate activities. The second involves the training of local businesses.

In the annexes you will find tools and templates to help you optimize the next stages of your LPP: designing the program, organizing a workplan, setting a budget and using key performance indicators.



Annexes

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Annex 1

Company Self-Assessment Tool (2009 version)

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

The following tool has been designed as a self-assessment of a company's support for local procurement activities. The tool helps you assess the current levels of corporate commitment to local procurement, from the presence of a LP policy and strategy, to the presence of systems promoting and embedding local procurement. It is intended to capture the situation as it looks at the time of the self-assessment. Ideally your company will conduct the self-assessment on a yearly basis to assess if improvements have been made and changes implemented.

Topic areas will help you determine whether your firm is in the formative, emerging, developed or state of the art stage of local procurement. The results are displayed in a spider/radar chart form to identify areas of strength and deficiency. If the company is keen to strengthen its activities the tool suggests possible solutions to address areas of deficiency.

The tool is based on the collective experience of IFC, as well as that of other experts in the field. It can be downloaded as an Excel file at <http://commdev.org/content/document/detail/2626/>. The tool breaks down the local procurement process into three phases.

II. Company systems
Develop local opportunities
and contract & manage suppliers

III. Support to SMEs
Engage and support local SMEs

I. Program foundations
Build company commitment and plans

Phase I: Program foundations

Objective: to lay the foundations for a local supplier development program by putting in place the building blocks to ensure the program's success.

- Corporate commitment: leadership, staff and resources
- Planning: policy, opportunity and SME mapping, strategy

Phase II: Company systems: local procurement within the company

Objective: to embed local procurement within the company through the development of company systems and procedures.

- Opportunities management: identification and structuring of opportunities
- Contracts management: tendering, SME communication and contracts

Phase III: Support for local SMEs

Objective: to engage the local business community by providing access to information and development support.

- SME engagement: database, communication with and evaluation of local SMEs
- SME development: mentoring, training and access to finance for local SMEs

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Tool process

Interviews



Scoring



Diagnostic

Interviews

Primary interviews

- Supply chain/procurement manager
- Supply chain superintendents
- Buyers

Additional interviews (if feasible)

- Local SMEs
- End-user departments
- CSR department
- SME development partners

Scoring

Formative: little or no activity

- 1 No activity
- 2 Little activity

Performance is poor. Awareness may exist, but no structured implementation nor coordination. Essential processes and controls are not in place or are ineffective.

Emerging: some work, usually reactive and unsystematic

- 3 Some work, in response to crises
- 4 Some work, without regularity

Performance is inconsistent. Activities implemented at minimal levels or sporadic intervals, with poor coordination. Some processes and controls in place, but not well implemented.

Developed: work undertaken with acceptable quality in a regular manner

- 5 Decent implementation at a regular pace
- 6 Good implementation, feedback used to improve program

Performance is good. Activities well implemented with controls in place, but lacking full coordination. Activities not fully systematized.

State of art: work 100% systematic and of high quality

- 7 Excellent implementation with systems functioning well
- 8 Outstanding performance with continuous improvement leading to outstanding results

Performance is excellent. Activities implemented at a high level, with full coordination and systems for continuous feedback and improvement.

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool

I. Program foundations

1. Corporate commitment: management provides visible leadership, adequate staffing and resources dedicated to local procurement.

Leadership: all levels of management demonstrate visible commitment to local procurement.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> In what ways does senior management promote local procurement? In what ways do senior officials review, audit, and manage local procurement activities? Is local procurement written into the corporate strategy and how is the strategy actualized? In what ways are procurement staff aware of and promoting local procurement? What kind of communication about local procurement takes place regularly in the company? | Formative 1 2 | Organization focuses only on its core activities; local procurement is not a priority. |
| | Emerging 3 4 | Some recognition that local procurement is important; activities to promote it are often unsystematic. |
| | Developed 5 6 | Local procurement is perceived as a priority for the company and activities are carried out to promote it. |
| | State of art 7 8 | All senior management, procurement officials and stakeholders agree that local procurement is a priority and systematic long term activities are undertaken to promote it. |

Staffing: a well-trained and supported champion, team, and local partners are in place to support local procurement.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> Is there a permanent staff member responsible for local procurement? What is his/her level and reporting lines? Who are all the staff (including levels) assisting with local procurement and which department do they report to (CSR vs. procurement)? Is there a clear organizational structure for local procurement, with defined staff, partners and roles? What is it? What local partnerships are in place (financial institutions, training groups) to support SME development? | Formative 1 2 | Staff works sporadically or not at all on local procurement activities. |
| | Emerging 3 4 | Some staff and partners are dedicated to local procurement although staff are not well trained and lack clarity in organizational structure. |
| | Developed 5 6 | Staff and partners are in place and dedicated to local procurement; they have been reasonably trained with general clarity about roles and responsibilities. |
| | State of art 7 8 | Fully trained and dedicated staff and strong local partners in place with organizational roles well defined. Local procurement functions as an integral part of the procurement and CSR functions. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

Budget: adequate financial resources are allocated to the local procurement program over the long term.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> Is there a budget for local procurement activities? How much? Is it adequate? Is budget used efficiently? If there is a budget, for what activities is it allocated (staff, development of SMEs, financing for SMEs etc.)? How is the budget allocated (ad hoc, annually or as part of a long-term plan?) | Formative 1 2 | No specific financial resources are allocated to LP. |
| | Emerging 3 4 | Inefficient use of or limited financial resources allocated to LP; allocation is mostly done on an ad hoc basis. |
| | Developed 5 6 | Most staff and SME support programs are adequately budgeted for; some planning. |
| | State of art 7 8 | All staff and SME support programs are fully funded and provisioned for in long-term planning. |

1. Program foundations

2. Planning: a long-term procurement policy and plan is embedded within the company.

Policy and incentives: the company has a state of the art local procurement policy and incentives for staff to implement it.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> Is there a local procurement policy? If so, does it include: <ul style="list-style-type: none"> - A clear definition of local? - A process for weighting the scoring of some types of contracts in favor of local companies? - A clear directive as to paying or not paying a premium for local suppliers? - A cost/benefit analysis? - Mechanisms to incentivize staff to use local sub-contractors and/or labor? - Incentives to promote local procurement among all relevant company managers and staff? - Enforcement of local procurement expectation within first tier contractor sub-contracting? | Formative 1 2 | Policy does not exist. Little or no focus on local procurement. |
| | Emerging 3 4 | Policy exists in an incomplete form. Informal practices are in place to incentivize staff and promote local procurement. |
| | Developed 5 6 | Policy exists with some best practice elements. Practice promotes local procurement. |
| | State of art 7 8 | A state of the art policy exists and local procurement processes are fully active in the company. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

Opportunity, SME and partner mapping: the company has mapped the size of potential opportunities, the capacity of local SMEs and the capacity of local partners.

| Questions | Scoring | |
|--|---------------------|---|
| <ul style="list-style-type: none"> What is the annual procurement spend? What proportion could reasonably be procured locally over a three to five year period? How is this estimate determined? What is the character of the local SME market in terms of number, skill levels, and sectors? How is this known? What business and technical constraints exist in the local SME market? How is this known? Who are the potential local development partners and what is their capacity? Have discussions taken place with other corporates in the region/country to assess willingness/opportunities for collaboration to support local supplier development? Have obstacles to requirements for certification/accreditation of local suppliers/their employees been considered? | Formative 1 2 | Little understanding of the potential for local procurement and the capacity of local entrepreneurs or partners. |
| | Emerging 3 4 | Discrete opportunities identified and individual qualified SMEs identified in the community. |
| | Developed 5 6 | Good understanding of opportunities that could be sourced locally and general understanding of the local SME pool and local partners. |
| | State of art 7 8 | Opportunities for local procurement clearly identified and developed; local SME and partner community precisely known through regular survey/mapping. |

Strategy and targets: a clear 3-5 year local procurement strategy is embedded within the company.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> Is there a local procurement plan (with targets) that is updated regularly? If so, does the plan include: <ul style="list-style-type: none"> - Clear and adequate targets for local procurement? - Adequate staff and resources for the program? - Provisions for the support, financing and development of SMEs? - Systems to update the plan regularly? How are end-users involved in the planning process? How is local procurement audited and improved? How frequent is the audit? | Formative 1 2 | Little clear plan for local procurement. |
| | Emerging 3 4 | A plan developed for local procurement, although primarily for short-term opportunities. Targets are not widely known, shared or tracked. |
| | Developed 5 6 | A clear and adequate plan is in place with agreed targets. Some gaps in the plan. Not always full knowledge and agreement across the company. |
| | State of art 7 8 | A state of the art plan, known throughout the company. End-users are actively involved in the planning process. Rigorous tracking and planning to reach targets. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

II. Corporate systems

3. Opportunities management: opportunities for local contracting are systematically identified and developed.

Demand segmentation: all opportunities in the company's various project phases (construction, production etc.) are segmented into categories, some of which are appropriate for local procurement.

| Questions | Scoring | |
|---|------------------------|--|
| <ul style="list-style-type: none"> Are opportunities systematically segmented for various phases of the project? If so, does the process: <ul style="list-style-type: none"> Segment according to all project phases (early works, construction, operations, etc)? Evaluate both how critical the opportunity is and how complex to execute? Result in opportunities in each phase of development that can be sourced locally? How are end-users and major subcontractors involved in this process? | Formative 1 2 | No attempt is made to segment demand other than the obvious 'low skill' services and 'low value-added' goods. |
| | Emerging 3 4 | Some segmentation is done for short-term activities, however the end-users are not involved and the process is ad hoc. |
| | Developed 5 6 | Opportunities are well segmented and the process includes end-users as well as major subcontractors. |
| | State of art 7 8 | A systematic process is in place to segment opportunities and all stakeholders systematically develop new opportunities in all project phases. |

New opportunity development: new opportunities for local procurement are systematically developed through outsourcing, unbundling and/or setting targets for major contractors to use local subcontractors.

| Questions | Scoring | |
|---|------------------------|--|
| <ul style="list-style-type: none"> How are new opportunities developed beyond the ones identified through segmentation? How are new outsourcing opportunities identified? In what instances are contracts or subcontracts unbundled? What kinds of targets are set for major subcontractors to use local subcontractors and/or labor? How are end-users and major subcontractors involved in this process of identification? Are these potential opportunities systematically studied to determine viability? What is the process involved? | Formative 1 2 | Organization focuses only on existing opportunities and does not develop new opportunities. |
| | Emerging 3 4 | Some development of new opportunities, however development is ad hoc and does not generally involve end-users. |
| | Developed 5 6 | New opportunities for local procurement are developed through unbundling, outsourcing and/or working with contractors. |
| | State of art 7 8 | New opportunities for local procurement are systematically researched and developed through unbundling of contracts and subcontracts, outsourcing of company functions and setting targets for local content with major contractors. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

Risk management: local procurement risks are systematically evaluated and mitigated against.

| Questions | Scoring | |
|--|---------------------|---|
| <ul style="list-style-type: none"> What kinds of risks related to local procurement have been identified (e.g. capacity or skill constraints of local contractors)? How are these risks systematically identified along with opportunities? How are these risks mitigated against in the structuring and management of contracts (e.g. through the use of mentors or through the use of agreements with international firms to assist local suppliers)? | Formative 1 2 | Poor understanding of local procurement risks, or local procurement seen as too risky. |
| | Emerging 3 4 | Some attempts made to identify and mitigate risks associated with local procurement; generally reactive to problems as they occur. |
| | Developed 5 6 | Good understanding of risks associated with local procurement. Most lessons learned are shared and systems are in place to support local companies. |
| | State of art 7 8 | Systematic risk assessment performed in conjunction with demand segmentation; lessons learned systematically and used to mitigate risks. |

II. Corporate systems

4. Contracts management: tenders and contracts are managed in a fair and transparent manner.

Tendering: the company has a transparent and fair tendering process that accommodates local bidders.

| Questions | Scoring | |
|--|---------------------|--|
| <ul style="list-style-type: none"> What is the process used to advertise, receive and adjudicate on local tenders? Are tendering documents and explanations translated into local languages? What steps are taken to prevent collusion? What steps are taken to prevent corruption (e.g. through an electronic bidding system)? Who makes up the adjudicating panel? Does it include representatives from end-user departments? | Formative 1 2 | Tender process is not transparent and does not accommodate local bidders. |
| | Emerging 3 4 | Some focus on transparency and accommodation of local bidders but efforts are generally not coordinated. |
| | Developed 5 6 | Tender process is designed to promote transparency and take into account the needs of most local contractors. |
| | State of art 7 8 | Tender process is transparent and systematically addresses issues of local contractors in a proactive manner, thereby increasing their market share. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

SME communication: the company has an open and transparent system for communicating with potential and contracted local SMEs.

| Questions | Scoring | |
|---|---------------------|---|
| <ul style="list-style-type: none"> How is feedback given to non-successful bidders? Is it done in person? What are the systems for potential and contracted local SMEs to make contact with the company's procurement department? What is the system for local contractors to make contact with the company's end-user departments? How is communication handled (written, email, phone, face to face)? Are there assurances that it will be done in a timely and efficient manner? | Formative 1 2 | No effective means of communication is in place. Local SMEs have difficulty in contacting procurement and end-user groups. |
| | Emerging 3 4 | Some efforts have been made to streamline communication with local companies. Feedback not regularly given to non-successful bidders. |
| | Developed 5 6 | Good communication exists between the company and local SMEs. In most cases they receive adequate feedback. |
| | State of art 7 8 | Systematic two-way communication exists between the company and local SMEs and feedback is systematically provided to non-successful bidders. |

Performance management: mechanisms are in place for monitoring and improving local contractors.

| Questions | Scoring | |
|--|---------------------|---|
| <ul style="list-style-type: none"> How are performance management metrics or key performance indicators established for each contract? How are these agreed upon and written into the contracting documents? How is performance assessed and communicated between the procurement department, end-users, the SMEs and those providing SME support? What incentives are there to encourage local contractors to reach and exceed targets? | Formative 1 2 | Performance metrics are not clearly defined. Performance management systems not in place. |
| | Emerging 3 4 | Some performance metrics are defined. Lack of coordination between the contract owner, procurement, and local SMEs. Performance reviews performed only after incidents. |
| | Developed 5 6 | Performance metrics are well defined in a coordinated manner. Metrics are communicated to most local contractors; performance reviews usually take place. |
| | State of art 7 8 | Performance metrics are well defined with clear KPIs that are monitored in a coordinated manner. Local contractors are supported and incentivized to ensure continuous improvement. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

III. SME support

5. SME engagement: local SMEs are fully aware of business opportunities and standards required, and are evaluated to establish their level.

Contractors database: potential local SMEs are managed in a local SME database.

| Questions | Scoring | |
|--|------------------------|--|
| <ul style="list-style-type: none"> Does the company maintain a database of potential local SME suppliers? If so, does the database contain: <ul style="list-style-type: none"> - Basic company information (contact data, history, legal status)? - SME performance (sales, value of contracts, etc.)? - Training and financing details? How does the company manage, update and use this information? | Formative 1 2 | Database does not exist or is not used. |
| | Emerging 3 4 | Some records of local SMEs are kept, but information is incomplete and not regularly used. |
| | Developed 5 6 | A database of local SMEs is kept and referenced, although it may be lacking some information. |
| | State of art 7 8 | A thorough database of all local SMEs is kept, regularly updated, and used as an integrated tool to communicate with and track progress of local SMEs. |

Communication of opportunities: local SMEs are regularly informed about opportunities available and standards required.

| Questions | Scoring | |
|---|------------------------|---|
| <ul style="list-style-type: none"> What channels are used to communicate opportunities to the local business community (e.g. public workshops, advertisements, notice boards, business associations)? How regularly are these communication channels used? What efforts are made to reach SMEs owned by women and under-represented racial/ethnic groups, as well as SMEs from rural areas? Are these opportunities advertised in advance (6-12 months) to allow for preparation? How are local suppliers informed and trained in standards held by the company? | Formative 1 2 | No or little communication of opportunities or standards to the local business community. |
| | Emerging 3 4 | Some opportunities are communicated to the local community, but not in a consistent or thorough manner. Standards are not widely understood. |
| | Developed 5 6 | Most opportunities are communicated on a regular basis and standards are made known. |
| | State of art 7 8 | All opportunities are systematically and regularly communicated to the local community 6-12 months before bids announced. Efforts are made to communicate to a diverse range of SMEs. Standards are well-established and understood for each contract type. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

SME evaluations: SMEs are pre-qualified and regularly evaluated to encourage continuous improvement.

| Questions | Scoring | |
|--|---------------------|---|
| <ul style="list-style-type: none"> What is the process for evaluating/pre-qualifying potential SME suppliers? How are the evaluation criteria made transparent and linked to international best practice? What is the process for evaluating local supplier during and after the contracting period? What evidence is there that these evaluations lead to improvement in the SMEs' performance? | Formative 1 2 | No formal evaluation of local contractors. No pre-qualification process in place. |
| | Emerging 3 4 | Some pre-qualification process in place for potential contractors. Active contractors are rarely re-evaluated after the contract is awarded. |
| | Developed 5 6 | A well-defined evaluation process is used for most tender pre-qualifications. Process is coordinated between company and its major subcontractors and is used for continuous improvement. |
| | State of art 7 8 | A well-defined evaluation process is systematically used for pre-qualification, during and after the contract period. The process is transparent and seamless between all stakeholders. |

III. SME support

6. SME development: local SMES are systematically supported to develop technical and managerial skills and are assisted in accessing finance.

Business excellence: mentoring and training programs are in place to help local suppliers to develop business management skills

| Questions | Scoring | |
|---|---------------------|--|
| <ul style="list-style-type: none"> What kind of mentoring, training, and coaching programs does the company have to help local SMEs to develop their business skills? Do these programs focus on existing and potential suppliers (and not just local SMEs)? How do these support programs address performance gaps identified by end-user and procurement departments? How are the main contractors contributing to mentoring, training and/or coaching? | Formative 1 2 | No business mentoring, training or coaching program is in place. |
| | Emerging 3 4 | Some business mentoring, training or coaching occurs, usually in response to operational problems. |
| | Developed 5 6 | Most business gaps are identified and mentoring, training and/or coaching programs are in place. They are coordinated by the company. |
| | State of art 7 8 | Business gaps are systematically identified and mentoring, training and/or coaching programs are in place; the programs are run by the company and its main contractors. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Company Self-Assessment Tool *continued*

Technical excellence: mentoring and training programs are in place to assist local suppliers to develop critical technical skills.

| Questions | Scoring | |
|---|---------------------|--|
| <ul style="list-style-type: none"> What kind of mentoring, training and coaching programs does the company have to help local SMEs to develop their technical skills? Do these programs focus on existing and potential suppliers (and not just local SMEs)? How do these support programs address performance gaps identified by end-user and procurement departments? How are the main contractors contributing to technical mentoring, training and/or coaching? | Formative 1 2 | No technical mentoring, training or coaching program is in place. |
| | Emerging 3 4 | Some technical mentoring, training or coaching occurs, usually in response to operational problems. |
| | Developed 5 6 | Most technical gaps are identified and mentoring, training, and/or coaching programs are in place. The programs are coordinated by the company. |
| | State of art 7 8 | Technical gaps are systematically identified and mentoring, training, and/or coaching programs are in place; the programs are run by the company and its main contractors. |

Access to finance: systems are in place for local contracts to help suppliers access funds for working capital and investments.

| Questions | Scoring | |
|--|---------------------|---|
| <ul style="list-style-type: none"> How well does the local banking market support SMES? What is the evidence? Is there a level playing field for local and international suppliers when it comes to VAT? What kind of relationships has the company established with local banking institutions that are prepared to help local SMEs? What kind of pre-payment, early payment or cash advance systems does the company use to support local suppliers? What kind of special purpose vehicle has been established by the company and financial institutions to support local SMEs? | Formative 1 2 | Local suppliers face financial constraints that are not taken into account by the company. |
| | Emerging 3 4 | Mechanisms enabling access to finance are sometimes put in place in response to problems; systems are not established to prevent future problems occurring. |
| | Developed 5 6 | Genuine attempts are made to understand financing needs of local contractors. Assistance is provided by the company in a structured manner. |
| | State of art 7 8 | Financing needs of local suppliers are thoroughly understood and a proper range of internal and external systems are in place to provide support. |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Proposed solutions

I. Program foundations

1. Corporate commitment

| Name | Suggestions |
|-------------------|--|
| Leadership | <ul style="list-style-type: none"> • Hold presentations/discussions with CEO and senior management to obtain internal support • Include local procurement as an element of corporate strategy • Launch company-wide trainings/marketing on local procurement objectives, strategy and activities • Include local procurement targets and results in ongoing corporate communications |
| Staffing | <ul style="list-style-type: none"> • Appoint a full-time local procurement champion • Plan and clarify local procurement responsibilities for end-users, procurement team and CSR team • Develop relationships with local partners who can provide training, coaching and assistance in access to finance |
| Budget | <ul style="list-style-type: none"> • Include local procurement as a regular line item in long-term budgets |

2. Planning

| Name | Suggestions |
|---|---|
| Policy and incentives | <ul style="list-style-type: none"> • Develop a local procurement policy in cooperation with end-users, the procurement department and the CSR department • Write local procurement targets into company and individual scorecards for all relevant departments |
| Opportunity, SME and partner mapping | <ul style="list-style-type: none"> • Conduct an initial review and segmentation of opportunities for the next 3-5 years • Conduct a baseline SME mapping to understand the number, capacity and fields of specialization of local SMEs • Conduct a mapping exercise to understand the range and capacity of SME development partners |
| Strategy and targets | <ul style="list-style-type: none"> • Develop a 3-5 year local procurement plan in cooperation with end-users, the procurement department and CSR department |

Annex 1

Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

Proposed solutions *continued*

II. Corporate systems

3. Opportunities management

| Name | Suggestions |
|------------------------------------|---|
| Demand segmentation | <ul style="list-style-type: none"> Involve end-users and procurement department in systematically reviewing and segmenting opportunities for the next 3-5 years. Develop a plan that is periodically reviewed and updated at least every three months. |
| New opportunity development | <ul style="list-style-type: none"> Institute a systematic process for identifying and studying new opportunities. These opportunities could come from: <ul style="list-style-type: none"> - Outsourcing: identify and study the economic feasibility of outsourcing goods and services currently provided in-house - Unbundling: identify the feasibility and corporate acceptability of unbundling existing larger contracts into small contracts that can be more easily executed by local suppliers - Target-setting for major contractors: establish and enforce targets for major subcontractors regarding the number and volume of local subcontractors and/or local labor |
| Risk management | <ul style="list-style-type: none"> Institute risk management assessment and mitigation as a key element of identifying opportunities and structuring contracts |

4. Contracts management

| Name | Suggestions |
|-------------------------------|--|
| Tendering | <ul style="list-style-type: none"> Review tender announcement process and ensure that it accommodates and reaches local suppliers Review and make a decision on the need to translate tenders into local languages Review anti-collusion mechanisms and ensure that maximal steps are taken to avoid collusion Review receipt and adjudication process and ensure that maximal steps are taken to guard against corruption. Consider an e-bidding system Ensure that the adjudication panel includes end-users as well as procurement staff |
| SME communication | <ul style="list-style-type: none"> Institute an in-person feedback session for non-successful local bidder finalists Develop a clear system for potential suppliers to contact the procurement department Designate a single point of contact Develop a clear system for local suppliers to contact the procurement department and a designate from the end-user departments |
| Performance management | <ul style="list-style-type: none"> Establish a system for including key performance indicators (KPIs) in contracts Establish a system to set up meetings between the end-users, the procurement department and the SME to provide contract feedback Write incentives into the contract for suppliers to meet and exceed targets |

Annex 1

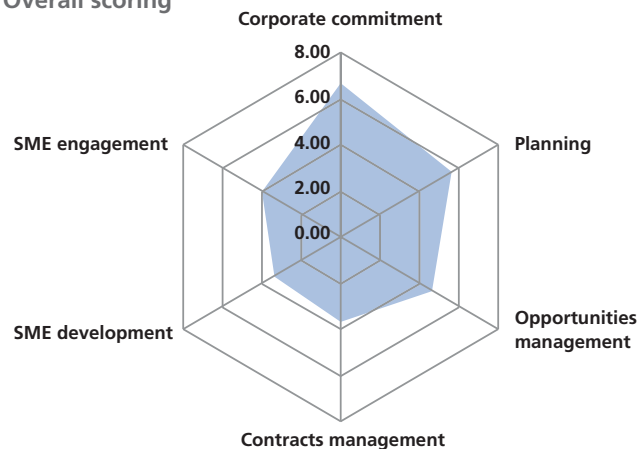
Company Self-Assessment Tool

continued

A user-friendly automated version of this tool, containing additional questions, is available online <http://commdev.org/content/document/detail/2626/>

This is a sample visual of a spider/radar chart.

Overall scoring

Proposed solutions *continued*

III. SME support

5. SME engagement

| Name | Suggestions |
|------------------------------------|--|
| Contractor database | <ul style="list-style-type: none"> Develop and use a comprehensive local supplier database. Institute systems for regularly updating it |
| Opportunities communication | <ul style="list-style-type: none"> Hold regularly scheduled meetings (once every 3-6 months) to communicate upcoming business opportunities and results Develop a thorough notification system for local suppliers. Consider email, text messages, bulletin boards, radio and announcements in the local press Develop and roll out training for local suppliers to raise standards |
| SME evaluations | <ul style="list-style-type: none"> Develop and implement a system to pre-qualify and evaluate local SMEs Develop a system to evaluate SMEs during and after contracting, This evaluation should not focus solely on KPIs (from the contracts management section) but more generally on the business and technical competencies of the SMEs. |

6. SME development

| Name | Suggestions |
|-----------------------------|---|
| Business excellence | <ul style="list-style-type: none"> Establish an internal mentoring program based on business and technical support Establish a training program with external partners based on business and technical support Establish a coaching program with external partners based on business and technical support |
| Technical excellence | |
| Access to finance | <ul style="list-style-type: none"> Establish relationships/ Memorandum of Understanding (MOU) with local banks Shorten payment terms Establish an internal advance system for local suppliers Establish a special purpose vehicle for supplier finance |

Annex 2

Sample form for validation of a community enterprise

This form was created by Newmont Ghana Gold Limited to verify that a business was domiciled in the local community. For a business to be considered as a community business the form had to be completed with verification by the appropriate parties in the validation section.

Personal details section

Full name

First name

Middle name

Last name

Registration No: (office use)

Birth date

DD / MM / YYYY

Birth place

Village, district and region

Home address

Company name

Company address

Contact details

I certify that the information in this form is true, correct and complete and I understand that any false or misleading statements or omissions supplied in this form may result in termination of my current contract.

Signature

Date

Validation section

Validated by

Chief

Assembly man

Youth leader

Name

Signature

Date

Annex 3

Case study of a joint venture between an SME and a mining company

Joint ventures between SMEs and mining companies

Partnering SMEs with larger, specialized and experienced contracting companies in simple joint ventures (JVs) can help boost skill shortages, especially in remote areas of developing countries where the operations of oil, gas and mining countries are often located. A JV provides a solution for large specialist companies who wish to support local entrepreneurs through local sub-contracting without compromising the quality and general standards of the goods and services they need to procure.

Background

Company A was successfully contracting from companies in major South African cities like Johannesburg, Pretoria and Rustenburg. At the same time, it was striving to meet the country's Black Economic Empowerment regulatory targets and increase opportunities to SMEs in neighboring communities. With IFC's collaboration, Company A demonstrated that it could increase its support to local SMEs in the immediate vicinity of its North West Province mining operations, a region where skilled labor is in short supply and unemployment is high. The program assisted SMEs in understanding tender processes, negotiating with expert companies as well as drafting and registering JV documentation. The JV process can be difficult and requires patience and commitment from both the expert company and SME. This is especially important in maintaining discipline in the mentorship process while still meeting the client's contractual obligations. At the same time, however, a JV contract is a unique opportunity to provide on the job training.

A sample JV is outlined below.

Summarized organizational structure of Company XYZ Ltd

One of the JV structures that Company A facilitated and brokered is between Company B (an expert company with 15 years experience in mining services) and a consortium of SMEs:

- SME 1, owned by one male with seven years mining services experience
- SME 2, owned by four women with very limited business experience
- SME 3, owned by four youths with no business experience

SME 3 and SME 2 formed a joint venture called JV 1. This new SME formed a joint venture with SME 1 to have one agreement with the expert company.

This JV eventually secured a five-year, ZAR30 million (approx. US\$4 million) Company A contract for specialized underground vacuuming and cleaning of machines and mineral conveyor belts.

Annex 4

Questionnaire for supplier diversity

Template for supplier diversity company profile

Use this template to create your own supplier diversity company form, including relevant industry categories and codes.

Supplier diversity company profile

Company name:

Key contact: Title:

City: Country: Zip/post code:

Telephone: Fax:

Email address: Website:

Date the company was established:

Gross annual sales for last three years: Year: US\$:

Year: US\$:

Year: US\$:

Legal structure (tick one):

☐ Corporation ☐ Partnership ☐ Sole proprietorship ☐ Joint venture ☐ Franchise ☐ Non-profit

Is the company minority-owned?

Yes ☐ No ☐

Is the company women-owned?

Yes ☐ No ☐

Is the company youth-owned?

Yes ☐ No ☐

Percentage of minorities and women in employee base:

Clerical/labor Professional Senior management Board of directors

Minorities

Women

Annex 4

Questionnaire for supplier diversity

continued

Template for supplier diversity company profile *continued*

Supplier diversity company profile

Description of company's product(s) and/or service(s):

.....

.....

.....

Type of business/commodity service:

- | | | | |
|---|--|--|-------------------------------------|
| <input type="checkbox"/> Retail manufacturing rep | <input type="checkbox"/> Broker | <input type="checkbox"/> Manufacturer | <input type="checkbox"/> Wholesaler |
| <input type="checkbox"/> Construction contractor | <input type="checkbox"/> Professional services | <input type="checkbox"/> Publication/broadcaster | <input type="checkbox"/> Consultant |
| <input type="checkbox"/> Distribution/dealer | <input type="checkbox"/> Service provider | <input type="checkbox"/> Freight/transportation | <input type="checkbox"/> Other |

Geographical service area:

- | | | | |
|--------------------------------|-----------------------------------|-----------------------------------|--|
| <input type="checkbox"/> Local | <input type="checkbox"/> Regional | <input type="checkbox"/> National | <input type="checkbox"/> International |
|--------------------------------|-----------------------------------|-----------------------------------|--|

Please specify:

Are you currently certified?

Certified by a national minority council/agency Yes ☐ No ☐

Certified by a national women's business enterprise council/agency Yes ☐ No ☐

Certified by a municipal entity; i.e. federal, state or local government agency Yes ☐ No ☐

Other (please specify):

Have you previously done business with our company? Yes ☐ No ☐

Please check all that apply and forward a copy of your certification documents with this complete form.
Also include two copies of company information.

Annex 5

Description of Task Force

The Task Force is a working group within the company comprised of:

- Procurement staff
- Key end-users (Community Relations, Sustainability Investments, Operations)
- Representatives from the main contractors who are familiar with procurement and purchasing

The main purpose of the Task Force is to:

- Identify contracting opportunities suitable for localization, segmented by sector, with projected spend and timing (see [Annex 6](#): Prioritization Matrix)
- Identify a LPP champion from within the company for each business unit, who if possible can assist with the gap analysis of local firms in respective sectors and provide input for the training/mentoring program
- Monitor the performance at an operational level with each LPP champion responsible for monitoring their business unit's KPIs

Annex 6

Tool to identify and prioritize local business opportunities

A user-friendly automated version of this tool is available online
<http://commdev.org/content/document/detail/2729/>

This annex will help you identify and prioritize local procurement opportunities.

The tool is split into a [Matrix](#) (Step 1), downloadable as a PDF file²¹, and a working [tool](#) (Steps 2, 3 and 4), downloadable as an Excel document²². The Matrix will guide your through the multi-step process of:

- Identifying potential goods and services for local procurement
- Segmenting short-listed opportunities according to three levels: low risk/easy to higher risk/difficult
- Prioritizing opportunities to tackle in the short, medium and long term

Step 1

Hold a meeting of the Task Force. Include members from procurement, end-user departments and community relations. Brainstorm the goods and services that could be provided by local businesses. You will find three worksheets to help start the process:

- 1A: a list of potential services
- 1B: a list of potential goods
- 1C: a sample list of opportunities segmented by stage of operation²³

Step 2

Use the Step 2 tool to sort the opportunities according to level of risk/difficulty. The definitions are based on IFC experiences with previous clients – please adapt them to your company circumstances. You can further sort the list of opportunities according to whether they are short-term/small contracts or long-term/large contracts.

Step 3

Prioritize and focus on a few opportunities. This tool will use knowledge gathered during the Rapid assessment²⁴, as discussed in Chapter 4, to help identify potential ‘quick wins’.

The Step 3 tool uses an actual sample case for adaptation. List the opportunities under ‘Sectors/Subsectors’ and agree on the criteria to be used. The tool suggests various ratings and weights – these should be adapted to the project. For example, if job creation is important to your company, it should be weighted higher than other activities.

Step 4

Monitor the outcomes and impacts of the program through KPIs such as the number of contracts and number of jobs created. It is particularly important to have this information when communicating with your stakeholders.

²¹ <http://commdev.org/content/document/detail/2729/>

²² <http://commdev.org/content/document/detail/2729/>

²³ Procuring from SMEs in local communities. A good Practice Guide for the Australian Mining Oil and Gas sectors.
<http://commdev.org/content/document/detail/2634/>

²⁴ The information in the Rapid Assessment will help identify the experience and training available in the local market and determine how long a training program will be for a given situation. For instance, if a SME only needs to learn how to cost its products, the training will be much shorter than for one that will need technical assistance to improve quality and processes.

Annex 7

Questionnaire for SME focus groups

Focus groups are an effective way of gathering information about suppliers in the area and the challenges they face in doing business locally. This is an ideal opportunity to evaluate SMEs' training needs and to assess their desire to win new business.

Sample questions

General - internal

- Where are you located?
- What type of business are you (sector)?
- Do you have a mission statement?
- Is your business registered with the authorities?
- What specific goods or services does your company offer?
What is the breakdown of the goods and services by percentage?
- How is your ownership structured?
- Do you have a management board? Who are the members? How were they chosen?
- How many employees do you have?
- What are your employees' skills and training?
- Do you have a business plan?
- What are the growth opportunities, if any, for your business?
- How do you prepare a bid?
- How do you get new clients?
- Do you have an annual budget?
- How often do you evaluate your financial situation?
- How often do you forecast your revenue, income, cash flow?
- Is your business profitable?
- Do your employees wear protective equipment?
- How do you dispose of trash? Do you recycle?

Annex 7

Questionnaire

for SME focus

groups

continued

Sample questions *continued*

Challenges - external

- What do you think of the business environment in your area?
- What is your biggest challenge?
- How do you obtain financing? What rate do you pay?
- How do you obtain working capital?
- Have you had problems finding competent staff?
- Do you have a business license? How do business registrations work?
What is the time required? Is it a smooth process – or are there particular difficulties?
- If you have tendered to a large company, what are your opinions on the bidding process?
Was it easy to navigate? Did you have the necessary information/resources?
- What is your biggest challenge in supplying to a large OGM company?

Potential solutions

- How do you think the process of obtaining financing could be made easier?
(Be realistic).
- How can the challenge of finding good management and employees be made easier?
- How could the business registration process be made easier to navigate?
- What changes to the bidding process would make it easier for you apply?

Annex 8

Sample LPP design

Once the local procurement policy is in place, the next step is to draft the LPP. This can be done with in-house staff or outside consultants. The template below provides a sample outline of the topics your design should cover.

| Element | Description |
|-------------------------------------|---|
| Executive summary | Broad overview including program components, timeline targets and partners. Challenges and key issues |
| Background | Overview of country and local context |
| Introduction | Brief introduction and background to the company |
| Country and regional context | <ul style="list-style-type: none"> • Relevant historical, social, economic and political context, including poverty indices in relation to company operations²⁵ • Socioeconomic overview of project-affected area. Check the country's 'Doing business' rating²⁶ • Composition of entrepreneurial sector, especially SMEs. Include the company's existing supply chain as well as relevant local communities • Analysis of business environment: major needs of SMEs vis-à-vis access to business and technical skills, access to finance and access to markets • The institutional environment: business membership organizations (BMOs) like business associations and chambers of commerce; the overall commercial environment (legal and regulatory requirements, corruption, entrepreneurship culture, infrastructure etc.) |
| Program objective | <ul style="list-style-type: none"> • Mission statement/objectives; SMART (Specific, Measurable, Achievable, Relevant, Time-bound) strategy • Link to business drivers and target groups |
| Rationale (see Chapter 2) | <ol style="list-style-type: none"> 1. Business case (risk mitigation, cost benefits, alignment with the company's business drivers etc.) 2. Sustainability case (development impact, sustainability proposals, fit with CSR strategy) <ul style="list-style-type: none"> • Role of partners in adding value and sustainability to program |

²⁵ Refer to your company's Environment & Social Impact Assessments as well as sources like FIAS studies, the Human Development Index and the Economist Intelligence Unit (EIU)

²⁶ <http://www.doingbusiness.org/>

Annex 8

Sample

LPP design

continued

| Element | Description |
|---|---|
| Program design | 3. Preparation Governance structure <ul style="list-style-type: none"> Steering committee Reporting lines (program management structure) Design program reports 4. Assessment and screening <ul style="list-style-type: none"> Review of company purchasing needs (Task Force²⁷) Select sectors for localization SME mapping SME evaluation Creation of communication plan <ul style="list-style-type: none"> Prepare training of SMEs 5. Training and mentoring 6. Monitoring and evaluation |
| Budget (see Annex 10) | <ul style="list-style-type: none"> Create a comprehensive budget including fixed and variable costs. Consider innovative ways to recover and share costs with implementing partners and SMEs |
| Financing plan | <ul style="list-style-type: none"> Develop a plan to finance local supplier activities |
| Implementation | |
| Program period and coverage | <ul style="list-style-type: none"> Determine how long the program will last Determine geographic area |
| Develop program organization | <ul style="list-style-type: none"> Design a chart (or higher-level 'organogram') with: <ul style="list-style-type: none"> Program components (and respective program partners for each component, if identified) Clear lines of reporting Steering committee: members, meetings, chairperson, compensation |
| Determine staffing plans | <ul style="list-style-type: none"> Total number of staff involved and their roles Staff responsible for implementation; their roles and responsibilities (e.g. procurement department, communications team, external affairs team, community development team) |
| Identify partners | <ul style="list-style-type: none"> External partners and their roles and responsibilities |

Click here for tool in Annex 10:
LPP budget considerations

²⁷ The Task Force draws on expertise from various departments including procurement, community development, government affairs and commercial end-users. The Task Force meets monthly to identify key sectors and contracts suitable for local procurement.

Annex 8

Sample LPP design

continued

| Element | Description |
|--|---|
| Implementation <i>continued</i> | |
| Identify cross-cutting needs | <ul style="list-style-type: none"> • Access to finance • Capacity building • Gender • Marginalized groups |
| Create work plan | <ul style="list-style-type: none"> • Develop a table showing key activities, timeline, deliverables and key persons responsible (see sample in Annex 9) |
| Monitoring and evaluation | <ul style="list-style-type: none"> • Determine the metrics that will be used to evaluate program's success • Define the reporting requirements (including timeline, documents and individuals involved) • Assess options of aligning program results with staff performance (incentives) |
| Challenges and risks | |
| Challenges/risks | <ul style="list-style-type: none"> • Determine challenges that exist externally and internally, based on company self diagnostic assessment • Outline possible solutions |
| Risks | <ul style="list-style-type: none"> • Determine possible risks (e.g. dependency on outside parties, reputational risks, environmental and social risks) • Outline risk mitigation strategies |

Annex 9

Sample LPP work plan

A comprehensive, specific work plan is needed to help monitor performance. The work plan should list the practical tasks involved in implementation and identify the parties responsible for different parts of the program. This simplified work plan shows some key activities.

| Activity | Responsible | Month | | | | | | | | | | | |
|--|---|-------|---|---|---|---|---|---|---|---|----|----|----|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| Sustainability planning | | | | | | | | | | | | | |
| Create Local Procurement Program Manager (LPPM) position with support staff Identify and train new recruits | Snr Procurement Mgr; training company | | | | | | | | | | | | |
| Establish tools and structures, including SME database, SME evaluation systems, training curricula, mentoring and coaching programs, SME incubator | LPPM; training company | | | | | | | | | | | | |
| Establish and embed a mechanism for receiving and managing contributions from suppliers and surrounding companies to support future SME development | LPPM; Finance Manager | | | | | | | | | | | | |
| SME contracts | | | | | | | | | | | | | |
| Develop contracting plan, overhaul current company opportunities, identify SME opportunities | LPPM | | | | | | | | | | | | |
| Set up database, launch public announcements on SME opportunities | LPPM; training company | | | | | | | | | | | | |
| Facilitate and support tender processes | | | | | | | | | | | | | |
| Business development training | | | | | | | | | | | | | |
| Complete xx SME diagnostic evaluations | LPPM; training company | | | | | | | | | | | | |
| Complete xx training sessions based on set annual schedule of modules e.g. HR, finance. | | | | | | | | | | | | | |
| Complete xx SME business systems set-ups | | | | | | | | | | | | | |
| Open business incubator and incubate xx SMEs | | | | | | | | | | | | | |
| Provide coaching for xx SMEs Provide mentoring to xx SMEs | LPPM; training company; specific snr mgrs | | | | | | | | | | | | |
| Monitoring and evaluation | | | | | | | | | | | | | |
| Establish program monthly targets and monthly monitoring system for SME contracts signed, personnel trained and jobs created | | | | | | | | | | | | | |
| Hold monthly LPP team meetings to review progress and results against targets, discuss tender processes for upcoming LPP opportunities | Snr Procurement Mgr; LPPM; training company; relevant end-users | | | | | | | | | | | | |
| Update monthly program monitoring system and compare against targets | LPPM | | | | | | | | | | | | |
| Conduct quarterly reviews of external training company and bi-annual reviews of LLP | Snr Procurement Mgr;LPPM | | | | | | | | | | | | |

Annex 10

LPP budget considerations

Setting a multi-year budget at the outset is critical to the implementation and sustainability of a LPP. Remember that many costs (e.g. establishing tools and systems and hiring long-term SME development training consultants) will be frontloaded. The table below will help you decide on key budget lines. It includes ways of generating revenue to help ensure the sustainability of your LPP.

| Activities | | Potential costs | Potential revenues/cost recovery/savings |
|-------------------------------------|---------------------------|---|---|
| Operations | Office space | <ul style="list-style-type: none"> • Allocate space within existing office or create dedicated offices (e.g. closer to the community)? • What are office set-up costs (rent, power, equipment, materials)? • Consider business center/incubator? • Models for self- sustainability of LPP (e.g. partnering with a local chamber of commerce)? | <ul style="list-style-type: none"> • Fees for the use of the business incubator? Flat rate or per service? |
| | Staff | <ul style="list-style-type: none"> • How many staff members will be needed? • Will additional staff, including consultants, need to be hired? • Will NGOs/consulting firms be contracted instead of individual staff/consultants? | <ul style="list-style-type: none"> • How can existing human resources be dedicated to the LPP among the departments most involved in implementation, especially the procurement, finance and community affairs departments? |
| SME development | SME training and coaching | <ul style="list-style-type: none"> • What kind of program will be created (how much training will be required and provided)? • What is the cost per training topic/participant? • How much of the cost of training and one-on-one coaching/ consulting will be covered by the SME and how much by the sponsor (firm or donor)? • If facilitating the creation of joint ventures, are there any associated costs that the sponsor firm should cover? | <ul style="list-style-type: none"> • How much to charge for training modules? Fees should be high enough to make participants value the course but low enough so that they are affordable. • In most developing markets it is unrealistic to expect SMEs to be willing to pay the full cost for training or consulting services, nevertheless, they should always be expected to pay at least a nominal amount to ensure commitment to the program. It is a good idea to adopt a progressive pricing approach; as SMEs progress and see the value in the services they are receiving they will be willing to start paying in full for them. |
| | SME mentoring | <ul style="list-style-type: none"> • Should staff receive additional compensation if they volunteer to provide mentoring? Should you create an award or recognition to motivate staff (e.g. for 'most valued mentor')? | |
| | Financing for SMEs | <ul style="list-style-type: none"> • Can the company allocate a certain amount to cash advances or loans to SMEs against contracts awarded? What form could these financing options take? | <ul style="list-style-type: none"> • Is it possible to charge a financing fee? • Are there any local, regional or national entrepreneurial finance providers that the company can introduce to SMEs? |
| External and internal communication | Marketing and promotion | <ul style="list-style-type: none"> • What type of marketing and promotion will be needed? • What are the costs of marketing to the community? • What are the costs of marketing externally (e.g. to shareholders and customers)? | <ul style="list-style-type: none"> • Can the costs be shared with other departments (e.g. marketing, communications or PR)? • Are there any innovative cost-recovery methods that can also help local SMEs with their marketing (e.g. sharing costs in developing a local business directory from SME database information)? |

Annex 11

Key Performance Indicators for a LPP

Prior to beginning a LPP it is important to establish a baseline to measure progress. Key performance indicators (KPIs) can be quantitative, qualitative or financial. It is important to integrate KPIs into existing company processes so that they count towards organizational progress and success.

Measures of project activity

- Number of workshops or events held
- Number of enterprises taking part in partnership, training or development programs
- Number of hours company personnel devoted to the program

Measures of outcome on corporate activity

- Dollar value of goods and services procured locally (before and after)
- Quantity of goods and services procured locally (before and after)
- Local procurement as a proportion of total corporate procurement
- Number of local businesses in the supply chain

Measures of outcome on local enterprises/suppliers

- Change in employment at SMEs/suppliers
- Change in number of contracts
- Change in size of contracts
- Change in turnover
- Change in number of client companies (reduced dependency on lead company over time)
- Number of participating enterprises reporting changes/improved in business processes as a result of the program (e.g. new management practices, working conditions, improved products, distribution channels, new markets)
- Number/percent of participants from supplier enterprises reporting themselves satisfied or very satisfied with the program

Diversity

- Number of local people/women/minorities trained
- Number of local people/women/minorities contracted
- Dollar value of contracts

Sustainability

- Comparative use of resources (electricity, fuel water, paper, supplies)

Measures on local development impact

- Changes in local employment levels
- Changes in the diversity of the local business community, in the range of businesses/services provided and in the number of women/minority-controlled businesses

Annex 12

Sample language for SME contracting

Bidders for large contracts, particularly for construction or catering services, should be required to include a local procurement plan in their submission. Otherwise local procurement opportunities may be missed. Here is some sample language and a questionnaire for companies to include in their tender documents.

Language for general conditions

Clause x LOCAL AND REGIONAL purchases by SUB-CONTRACTORS

- x.1 Contractor shall provide and use, for the performance of this contract, to the fullest extent possible, local sub-contractor or locally acquired or rented materials and equipment, facilities and construction plant, to the extent available, within reasonable cost, to produce the quality and quantity of work and materials required by this contract, within the time or times specified in the Contract Schedule.
- x.2 In undertaking this activity, the contractor shall as far as practicable apply the following order of preference:
- (1) Community one businesses
 - (2) Community two businesses
 - (3) Community three businesses
 - (4) Community four businesses

Contractor shall provide, at any time during the performance of the contract at company's request and at a minimum on a monthly basis a written report, by using Appendix A, on regional economic development in the area including details as to the extent of its use of local sub-contractor pursuant to the above clause and the application of the order of preference to decisions that have been made in this regard, as well as any other efforts in relation to compliance with the terms of this general condition.

- x.3 (Different section for bid package) Instruction to bidder. Company is strongly committed to the inclusion, development and support of the local and regional communities, and expect contractors to include local communities as designated in Section Y ('community'). As part of this commitment, any bid analysis performed for our project includes the level of involvement of the local and regional communities as one of the bid assessment criteria.

This commitment is also embedded in the contract, especially:

- In Clause x of the general conditions

Annex 12

Sample language for SME contracting

continued

To enable this criteria to be properly assessed, bidder shall advise company of its local and regional strategy and its initiatives to involve, support and use local/regional entities and workforce.

The local and regional strategy will include:

- Workplans and action, with time frames and measurable objectives, to involve and support local and regional sub-contractors in contract through training, collaboration, partnerships and sub-contract agreements
- Strategy to share expertise and experience with local and regional sub-contractors, leading up to and during the contract

The bidder must also fill in the following questionnaire:

Regional Economic Development Local and Regional Content Bid Evaluation Form
(see following page)

Zone 1 (Local): TBD

Zone 2 (Regional): TBD

Annex 12

Sample language for SME contracting

continued

Regional Economic Development Local and Regional Content Bid Evaluation Form

1. Product purchases

- Have you requested quotes from local suppliers to ensure maximum use of local and regional services for this contract?
- Will you purchase any of your products from local or regional businesses?
- If Yes, what is the estimated \$ value of these products coming from Zone 2?
- If Yes, what is the estimated \$ value of these products coming from Zone 1?
- In that Zone 1 value, if applicable, what is the estimated percentage coming from community business?

Yes ☐No ☐Yes ☐No ☐

2. Service sub-contracting

- Have you requested quotes from a local contractor to ensure maximum use of local and regional services for this contract?
- Will you sub-contract any of your services to local businesses?
- If Yes, what will be the estimated \$ value of your services to be sub-contracted to Zone 1 sub-contractors?
- In that Zone 1 value, if applicable, what is the estimated percentage coming from community business?

Yes ☐No ☐Yes ☐No ☐

3. Capacity development initiatives

- Are you / will you be involved in the transfer of skills or technologies to local or regional businesses?
- If Yes, please attach a document showing the details and type of skills / technology, scope and names of the local or regional businesses.

Yes ☐No ☐

4. Local partnership/alliance or local business start up

- Have you / will you form a partnership or alliance with a local or regional vendor?
- If you are, please describe partnership and attach any documentation of partnership.
- Will you establish a temporary or permanent business in the area? Please describe.

Yes ☐No ☐

Contact

We hope you find the guide helpful. If you would like to be kept updated about new IFC publications and services, or have any comments or questions please contact us at

businesslinkages@ifc.org

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NORWEGIAN MINISTRY
OF FOREIGN AFFAIRS

INTERNATIONAL FINANCE CORPORATION
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
U.S.A.
Telephone: 202 473-1000
Facsimile: 202 974-4384

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