



PROCURING FROM SMEs IN LOCAL COMMUNITIES

A GOOD PRACTICE GUIDE FOR THE AUSTRALIAN
MINING, OIL AND GAS SECTORS



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ACKNOWLEDGMENTS

Many people have been generous in contributing to the development of this Local Procurement Good Practice Guide. The project would not have been possible without the support of our partners: Bechtel, BHP Billiton, Enterprise Connect, Newmont, Rio Tinto and Santos. The development of the Guide has greatly benefited from the input of our project reference group and expert advisory panel, whose names are included in Appendices B and C. Grateful thanks to Melissa Wells, Bruce Coyne and Victoria Francis from Cardno Emerging Markets; Lynden Griggs from the University of Tasmania and Veronica Klimenko of CSRM for their insights and advice. We thank all of those who were interviewed as part of the supporting research for helping us to keep this document relevant to management practitioners.

Finally, we would also like to acknowledge the valuable contribution of Aboriginal Enterprises in Mining, Energy and Exploration (AE MEE) and, in particular, their Executive Officer Sally McMartin, in organising a very successful Forum in Perth in March 2010 on Local SME Participation. As well as providing an opportunity for attendees to share and learn about good practice, discussions at the Forum have helped to inform the development of this guide.



Disclaimer: Users of this Guide should bear in mind that it is intended as a general reference only and is not intended to replace the need for professional advice. The information contained within this handbook is general in nature and will need to be adapted to meet the particular circumstances of individual users.

Cover image: Apprentice Boilermaker David Ambrum on top of the jacketed piping units at Yarwun Alumina Refinery (Gladstone, Australia)

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ACRONYMS AND ABBREVIATIONS

AIMSC	Australian Industry Minority Supplier Council
AIPNF	Australian Industry Participation National Framework
B-BEE	Broad based-Black Economic Empowerment
BEE	Black Economic Empowerment
CEO	Chief Executive Officer
DIISR	Department of Innovation, Industry, Science and Research
EPC	Engineering ,Procurement and Construction
EPCM	Engineering, Procurement and Construction Management
ESHIA	Environmental, Social and Health Impact Assessment
FEL	Front End Loading
FEED	Front End Engineering Design
GCA	Gulf Communities Agreement
HSE	Health, Safety and Environment
IBA	Indigenous Business Australia
IFC	International Finance Corporation
ICN	Industry Capability Network
KPI	Key Performance Indicator
LNG	Liquefied Natural Gas
MESCA	Minerals and Energy Services Council of Australia
MPRDA Act	(South African) Minerals and Petroleum Resources Development Act
NEIS	New Enterprise Incentive Scheme
OEM	Original Equipment Manufacturer
OHS	Occupational Health and Safety
PACA	Pilbara Aboriginal Contractors Association
PNG	Papua New Guinea
PNGLNG	Papua New Guinea Liquefied Natural Gas
RANms	Regional and National Maintenance Services
SCM	Supply Chain Management
SEAT	(Anglo American's) Socio Economic Assessment Toolkit
SME	Small-to-medium enterprise

INTRODUCTION

There is growing interest in the mining, oil and gas industries in enhancing the opportunities for locally-based businesses to participate in resource projects. Several leading companies have now adopted policies and standards explicitly aimed at increasing local procurement. In addition, an increasing number of agreements with Indigenous groups include commitments to support the development of Indigenous-owned enterprises.

Several leading companies have now adopted policies and standards explicitly aimed at increasing local procurement. In addition, an increasing number of agreements with Indigenous groups include commitments to support the development of Indigenous-owned enterprises.

Leading companies recognise that local economic participation is one of the keys to maintaining their social license to operate and to demonstrating that they are contributing to the long term development of communities and regions. Some companies are now also seeing the business benefits that can flow from increasing local content, such as lower logistics and labour costs.

While the value of supporting local business development is increasingly being acknowledged, in practice it can often be difficult to bridge the gap between the capacity of local community small-to-medium enterprises (SMEs) and the often rigid contract requirements of major resource companies. This Good Practice Guide is designed to assist companies to overcome these barriers and more effectively integrate local SMEs into corporate supply chains. The Guide provides a range of tools and examples that resource companies can use to inform decisions about local supplier involvement, and implement these within the unique Australian context. As well as presenting Australian case studies and examples, it draws on procurement practices of companies in the mining, oil and gas sectors from all over the world, particularly emerging economies that demonstrate some similarities with remote Australia.

WHO WILL BENEFIT FROM THIS GUIDE?

This Guide is aimed primarily at corporate professionals working in the Australian resources sector in procurement/supply chain, community relations and contract management roles. The Guide speaks to all of these roles and it is our contention that successful implementation of a local procurement policy requires commitment and alignment across a broad range of functions, including: those who make the decisions on contract strategy, those who administer the tender process, end-users who are managing the contracts, major contractors responsible for managing smaller contracts and staff tasked with building relationships with the community.

Reflecting the remote location of any resource developments in Australia, there is a particular focus on rural and remote areas and Indigenous communities. However, the principles and practices discussed here are equally applicable to more settled areas.

WHAT DO WE MEAN BY A 'LOCAL BUSINESS'?

Throughout the Guide, we use the term 'local' to refer to those communities which are adjacent to, or impacted by, a company's operations. Under this definition, the area is generally narrower than the State or Territory in which the project is located, although it can cover multiple Local Government Areas (for example, the Bowen Basin in central Queensland, or the Pilbara region in Western Australia).

The issue of what constitutes a 'local business' has been the subject of considerable debate over the years. In some usages the term is equated with 'locally owned', whereas at the other extreme, it is sometimes used simply to describe any business that maintains a permanent operational office within a given area.

The position that we take in this Guide is that ownership is not the critical factor; rather, the key question to ask is whether a business contributes to building local economic capacity. A company that maintains a local branch office which is simply a conduit for bringing in goods and services from outside the region is not having this impact. On the other hand, a foreign-owned firm entering a consortium or taking ownership positions in local firms can be making an important contribution to local economic capacity. What form of local arrangement makes sense in a particular case will depend on the context, the nature of the business opportunities that are generated, local capacity and the aspirations of communities and host governments.

STRUCTURE FOR THIS GUIDE

The approach taken in this Guide is based on four key principles:

- 01** A sound, effective local procurement strategy requires appropriate analysis and systems.
- 02** A company's procurement activities should aim to contribute to a healthy local economic environment.
- 03** Local business participation needs to be supported rather than hindered by procurement practices.
- 04** The ultimate aim should be for local businesses to compete on an equal footing with other providers.

The Guide identifies six key activities that need to be undertaken to give effect to these principles (Figure 1).

For ease of presentation, these activities are shown here as being sequential; in practice, however, the process is likely to be considerably more complex. For example, building the internal capacity of the company and the capacity of local SMEs should occur more or less in parallel with the specific tasks of identifying opportunities and planning and managing contracts. Ideally, the process is also iterative, with feedback from monitoring and evaluation informing the subsequent development and application of the strategy.

**FIGURE 1:
DEVELOPING AND IMPLEMENTING A LOCAL
PROCUREMENT STRATEGY**





There is growing interest in the mining, oil and gas industries in enhancing the opportunities for locally-based businesses to participate in resource projects.

This Guide is structured around a series of questions relating to each of the activities depicted in Figure 1. For each question, we present good practice examples and identify relevant tools that can assist companies to deal with the issues and challenges that are identified.

01. Develop a local procurement strategy	<p>Why is local SME participation important and how will it create value for our business?</p> <p>What is our preliminary assessment of the barriers to local SME participation?</p> <p>How should we relate our strategy to the project life cycle?</p>
02. Build internal capacity to deliver the Strategy	<p>How are we currently managing procurement?</p> <p>What do we need in order to deliver our strategy for local procurement?</p>
03. Identify opportunities	<p>How do we identify the opportunities within the business?</p> <p>How do we find out if the local community is willing and able to take up the opportunities?</p> <p>How can we assess the capacity of local SMEs to successfully perform contracts?</p> <p>How should we work with Traditional Owner groups in identifying business opportunities?</p> <p>What if there are no, or few, local businesses to work with?</p> <p>How can we help SMEs gain access to finance?</p> <p>What is involved in setting up a cluster?</p> <p>Where can we go for assistance?</p>
04. Establish and manage contracts	<p>How do we ensure that opportunities are accessible to local SMEs?</p> <p>How do we communicate the opportunities and provide support in tender preparation?</p> <p>How should we structure the decision-making process for awarding contracts?</p> <p>Should we be reserving contracts for local businesses?</p> <p>How do we ensure our larger contractors are aligned?</p>
05. Grow local SME capacity	<p>How do we build the capacity of local suppliers to meet contract specifications and improve their businesses?</p> <p>How do we establish the training and development needs of local suppliers?</p> <p>How do we motivate and support local suppliers?</p> <p>What should we do internally, and where should we partner?</p>
06. Monitor and evaluate	<p>How do we know if our Local Procurement Strategy is being effective?</p>

01 DEVELOP A LOCAL PROCUREMENT STRATEGY



WHY IS LOCAL SME PARTICIPATION IMPORTANT AND HOW WILL IT CREATE VALUE FOR OUR BUSINESS?

The business case for local community procurement practice in the mining, oil and gas sectors has evolved over time and in many different operating environments throughout the world. Most companies leading in this area were initially driven by formalised commitments; either to a host government, an investment partner, or an Indigenous community. Compliance was deemed necessary in order to secure access to resources. Over time, however, these companies have become increasingly motivated by the desire to establish and maintain enduring partnerships with local suppliers in order to build supply chain value and strengthen their social licence to operate.

The potential business drivers for procuring from local SMEs are numerous, but the most commonly cited reasons include: cost and risk reduction, access to resources/social license to operate, compliance and opportunities for increased revenue (Figure 2). The extent to which each driver applies will depend on a number of factors, such as corporate-level strategy, project life cycle stage, the extent to which the opportunities are mission-critical, and the socio-economic, political and regulatory context. Section 4 in this Guide, 'Establish and Manage Contracts' includes a decision matrix that may be used to identify tolerable levels of risk weighed up against the benefits of selecting a local supplier.

**FIGURE 2:
POTENTIAL BENEFITS OF LOCAL SME PROCUREMENT**

REDUCED COSTS/INCREASED SUPPLY CHAIN EFFICIENCIES

- ▶ Reduced logistic costs, such as the cost of transporting people and equipment
- ▶ Reduced labour costs
- ▶ Continuous improvement of service provided to the company

REDUCED RISK

- ▶ Reduced risk of operating stoppages
- ▶ Reduced community dependency post-closure by increasing supplier competitiveness , building capacity within other sectors and diversifying the customer base of local suppliers
- ▶ Reliable access to critical supply

ACCESS TO RESOURCE/SOCIAL LICENSE

- ▶ Greater ability to meet high and increasing expectations amongst affected communities for opportunities to participate in economic benefits
- ▶ Strengthened relationships with local communities by demonstrating a positive impact in local economy
- ▶ Strengthened relationships with host governments, a key reputation factor in resource developments

COMPLIANCE

- ▶ Compliance with terms in agreements, between the operator and major contractors, the operator and communities, and the operator with governments

INCREASED REVENUE

- ▶ A key driver for major contractors to procure locally lies with the development of new business with mining, oil and gas clients
-

The social responsibility or ‘obligation’ of mining companies cuts across the benefit categories in Figure 2. The case studies of advanced firms in this guide demonstrate that the working principle that these companies have put into practice is the idea of ‘Doing well by doing good’.

In the mining industry, as in a host of other sectors, one key factor distinguishes those initiatives that are transitory or a fad, from those that are lasting and deliver sustainable value to a range of stakeholders: the creation of business value for the major players who invest in these initiatives.

Hence we argue that the motivation for actively engaging with local SMEs need not and indeed should not be a sense of charity or philanthropy, but should come from a sense of ‘doing good business’.

By pursuing certain practices such as co-creation and support of local SMEs, there is a long term benefit for the mining organisation that is making the company an investment. These benefits are summarised in Figure 2, and can lead to lasting and more effective company strategies.

This notion of win-win, and of 'doing well by doing good', can become a driving philosophy, and in a very practical sense, lay the groundwork for simultaneous local business and community benefits, with a productive and profitable outcome for the miner. It can lead to stronger stakeholder support and higher levels of cost efficiency for the miner, and deliver wealth, jobs and other benefits to the community.

In some jurisdictions, minimum compliance requirements are in place for mining companies in terms of discharging social or other local obligations, yet we see in the leading firms a commitment that extends significantly further, and which seeks mutual benefits through a deeper set of local business and community relationships. These can take the form of local supply relationships, including the facilitation of local business start-ups. In some cases, this extends to providing training, seed funding or even equity or co-investment in local businesses and activities which supply services to the mining operation. One example is of an indigenous qualified electrician in Australia who, with the help of a local mining company has built an electrical contracting business and supplies services to the mine and other local customers. Many similar examples exist.

Such activities provide the mining company with another category of benefit, that of being acknowledged as a positive social force and responsible citizen by the local community and government authorities, which makes all forms of subsequent relationships, such as future applications for leases, more positive.

In these circumstances, being proactive with respect to local suppliers can best be considered as a business strategy and an opportunity to create competitive advantage. The most advanced mining companies have achieved business advantages from these actions.

WHAT IS OUR PRELIMINARY ASSESSMENT OF THE BARRIERS TO LOCAL SME PARTICIPATION?

Supply Chain Management (SCM) usually refers to the flows of goods and services, information and money between inter-related partners. SCM recognises the importance of coordination and control across firms that are working together to supply a set of goods or services.

Companies implement SCM to:

- ▶ reduce transaction, transport, storage and coordination costs
- ▶ remove market inefficiencies
- ▶ lower uncertainties about costs and prices, and
- ▶ increase the potential for innovation.

In the mining, oil and gas sectors there is considerable scope for companies to develop supply chain partners in local communities. However, it is important to take into account the large differences between the operational mindset of SMEs and large companies. For example, SMEs tend to place greater emphasis on quality and service differentiation and innovation; they are more opportunistic; more cash-focused; and more oriented towards short-term decision making. Their comparative weaknesses are their fewer products, customers and lower volume; higher capital and transaction costs, more reactive nature, weaker marketing skills, limited resources, higher dependence on the CEO, and greater vulnerability. Effective SCM can increase supply reliability, responsiveness and flexibility to change. What is primarily at issue is whether SMEs in local communities can jump the hurdles presented by SCM policies, and, more particularly, the procurement practices of large companies.

SMEs can face significant barriers to participating in procurement opportunities. In developing a strategy, it is important to consider the barriers that can be disincentives to participation, and which tend to place SMEs in a weaker bargaining position:

- ▶ ***The information gap between small and very large companies*** e.g. lack of awareness of tendering opportunities, information on opportunities being provided too late to allow for clustering, joint ventures or investing in the necessary equipment and upgrading, and lack of company knowledge of what services and skills local businesses can provide.
- ▶ ***Lack of capacity in many small enterprises.***
A common perception is that SMEs in remote locations often lack resources to prepare quality capability statements; lack experience in writing business plans and are unable to access the finance needed to upgrade their systems or to update their safety procedures to meet industry standards. Nor do they necessarily have access to advice on how to run a small business, or to mentoring and support. As a result, when opportunities are made available, these tend to be small-scale, short-term contracts that do not give small businesses the space to expand their level of knowledge and skills. Local businesses can get caught in a vicious cycle where they lack the capacity to win work, and are denied the opportunity to develop the necessary skills that would improve this capacity.
- ▶ ***The complex procedures*** and costs associated with prequalification often prove to be an impenetrable barrier for small businesses. Companies cannot become preferred suppliers unless they complete the prequalification process successfully, and prequalification is based primarily around the assessment of cost and risk. The standards set during this process are high and often difficult for small businesses to meet.

- ▶ ***Barriers arising from corporate policies and systems.*** For example, there has been a shift in the industry towards low cost country sourcing and reducing the number of suppliers in order to reduce risk exposure, drive down costs and increase the competitiveness of companies in international markets. The ease of dealing with fewer suppliers and a desire to align organisational cultures also means that companies often prefer to bundle a range of smaller contracts into one large contract. With cost reduction and heightened awareness of safety risks as key corporate drivers, the procurement functions in mining, oil and gas companies have become progressively more centralised, distancing decision-making from the local level.

A common procurement practice is to 'bundle' a number of smaller contracts into larger ones. From a manager's perspective, there is a preference for suppliers who can provide a range of services because it limits the number of contractors they have to deal with. This practice often excludes small-scale businesses that are capable of fulfilling certain aspects of the contract, but unable to satisfy the requirements of the whole contract.

In cases where companies have expressed a commitment to supporting local businesses, coordinating the activities and commitments of different parts of the company can also be a challenge. The procurement function presents a range of opportunities for companies who are committed to capacity building in local communities. However, it is often the case that there is little engagement between procurement decision makers and local communities, and cooperation between supply chain managers and community relations practitioners.

- ▶ ***Use of Engineering, Procurement and Construction (EPC) or Engineering, Procurement and Construction Management (EPCM) contractors.***
From the perspective of local enterprises and SME network organisations, the issue with these types of arrangements is that they tend to reduce the level of owner engagement with local businesses. The project owner and large contractors are seen to prefer to work with suppliers they have worked with before in order to minimise project risk.

HOW SHOULD WE RELATE OUR STRATEGY TO THE PROJECT LIFE CYCLE?

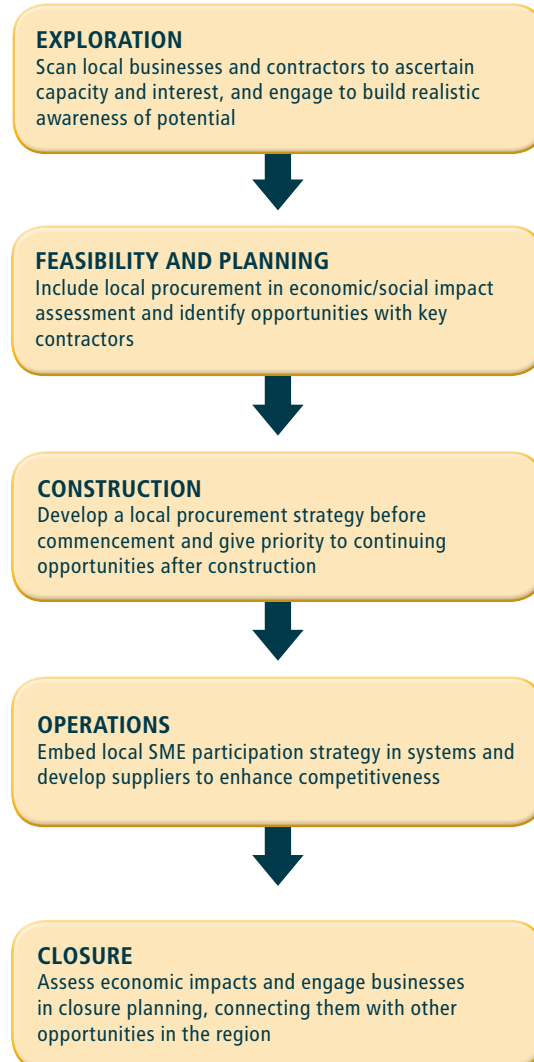
A Local Procurement Policy and Strategy should guide procurement decisions as early as possible in the project life cycle, with at least a five year planning window. The policy statement expresses the company's commitment to contributing to the economic development of local communities by sourcing goods and services from local businesses, addressing the gaps in local capability, and building suppliers' competitiveness in order to meet global standards and qualify for contracts with the operator and other clients. A range of specific objectives to be achieved should also be included, such as:

- ▶ developing SMEs to match the willingness and capacity for change in local communities
- ▶ integrating SMEs within the supply chain
- ▶ identifying missing links in the value chain and prioritising these in attracting new businesses to the area
- ▶ facilitating local SME ventures, anticipating future changes in the company's demand for goods and services
- ▶ creating an enabling environment for enterprise development by promoting collaboration between the local business community, government and development agencies.

The weight placed on these different objectives will change according to the project life cycle stage.

The remainder of this section outlines what good practice looks like for resource companies seeking to generate opportunities for local SME involvement at each stage of the project life cycle.

FIGURE 3: SME OPPORTUNITIES AT EACH STAGE OF THE PROJECT LIFECYCLE



EXPLORATION

Exploration usually represents the first contact between company and community. How interactions with affected communities are managed can be critical for shaping future relations. There is generally a low level of environmental and social impact relative to other project stages, but these impacts can still be significant in the local context. Importantly, community attitudes toward exploration are shaped not only by the impacts of the exploration activities themselves, but also by people's expectations, hopes, concerns and fears about the potential for exploration to lead to development.

Exploration involves a low level of 'on-the-ground' capital investment relative to the construction and operation stages of a new project. However, it can still generate opportunities for local businesses, particularly where there is intensive resource mapping and drilling activity in a region. These opportunities may include: provision of camp services (cleaning, catering, etc), accommodation facilities, vehicle and equipment maintenance, fuel and food purchases, minor earthworks, fencing, operation of drilling rigs, cultural heritage and archaeological surveys and rehabilitation of disturbed areas.

Where there is existing local business capability, it may also be cheaper for companies undertaking exploration to purchase goods and services locally, rather than bring in outside firms. From a community relations perspective, supporting local businesses at an early stage may also make it easier to secure and maintain community support when, and if, a project ramps up. On the other hand, time and resource constraints mean that there is likely to be only limited scope for companies to build local capacity during this phase, unless there is an ongoing regional exploration program. Expectation management is also important, given that most projects do not progress beyond the exploration phase. In particular, companies need to take care not to create situations where local businesses become overly dependent on short-term exploration projects (for example, by investing in expensive specialist equipment to service the requirements of one project).



TIP: EXPLORATION PHASE

- ▶ **Identify at the outset** work and services that potentially could be tendered out to local businesses.
- ▶ **Conduct a scan of local businesses and contractors** to ascertain what capacity exists to undertake this work.
- ▶ **Engage with these businesses** to ascertain their interest and capability.
- ▶ **Ensure that these businesses are aware of the expected duration** of the exploration program and have a realistic understanding of the scale and likelihood of longer term business opportunities.

FEASIBILITY AND PLANNING/FRONT END ENGINEERING DESIGN (FEED)

The feasibility and planning stages that follow initial exploration can be quite drawn out. There is often a lull in on-site activity, with the focus being primarily on off-site activities such as business and technical evaluation, detailed project design and planning, and securing regulatory approvals. The time that it takes to do all of this, and the related uncertainty about whether the project will go ahead, can have an unsettling effect on communities. Expectation management is particularly important in this context, given that delays are common and more projects are scrapped at this stage than actually proceed. However, once a project has been given the external and internal go-ahead, the level of on-the-ground activity can accelerate very rapidly.

While there may be few direct opportunities for local businesses during this period, what companies do – or don't do – at the planning stage can be critical in shaping opportunities over the longer term. This is the time when construction and operational specifications are written and contracts drafted and put out to tender. How this is done can either facilitate or hinder the later involvement of local SMEs. For example, are local suppliers invited to tender for work? Do the head contracts with engineering firms and construction companies have a local content specification?

Likewise, the details of land use agreements are typically negotiated during this period. Increasingly, traditional owner groups in Australia are seeking commitments from resource companies to provide employment and business development opportunities; how companies respond to these demands will shape future expectations and obligations in relation to support for Indigenous enterprises.

TIP: FEASIBILITY AND PLANNING PHASE

- ▶ **Ensure that a comprehensive local business survey and economic analysis is undertaken as part of the Impact assessment process.**

The survey should identify what businesses exist in the area and the range of goods and services that they currently provide, or have the potential to provide. Possible positive and negative impacts of the project on these businesses should also be considered (for example, could businesses be depleted of key personnel?) and appropriate management strategies developed.

- ▶ **As projects are being planned and designed, identify upcoming opportunities that might be created in the construction and operational stages** for local businesses and ensure that they are notified of these opportunities. Also ensure that interested local businesses are aware of company pre-qualification requirements and offer them assistance in meeting these requirements, where eligibility may be an issue.
- ▶ **Review key contracts prior to finalisation** to ascertain what obligations, if any, are placed on contractors to facilitate sub-contracting opportunities for local enterprises. This could include making it a requirement of a major tender that a contractor has a local procurement strategy.
- ▶ **As project teams are being set up, build in linkages between procurement and community relations personnel.**

CASE STUDY: SHELL NIGERIA

Shell Nigeria is an example of a company that commences project planning (using a five year project planning window) with a gap analysis to identify a project's capacity and capability requirements in relation to the services and skills available in local communities. The time frame allows the company to put plans in place for the development of local capacity for work that can be done in country through training and business development. The Local Content team is involved at the conceptual planning and the FEED phase of projects, to ensure that local requirements are considered throughout the project life cycle. The Local Content Plan is owned by the entire project team. The Community Content Plan (which is a drill down of the Local Content plan) sits within this, and becomes part of the internal project approvals process. Local Content plans are reviewed and approved at various decision points.

CONSTRUCTION

The construction phase is usually the shortest of the mining lifecycle and is characterised by significant and rapid change. Capital expenditure is greatest during this period, as are labour inputs. In a mining project, the size of the construction workforce can be 4-5 times that of the operational workforce. In oil and gas developments, the ratio may be even higher. Depending on where the project is located, the impacts of construction activity on local communities can be very significant, including: rapid population growth, pressure on the local housing market, increased demand for local products and services and labour shortages, particularly in skilled trades. Conversely, the wind-down of activity at the end of the construction phase can have a deflationary impact and can put some local businesses at risk if they have become overly reliant on income from the project.

A large-scale construction project typically generates a myriad of contracting opportunities. Many of these are likely to be taken up by specialist firms operating out of capital cities or large regional centres. However, there will often be opportunities for local SMEs in areas such as small-scale earth works, site services (e.g. cleaning of offices and accommodation facilities, building maintenance), vehicle and equipment maintenance, fencing, fuel supply, provision of security and ground transport. Land-based oil and gas projects will also generate 'moving'

opportunities around pipeline construction (e.g. land clearing, maintenance, camp services).

As construction projects are typically managed by big construction and engineering contractors, through Engineering, Procurement and Construction (EPC) contracts, the ability of local businesses to access these opportunities will often be more dependent on the policies and practices of major contractors than on the resource companies themselves. For this reason, resource companies need to liaise with these contractors and ensure that the issue of local procurement is addressed in EPC contracts where practical (see 'how do we ensure our larger contractors are aligned?' page 47-48 for further discussion of this aspect),

TIP: CONSTRUCTION PHASE

- ▶ **Ensure that a local procurement strategy is developed prior to the commencement of construction** and that company expectations and requirements are written into major contracts. By the time construction is under way, most of the contracts and sub-contracts will already have been issued.
- ▶ **Give priority to facilitating opportunities for local businesses that will continue** (after the project transitions from construction to operation). This is more likely to result in long-term benefits for a local economy.

OPERATIONS

The most significant opportunities for local SME participation will normally arise during the operations phase. Depending on the type and scale of the project and external economic conditions, the length of this phase can be anywhere from 10 – 50 years. The extended nature of the operational phase enables longer-term contractual arrangements to be put in place, allows for more certainty, and can provide the space – and incentive – to build capacity in the local SME sector.

The scale and range of opportunities for local participation will vary according to the type of operation and the maturity of the SME sector. Based on Australian experience, these opportunities can include: maintenance of plant and equipment, earth moving, crushing, road maintenance, cleaning, catering, provision of fuel and other supplies, security, labour hire, gardening, waste management, environmental rehabilitation and laundry services. For mining projects, opportunities are likely to be concentrated in a specific geographical area. In the case of land-based oil and gas projects, opportunities will generally be dispersed over a broader area. For example, there may be some opportunities at the point of extraction (e.g. maintenance, road construction, environmental services) as well as in and around the processing plant.

TIP: OPERATIONS PHASE

- ▶ Have a **local SME participation policy and strategy** in place and embedded into management processes.
- ▶ **Conduct a business analysis** at periodic intervals to ascertain what goods and services could potentially be supplied locally.
- ▶ **Engage with local SMEs** and ensure that they are notified in advance of tendering opportunities.
- ▶ **Work with local companies** to assist them to comply with the resource company's tendering requirements and health and safety and environmental management systems.
- ▶ **Facilitate networking among local SMEs**, such as through the promotion of supplier clusters.

CLOSURE

Closure and relinquishment of a lease usually occurs over an extended period. In the case of mining, in particular, the processes of decommissioning, rehabilitation and pre-relinquishment monitoring can mean a company presence for quite a lengthy period of time following the cessation of extractive activity.

For responsible resource companies, the primary focus prior to, and leading up to closure needs to be on assisting SMEs to diversify (where practical) in order to reduce their dependence on the operation and remain viable beyond closure. However, there may also be some opportunities for local SMEs around facilitating closure and relinquishment, such as rehabilitation work (e.g. gathering seeds; growing, planting and tending trees) and ongoing environmental monitoring.

CLOSURE PHASE

- ▶ **Incorporate consideration of local economic impacts and possible mitigation strategies** into the closure planning process.
- ▶ Ensure that local SMEs, in particular, are given **as much notice as possible of closure timeframes** and are kept informed of any changes to this timetable.
- ▶ **Notify local SMEs of other business opportunities** that might be emerging in the region or sector and encourage diversification where practical (for example, by linking an earth moving contractor to a road construction authority or local council).

A LIFE-OF-PROJECT APPROACH

As an overarching strategy, a supply and demand analysis over time should also be conducted (as described in Step 3 of this Guide, 'Plan the Contracts'). This allows a company to see what level of ongoing SME engagement is possible, and in so doing, avoid a boom/bust cycle particularly around construction. Importantly, companies should also cast a wider look beyond their own needs, factoring in other local companies or government services. Alternative demand sources may pick up some of the slack when the company itself moves into a new phase and a new level of demand. Some companies who are committed to local procurement, and see it as a core business strategy and source of competitive advantage, have taken bold measures.

CASE STUDY: TOTAL INDONESIA

Total Indonesia has implemented the following measures to boost local content:

- ▶ The Health, Safety and Environment (HSE) Management System has an 'acceptable level' to accommodate local suppliers
- ▶ Adapting the design of their investment to increase the opportunities for local content, for example on-site fabrication of the on-shore installation instead of modules
- ▶ Sponsoring the creation of the Indonesian Welding Society and facilitating a partnership with the French counterpart society
- ▶ Considering total life-of-contract cost rather than single point-in-time contract cost, ensuring procurement decisions take into account the cost-benefit over time of sourcing from a local firm against an international firm.



02 BUILD INTERNAL CAPACITY TO DELIVER A LOCAL PROCUREMENT STRATEGY



Companies that are committed to increasing opportunities for SMEs and building local economic capacity have to be prepared to invest in building internal systems and processes that can deliver these outcomes. Changing the focus so that increased local economic participation becomes a core business objective, rather than simply 'nice-to-have' requires tackling entrenched business processes, organisational cultures and reward systems. Strong leadership, adequate resourcing and perseverance are all needed if companies are to overcome these barriers.

WHAT DO WE NEED TO DO IN ORDER TO DELIVER OUR STRATEGY FOR LOCAL PROCUREMENT?

Specific steps that companies can take to build their internal capacity include:

- ▶ developing and rolling-out a clear corporate policy position on local procurement and economic development, underpinned by detailed guidelines and standards (including tender selection criteria)
- ▶ ensuring that key actors in the process (e.g. procurement officers, major contractors) are aware of the policy and standards
- ▶ monitoring and evaluating performance against these standards
- ▶ requiring operations to review existing procurement practices, identify areas for improvement and implement corrective strategies
- ▶ reviewing position descriptions, accountabilities and KPIs to ensure that they encourage behaviour consistent with the company's policy objectives
- ▶ establishing internal mechanisms (e.g. liaison committees) to facilitate alignment across different functional areas
- ▶ empowering key personnel to act as champions/process owners
- ▶ investing in the development of capable and committed staff (through, for example, training, networking, sharing of good practice and recruitment of local procurement coordinators).

Maturity charts are useful tools for companies to assess how far they have progressed down the pathway of implementation and to identify areas where systems and processes are deficient. In the resource sector context, maturity charts have primarily been used to assess performance in relation to occupational health and safety, but the same approach is readily applicable to other areas, including local procurement and economic development.

Table 1 contains a relatively simple Organisational Maturity Chart, developed for this guide. The chart has been designed for use as a self-assessment tool, to assist companies and operations see how they compare with best practice, and to identify opportunities for improvement and track progress over time.

There are five levels of 'maturity' shown in the chart, ranging from 1 (disengaged) through to 5 (leading) practice. These levels are linked to eight 'aspects' that refer to different dimensions of organisational performance: leadership, policy and standards, planning and management; internal capability and commitment, contractor relationships, engagement with local businesses, monitoring and evaluation, and reporting. Each cell in the table contains some descriptors which can be used to determine where a company (or operation) sits, in terms of the maturity of its systems.

Companies that are committed to providing more opportunities for local SMEs will generally be at level 3 or better and striving for level 4. Level 5 embodies what, in our view, would represent leading practice in this area. At this stage in the evolution of the industry, this remains largely an aspiration, a 'stretch goal' rather than reflecting actual practice in the sector.

CASE STUDY: CAMECO, SASKATCHEWAN, CANADA

Cameco is a uranium producer with a presence in North America. For its operations in northern Saskatchewan, Canada, the company developed a policy statement and target for 35% of all goods and services to be sourced from northern-based Aboriginal-owned businesses. Aboriginal-owned businesses are defined as businesses at least 50% owned by Aboriginal people originating from traditional areas, and with at least 50% Aboriginal managers and employees.

Cameco has employed a business specialist to assist communities in establishing businesses and to access financial resources or a business partner. The business specialist reports to the Community Relations department, although the position is funded out of the budget of the Supply Chain Management Vice-President. This arrangement has facilitated ongoing communications between community relations and operations functions, with the business specialist working closely with operations staff to identify opportunities. Workshops are conducted to communicate upcoming contract opportunities within the business, and to provide guidance as to how to go about becoming a Cameco supplier.





CASE STUDY: RIO TINTO IRON ORE, PILBARA, WESTERN AUSTRALIA

Rio Tinto Iron Ore's Aboriginal procurement strategy reflects a commitment to an agreed set of targets that form part of the Agreements between Aboriginal people and Rio Tinto. In 2008, the company commissioned an independent inquiry to identify systemic blockages to Aboriginal business procurement and make recommendation to increase Aboriginal involvement in the supply chain. One of the changes being implemented as a result of this enquiry is a system to track progress through joint reporting by the procurement and community relations divisions on Aboriginal business spend, using the 'Lean' monthly reporting system. The metrics for this system are built into management incentive and reward programs.

Structural changes to the procurement function have also been implemented. For example, in planning for a new project, the projects team works with the community team to identify opportunities for Aboriginal businesses, and ensure Aboriginal businesses are invited to tender.





**TABLE 1:
ORGANISATIONAL MATURITY CHART**

ASPECT	ORGANISATIONAL MATURITY CHART				
	1 – Disengaged	2 – Basic	3 – Compliant	4 – Committed	5 – Leading
LEADERSHIP	<p>The company has not made any public commitments to facilitate local procurement and economic development.</p>	<p>The company has made some public statements about promoting local procurement (e.g. on the corporate website and in publicity materials). However, the messaging from senior management focuses on cost control and maximising production.</p>	<p>Senior management periodically communicate to internal and external audiences that the company is committed to supporting local businesses.</p> <p>No direction is provided to sites and procurement personnel about how to deal with the potential tension between promoting local procurement and minimising costs.</p>	<p>The company's Annual Report affirms its commitment to improving local procurement outcomes and reports on performance in relation to this goal.</p> <p>Senior management endorse policies and change initiatives.</p> <p>The company participates in industry and multi-stakeholder initiatives to build capacity amongst local businesses.</p> <p>A senior manager is designated as the process owner/ champion.</p>	<p>Senior management at corporate and site level are actively involved in driving organisational improvement initiatives to increase local economic content and capacity.</p> <p>Senior management consistently communicate a message that facilitating local economic development is a higher priority than short term cost minimisation.</p> <p>The company leads cross-company and multi-stakeholder initiatives.</p>
POLICY AND STANDARDS	<p>There is no corporate policy relating directly or indirectly to local procurement.</p>	<p>The company has a local procurement policy, but this is couched in general terms only.</p> <p>There are no processes in place for monitoring internal compliance with the policy or for reporting on performance against the policy.</p>	<p>The company's local procurement policy is supported by some guidelines and standards, but these are mostly discretionary.</p> <p>The policy refers to Agreement commitments (if applicable).</p> <p>The policy is accessible to external parties (e.g. searchable on the web).</p> <p>Relevant personnel in the organisation are aware of the policy and standards, but do not feel bound by them.</p>	<p>Standards are mandatory and clearly define processes for operational personnel to follow.</p> <p>Tendering criteria include an explicit weighting for local businesses.</p> <p>The policy and standards are actively promoted in the workplace (including, for example, requiring relevant personnel to attend information sessions).</p> <p>The policy is publicly displayed at company offices and sites and proactively communicated to local businesses.</p>	<p>There is clear evidence of the policy underpinning company leadership decisions in Planning, Monitoring and Review, and Recognition and Reward activities.</p>

TABLE 1:
ORGANISATIONAL MATURITY CHART (cont.)

ASPECT	ORGANISATIONAL MATURITY CHART				
	1 – Disengaged	2 – Basic	3 – Compliant	4 – Committed	5 – Leading
PLANNING AND MANAGEMENT	<p>There are no organisational systems or processes in place to enable or promote local procurement.</p> <p>Tendering criteria make no provision for preferencing local businesses.</p> <p>There is no monitoring of site performance in relation to local procurement.</p>	<p>Opportunities for local business involvement emerge in an ad hoc fashion, rather than being planned; there is no consistency in performance across sites.</p> <p>No system in place for weighting local businesses in the tendering process.</p> <p>No formalised internal reporting requirements.</p> <p>The company collects case studies for promotional purposes, but not systematic monitoring.</p>	<p>Tendering criteria specify that consideration should be given to whether a business is local, but there is no formal weighting.</p> <p>Sites are required to report internally on local spend, but there is no requirement to show improved outcomes over time.</p> <p>Sites are required to show that they have a local procurement policy, but its effectiveness is not assessed.</p>	<p>Sites have detailed plans in place for promoting local participation. These plans are monitored and updated regularly.</p> <p>Performance targets are set and there are clear expectations that they will be complied with.</p> <p>Periodic internal assessments are conducted of compliance with policy and standards relating to local procurement.</p>	<p>Plans are linked to broader strategies to promote sustainable economic development in communities.</p>
INTERNAL CAPABILITY AND COMMITMENT	<p>There is no apparent interest in increasing local economic participation.</p>	<p>Some individuals in the company have an interest in strengthening links with local businesses, but no organisation capability.</p> <p>No corporate commitment to building capacity.</p>	<p>One or more individuals at corporate or business unit level are assigned responsibility for promoting uptake of local procurement policies.</p> <p>Most personnel in contracting and procurement continue with 'business as usual'.</p>	<p>There are competent personnel within each operation with assigned responsibility for facilitating supply chain linkages with local businesses.</p> <p>There is sharing of good practice within the company.</p> <p>The Company actively encourages/supports staff to attend career development/up-skilling courses relevant to the area.</p>	<p>Accountabilities for all relevant roles – such as procurement and contracting, Community Relations and line leadership – are documented and signed off by senior management.</p> <p>Key personnel in procurement and contracting see facilitating local economic participation as a core part of their role.</p> <p>Cross-functional teams are used to drive implementation.</p>

ASPECT	ORGANISATIONAL MATURITY CHART				
	1 – Disengaged	2 – Basic	3 – Compliant	4 – Committed	5 – Leading
RELATIONSHIPS WITH MAJOR CONTRACTORS	There are no expectations placed on major contractors that they will procure locally.	Contractors are 'encouraged' to procure locally, but there are no processes in place to enforce this.	Generalised requirements to procure locally are written into major contracts (e.g. 'where possible', 'best endeavours').	Evaluation of tenders for major contracts includes an assessment of the tenderer's management systems and track record on local procurement. Contracts include specific performance criteria. Performance of major contractors is monitored against these criteria.	The company works actively with its major contractors to identify opportunities for local businesses, develop networks and build capacity (e.g. by enabling joint ventures).
ENGAGEMENT WITH LOCAL BUSINESSES	None	Ad hoc, informal contact.	Some engagement with local business and other stakeholders to ascertain level of interest in tendering for work. Local businesses are informed about pre-qualification requirements for tendering. Local businesses are notified when tendering opportunities arise and encouraged to apply.	The company has programs in place to assist local businesses to pre-qualify (e.g. by assisting to develop an OH and S policy) and to become more competitive. The company participates actively in local business networks and liaison groups.	The company works with local businesses, other industry and key agencies to help build general business capacity in the community and create new economic opportunities that are not dependent on the resource project (for example, by supporting the development of business clusters)
MONITORING AND EVALUATION	None	None, other than ad hoc collection of anecdotal data.	Some basic data are collected and reported (e.g. local procurement spend, number of tenders submitted by local businesses, etc.)	Systems in place to track whether action plans have been implemented. Use of indicators to measure sustainability, capacity and competitiveness of local businesses, as well as the volume of local business generated.	Periodic comprehensive evaluations are undertaken of the effectiveness of strategies for promoting local economic development (including local procurement practices).
REPORTING	No public reporting on performance	No reporting, other than occasional case studies designed to show the operation in a good light.	Basic quantitative data presented, along with a description of corporate policies and processes, but little or no data on outcomes	Public reporting by the company on performance against targets and trends over time	External assessments of site performance are externally verified and publicly reported.

03 IDENTIFY OPPORTUNITIES



HOW DO WE IDENTIFY THE OPPORTUNITIES WITHIN OUR BUSINESS?

Evaluating opportunities for investment in local capability development usually starts with a prospective demand analysis. This involves identifying supplier opportunities within the company over a stated time horizon (18 months to five years); an assessment of the capability requirements for each opportunity; and a rigorous cost-benefit analysis of local sourcing against regional or international content.

As a general rule, companies should start small, with simple and small contracts and progressively build up towards more complex contracts. A useful example is the ExxonMobil – owned Esso Exploration and Production, Chad. The company partnered with the International Finance Corporation (IFC) to develop local suppliers for the Chad-Cameroon Oil Development and Pipeline Project. Before the supplier development program began, all possible procurement opportunities were segmented according to their level of difficulty and a star rating system for the SMEs was developed. This was used to build a list of business segments and the corresponding rating required by a SME to become a supplier for that business segment.

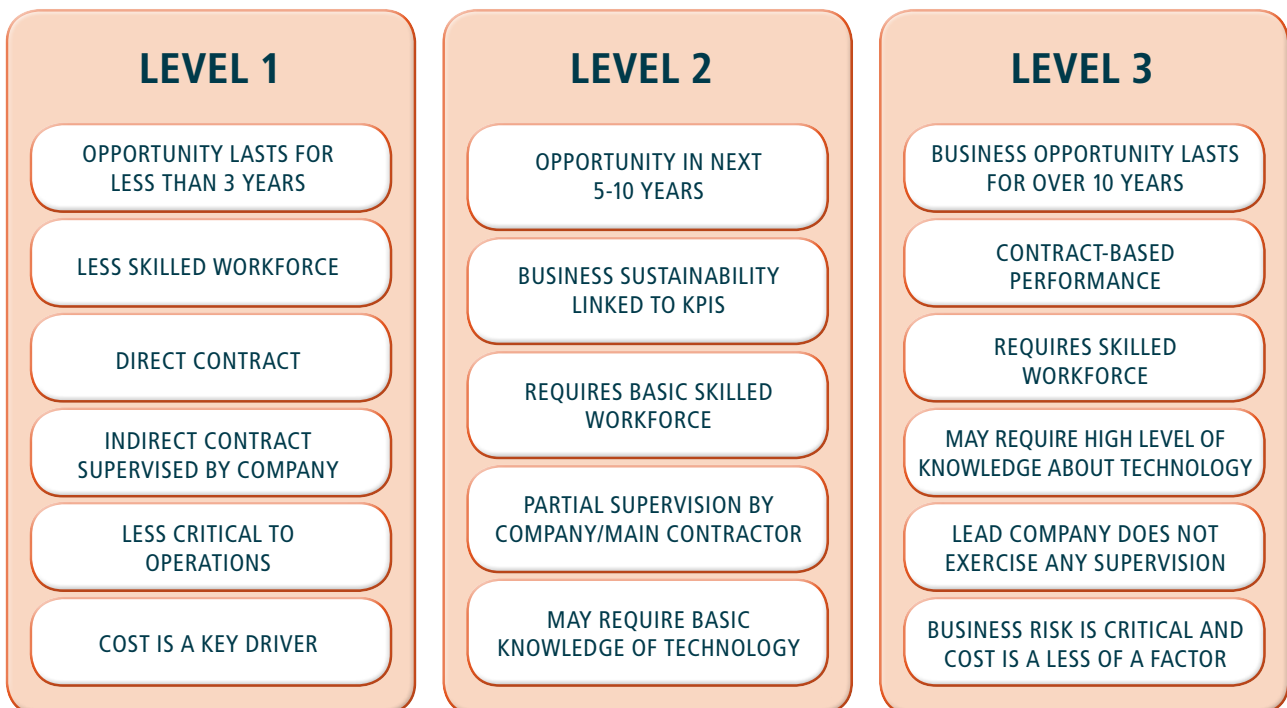
This approach ensures that only qualified suppliers make it to the bidding stage. It also provides a transparent and merit-based system for the awarding of contracts, and provides the SME with a development path to improve its rating. From the identification of common gaps in SME capacity, training modules are then developed to address these gaps.



As a general rule, companies should start small, with simple and small contracts and progressively build up towards more complex contracts.

ExxonMobil's segmentation of opportunities is slightly different. Business segments are divided into three levels, with various qualifications specified. Level 1 is the lowest and Level 3 is the highest. Level I activities can be done by an SME with at least 1 star, Level II activities can be undertaken by an SME with at least 2 stars, etc (Figure 4).

**FIGURE 4:
EXXONMOBIL'S SEGMENTATION OF OPPORTUNITIES**



HOW DO WE FIND OUT IF THE LOCAL COMMUNITY IS WILLING AND ABLE TO TAKE UP THE OPPORTUNITIES?

After completing the demand-side analysis, a supply-side analysis should be conducted in order to assess community interest in accessing business opportunities and to identify potential constraints. This assessment is best undertaken in close collaboration with community relations personnel and specialist social consultants.

Important questions that should be answered by the assessment are:

- ▶ What is the history of engagement between the company and local communities?
- ▶ What is the community's resilience when it comes to coping with change, and what are its goals and aspirations?
- ▶ What economic and other assets does the community possess (e.g. good physical infrastructure, affordable land, a skilled workforce, an entrepreneurial culture, strong local business organisations, access to markets and transport routes)?
- ▶ What is the company's level of contribution to the local economy relative to other sectors?
- ▶ What are potential alternative markets or livelihoods that SMEs could transfer to in the event of a downturn or closure?

These are common questions that are addressed as part of an Environmental, Social and Health Impact Assessment (ESHIA). ESHIA is a project-planning tool in mining, oil and gas companies to support regulatory approvals processes. Whether a company is assessing local procurement as part of a full-blown ESHIA for a new development, or conducting a scaled-down market analysis to guide a local procurement strategy, this is when companies should be collecting baseline data, so that they are able to monitor changes over time in the level of economic activity and assess the effectiveness of local procurement strategies. Examples of measures that can be used for this purpose are shown. This information can be obtained from surveys conducted amongst local SMEs as well as from secondary sources.

EXAMPLES OF BASELINE MEASURES REQUIRED TO ASSESS IMPACTS OF LOCAL PROCUREMENT STRATEGIES TO SMES AND COMMUNITIES

- ▶ SMEs total sales
- ▶ SME profitability
- ▶ Markets accessed by SMEs
- ▶ Procurement budget of SMEs
- ▶ Percentage of SMEs' sales with company
- ▶ SME investment in employee training
- ▶ Company procurement spend as a proportion of overall procurement in the area
- ▶ Access to credit
- ▶ Number of SME competitors
- ▶ Level of demand from producers of complementary goods and services
- ▶ Number of local suppliers to SMEs
- ▶ Level of employment and production in the community
- ▶ Local purchasing power
- ▶ Level of participation of other large-scale companies in local business and community development
- ▶ Level of participation of suppliers in community development.

There are two issues to consider when conducting (or commissioning experts to conduct) a baseline assessment for a local procurement strategy:

- ▶ **Assessments should be aimed at empowering stakeholders** (such as Chambers of Commerce, local government, business associations) by involving them in strategy development and in the evaluation and monitoring of social and economic impacts. This may be a pragmatic way of encouraging buy-in from stakeholders, but it is also consistent with community-driven development models that are the norm in best practice international development.
- ▶ **The actual scope of impacts is much wider** than those selected in a baseline. There are many factors influencing an effective, well-functioning economy. For example, this is illustrated through the concept of 'capitals' (or assets) used by many development practitioners: human capital, social capital, business capital, infrastructure, knowledge capital, public institutional capital and natural capital. Success in any single area depends on investments across all forms of capital, reaching beyond the company's scope of influence or responsibility. What is important is that, in assessing local capacity, companies incorporate local knowledge, stakeholder engagement and collaborative planning and monitoring.

HOW CAN WE ASSESS THE CAPACITY OF LOCAL SMES?

A comprehensive mapping of local SMEs is a useful exercise to identify small businesses capabilities and determine which businesses could benefit most from the opportunity to participate in local supply chains. Companies have designed a range of tools to assist in making these assessments (see below).

SME CAPABILITY ASSESSMENT TOOLS

- ▶ Local business surveys
- ▶ Supplier star rating systems for SMEs
- ▶ Establishing a Local Procurement team at the feasibility stage
- ▶ Demand analysis of critical resources

The following mini case studies provide examples of how these tools are used.



CASE STUDY: LOCAL BUSINESS SURVEY (ANGLO FERROUS BRAZIL)

As part of a process to gain approvals for a greenfields development, Anglo Ferrous Brazil completed a socio-economic assessment and business development plan for Minas Gerais. The company profiled the companies located in affected communities and assessed their capability by drawing a random sample of 365 companies from the industrial, commercial and services sectors. The business diagnostic assessed the following dimensions:

- ▶ Company profile
- ▶ Human resources
- ▶ Clients and market
- ▶ Finances and costs
- ▶ Management
- ▶ Product, process and environment
- ▶ Supplier relations
- ▶ Company growth

The data collected was used to develop a Business Action Plan in collaboration with local community leaders. The Plan promotes economic development through the supply of products and services to Anglo Ferrous Brazil, and has been successful in attracting raw material and equipment suppliers, as well as other services to the region.



**TABLE 2:
EXXONMOBIL'S SME RATING SYSTEM**

★ One star	★★ Two stars	★★★ Three stars
GENERAL		
Perform single task under supervision	Perform complex/multi-tasks (limited supervision)	Perform complex operations independently
Committed to implementing existing continuous improvement programs under supervision	Follow self-developed continuous improvement processes	Manage own processes in a proactive manner
		Manages subcontractors
BUSINESS CONDUCT		
No unethical records	Full alignment with Company business conduct code	Leadership in business conduct
Sound financial stability	Availability of yearly/externally audited accounts	Full records in place
Basic accounting program in place		Procurement/subcontracting programs in use
MANAGEMENT		
Structure in place (roles and responsibilities)	Structure well defined/coordinated	Efficient structure working proactively
Management committed to implementing programs	Supervisors committed to newly developed processes	All levels committed to project deliverables
HEALTH, SAFETY, AND ENVIRONMENT		
Understand Company/project standards and objectives	Own specific programs developed/in place	Lead own/subcontractors organizations
Committed to implement programs (supervised)	Committed to continuous improvement processes	Proactive/leadership attitude
ENVIRONMENTAL MANAGEMENT PROGRAM		
Understand Company/project standards and objectives	Own specific programs developed/in place	Lead own/subcontractors organizations
Committed to implement programs (supervised)	Committed to continuous improvement processes	Proactive/leadership attitude
QUALITY		
Understand Company/project standards and objectives	Own specific programs developed/in place	Lead own/subcontractors organizations
Committed to implement programs (supervised)	Committed to continuous improvement processes	Proactive/leadership attitude
TRAINING		
Management familiar with project processes	Competency programs introduced/ basic records in place	Competency assessment program effectively implemented
Competency programs understood	Supervisors/critical positions proficient in all programs/ processes	Experienced staff with active training program
Critical positions with minimum training		
MAINTENANCE		
Equipment fit for purpose	Specific programs developed/in use	Management of programs including subcontractors
Basic maintenance programs defined	Records in place	Full maintenance chain in place to proactively ensure assets integrity
Basic maintenance structure	Adequate maintenance structure in place	

CASE STUDY: SME RATING SYSTEM (EXXONMOBIL, PAPUA NEW GUINEA)

ExxonMobil's Local Content Plan for the PNG LNG Project is regulated by the PNG government. While the government does not require the company to achieve quotas and targets for national content, the project proposal is assessed considering workforce development, supplier development (particularly participation of landowner businesses) and strategic community investment. Business opportunities are identified and SMEs are ranked, using a three-tier system where:

- ▶ Level I: represents basic services and labour requirements
- ▶ Level II: represents intermediate services and contractor requirements
- ▶ Level III: is reserved for highly critical, complex, specialised service/construction activities.

Similar to the Chad experience described earlier, the PNG LNG Local Content strategy also classifies suppliers using a star system, and supplier development strategies are developed on this basis.

- ▶ One star suppliers are established SMEs capable of performing basic services, have proper administration and paperwork, but lack basic management tools and practices.
- ▶ Two star suppliers are aspiring world class suppliers, with the attributes to perform Level II services. These suppliers are fairly well managed, use modern supply practices and specialise in specific sectors. They also have the capacity for growth.
- ▶ Three star companies are world-class suppliers, with the attributes to perform Level III services.

Tender announcements publicly specify the prerequisite rating required for bid applicants. This assists in communicating company standards and adds transparency to the procurement process. In this way, contracts are awarded solely on the basis of the capacity of the SME to perform a particular contract.

HOW SHOULD WE WORK WITH TRADITIONAL OWNER GROUPS IN IDENTIFYING BUSINESS OPPORTUNITIES?

Mining, oil and gas companies interact with remote Indigenous communities through agreements which enable access to land for exploration and production. Over 20% of Australia is identified as Indigenous land that is regulated by land rights and native title laws. Many agreements are signed in remote contexts where there are limited service delivery and economic development opportunities beyond those facilitated by agreements with companies.

Within negotiated agreements, some companies include clauses that express commitment to goals and targets for Indigenous employment, training and business opportunities. However, it can be challenging to comply with commitments made in relation to the provision of contract opportunities, unless these are supported by other strategies that are in keeping with the spirit of broader, longer lasting socioeconomic development, which is the intention of agreement making. Companies that lead in the development of good practice agreements recognise that business development interventions require planning, and that good planning is based on an understanding of marginalised Indigenous communities, which are often characterised by poverty and social instability; and an awareness of company impacts on vulnerable communities.

The agreement-making process can be a vital instrument in strengthening relationships between the company and traditional owners, and within the traditional owner group. It can also build capacity amongst traditional owner groups for business development. Companies committed to this outcome go beyond traditional legal requirements and support the long-term development aspirations of local communities by investing in supporting processes that draw on expert skills and tools, such as those described in the previous section. Conversely, a highly political agreement-making process, and the subsequent failure to meet specific commitments to business opportunities, can have the potential to destroy relationships. It can sometimes lead to better outcomes if the agreement articulates high level aspirations for business development rather than specific commitments to contracts.

In this event, it is critical that supporting mechanisms are established which enable the achievement of community aspirations to be achieved. Examples of such mechanisms include a trust or company structure to fund and support development of new enterprises.

Some examples of Indigenous agreement-driven procurement strategies are presented below.

CASE STUDY: CENTURY MINE, MMG, GULF REGION OF NORTHERN QUEENSLAND)

Century is a signatory of the Gulf Communities Agreement (GCA), an agreement between Century, the Queensland Government and the four Native Title Groups of Waanyi, Mingginda, Gkuthaarn and Kukatj. One of the aims of the Agreement is to promote economic development opportunities for the people of the lower-Gulf region. Tendering and awarding of Contracts as per the GCA is enabled through three phases: business identification, the tendering process and business assistance. Century Mine has a department which liaises with the Native Title Groups and the company's contracts department to identify viable businesses.

The tendering process involves:

- ▶ release of an Expression of Interest document to encourage local businesses to submit
- ▶ a site visit to confirm the scope of work
- ▶ the provision of basic business advice with regard to setting up a business, employment requirements, rosters, etc.

Tenderers are first evaluated for their eligibility as a Native Title GCA party, prior to the technical assessment. The GCA Department facilitates support to provide tenderers with information regarding business set up requirements and ongoing business management, e.g. preparation of BAS statements, payroll, training, health, safety and environment procedures and human resources policy.

As mine closure is predicted for 2014, a current focus for the company is on helping identify business opportunities which will be viable post-closure.



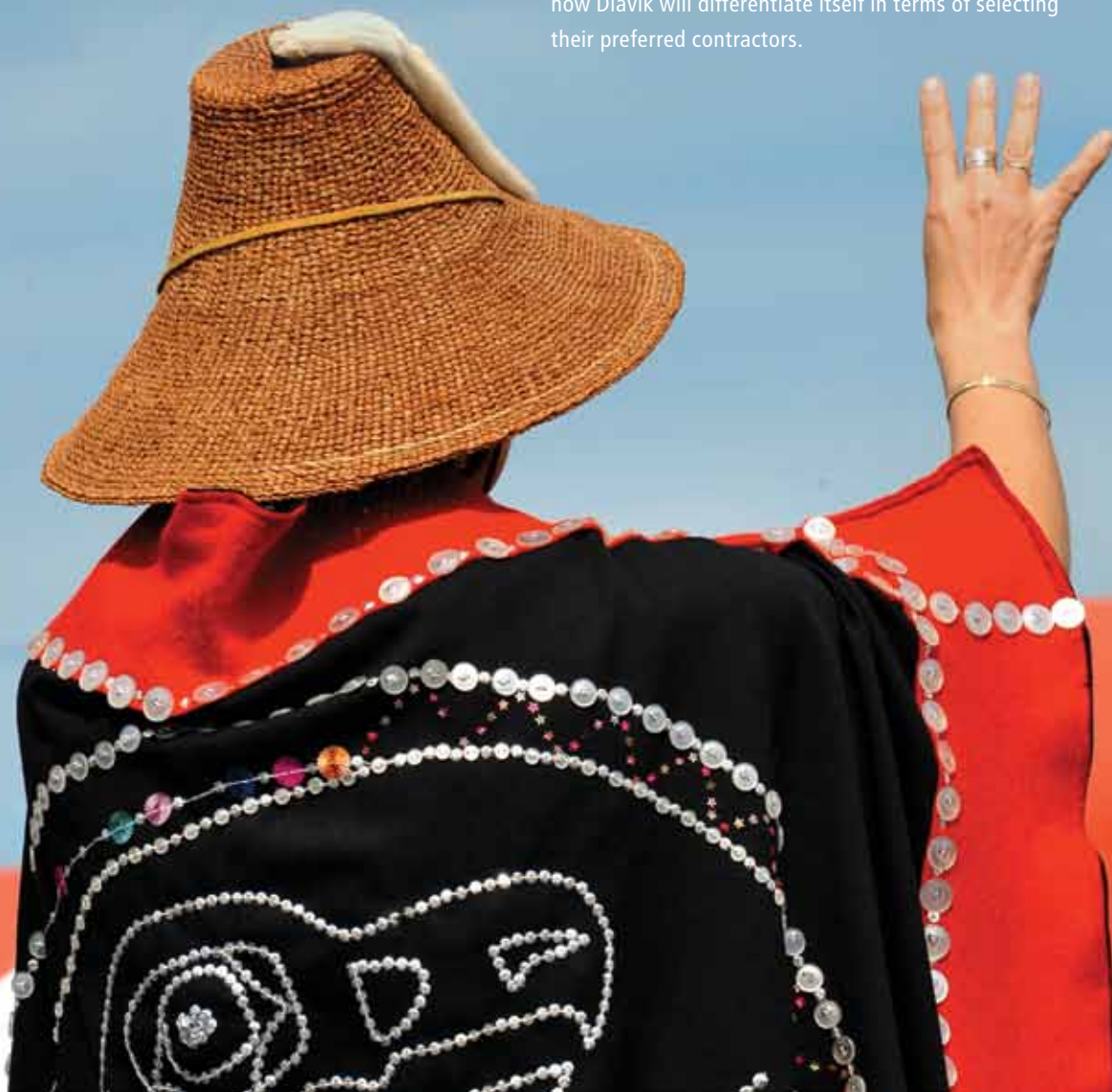
CASE STUDY: DIAVIK DIAMOND MINES INC, RIO TINTO, CANADA

Local spend was an early consideration in planning for the greenfields Diavik project. Early engagement with Aboriginal people, on whose traditional lands the project was developing, allowed enough time for them to establish a business, find technical partners and finance, and establish business structures. The Benefits-Impacts Agreement is viewed by Rio Tinto as an important instrument of economic change for people who had traditionally been left out of the mainstream economy. With an agreement in hand, Aboriginal individuals have been in a strengthened position to access banking finance and to negotiate.

Diavik established a special team when planning for the operational phase to assist business owners so that they would be in a position to execute the scope of work. There are a number of specific scopes of work (contracts) that are embedded in Participation Agreements with Aboriginal authorities within the Diavik sphere of influence.

These contracts tend to be very large in scope and are enduring for the life-of-mine. In legal terms, they are 'ever-greened', which means, subject to performance, the Aboriginal contractor will have the work as long as the mine is in production, right through to closure. While the scope may vary from time to time as a result of changing production conditions, Aboriginal contractors that have ever-green contracts maintain the right to continue as an integrated part of the Diavik operation.

Diavik's approach with EPCM contractors includes appending business and employment covenants to specific conditions of contract, so that the major contractors are equally bound to the Agreement. The Agreement stipulates that Diavik and its contractors are fully responsible for meeting obligations, including the percentage of Aboriginal and northern people to be employed. The company informs contractors that, while they may have technically qualified by virtue of their inclusion on the bidders' list, meaningful engagement of businesses and people in the area is how Diavik will differentiate itself in terms of selecting their preferred contractors.



RESERVING CONTRACTS FOR LOCAL BUSINESSES

One approach to local sourcing involves identifying and setting aside contracts for direct negotiation with a local business, rather than putting the contract out to market. For instance, listed below are the sectors reserved for local SMEs by Newmont's Ahafo Ghana Gold.

TRADE	Tools, paint, soap and detergent, condoms, tarpaulins, waste bins, wall clocks, building material, quarry dust, stone and sand, farm inputs, items for Christmas hampers, PPE, stationery and office materials, cotton rags.
MAINTENANCE SERVICES	Sewage waste collection, potable water, light vehicle maintenance, tree felling, weeding and bush clearing, car wash, cleaning of gutters.
RENTAL SERVICES	Light vehicle rental, heavy vehicle rental, sound services (microphone and speakers)
CONSTRUCTION SERVICES	Bore holes, landscaping, stone pitching, building renovations, reshaping of roads, and construction of community buildings, concrete slabs and cinder blocks.
SMALL INDUSTRY	Jute mats, bamboo sticks, sign writing services, carpentry works, curtains and maintenance of curtains, plastic sample bags, uniforms, metal fabrication, calico bags, wooden chocks.
EDUCATIONAL/TRAINING SERVICES	Driving lessons
HOSPITALITY SERVICES	Accommodation, catering services, coffee breaks and snacks, event organization.
ADVERTISING SERVICES	Video coverage services, community announcements (blast related), printing services and photography.

CASE STUDY: RIO TINTO ARGYLE DIAMOND MINE, KIMBERLEY, WESTERN AUSTRALIA

Argyle's policy for local Aboriginal contracting is driven by its Mine Participation Agreement with Traditional Owners, and is supported by a Management Plan specifically dealing with Business Development and Contracting. The principle underpinning the Plan is Argyle's commitment to increasing business opportunities connected with the Mine's operations for local businesses in general, and Traditional Owner businesses and local Aboriginal community businesses in particular. Argyle defines 'local' in the agreement as the East Kimberley Region.

The company is obliged under the Agreement to notify the Business Development taskforce (comprising Traditional Owners and company representatives) of company intent to let any contract over \$250,000 in a year, relating to the provision of goods or services to Argyle at the mine site. In addition, any request for tender over this value requires the tenderer to demonstrate how they will involve Traditional Owner businesses in the contract, how they will employ and/or train Traditional Owners, and how they will provide benefits to Traditional Owners. All else being equal, Argyle commits to giving preference to tenderers who bring the greatest opportunities to Traditional Owners.

Over time, it became evident that the number of contract opportunities over \$250,000 was limited and Traditional Owners were interested in smaller contracts. The company responded by bringing smaller contracts to the taskforce and by conducting feasibility assessments to bundle smaller work packages and put them out to market. The mature state of the mining operations at Argyle meant that opportunities could potentially be 'carved out' of the internal parts of the business.

Argyle worked with its centralised procurement business, Rio Tinto Procurement, to develop a local solution that would enable the site to meet its commitments to Traditional Owners that are contained in the Participation Agreement. A Steering Committee, comprising the managing director, a general manager, relevant commercial managers, a business development coordinator and a Rio Tinto Procurement advisor, was established to identify new opportunities for local small businesses.

A further example of good practice is BHP Billiton Iron Ore (Pilbara, Western Australia).

The company's approach to Indigenous procurement involves:

- ▶ pre-qualifying Indigenous-owned businesses
- ▶ including pre-qualified businesses on a preferred supplier panel
- ▶ offering indigenous businesses the opportunities in categories of work aligned with assessed capacities and competencies.

CASE STUDY: BHP BILLITON IRON ORE, PILBARA, WESTERN AUSTRALIA

During the contract planning phase of the process, BHP Billiton Iron Ore determines whether a business opportunity should be identified as an Indigenous contracting opportunity, and if flexibility should be applied to the company's standard procurement processes.

The selection criteria used include:

- ▶ organisational structure and key personnel
- ▶ previous work performance within Iron Ore or with other entities
- ▶ internal systems and processes
- ▶ HSEC performance and reporting
- ▶ quality management systems and/or use of standards that are independently assessed by an endorsed accreditation organisation
- ▶ financial viability and sustainability
- ▶ sufficient resources and capital
- ▶ employee relations, systems and processes, training and development.

The assessment is followed by a decision as to whether BHP Billiton Iron Ore will negotiate with the Indigenous contracting businesses on a sole source basis or whether the contracting business will be asked to submit a formal tender. In sole sourcing, once an Indigenous contracting business is identified, a contract is negotiated directly with the business. In the event of multiple Indigenous contracting businesses applying, they compete by formal tender.

BHP Billiton Iron Ore is also made aware of potential opportunities during engagement processes with Traditional Owners. This enables intervention at an earlier phase to assist people with establishing business structures and administration, rather than waiting for vendor pre-qualification processes to identify capacity needs. The company provides assistance via an accountancy firm that assists with governance, periodic audits and risk management, and provides access to a range of other consultants who may assist with items such as preparation of prospectuses.

At the time of writing, Port and South Electrical was the only Aboriginal-owned electrical contractor in the Hedland area. Securing a five year contract through direct negotiation with BHP Billiton Iron Ore has allowed Port and South Electrical to train local Aboriginal apprentices, ensuring that skills are passed on to the next generation.

CASE STUDY: NGARDA CIVIL AND MINING, WESTERN AUSTRALIA

Ngarda Civil and Mining is another Aboriginal-owned company that attributes its success largely to being given a 'head start' by companies such as BHP Billiton and Rio Tinto. These companies decided not to tender certain contracts competitively, instead choosing to negotiate directly with Ngarda. Ngarda is a service company providing earthmoving, civil engineering and contract mining services to the resources and construction sectors in the North West of Western Australia. The business

commenced operations in April 2001, expanding from a small business that completed small gardening and maintenance contracts to an organisation that employs just over 200 people, 160 of whom are Indigenous. Ngarda has a target of achieving 85% Indigenous employment in its workforce, with a minimum of 50%. The business offers Indigenous people in the communities located around project areas preferential offers for employment. Winning longer term contracts (e.g. five years), has given Ngarda and its sub-contractors the opportunity to transition into new roles and develop their skills.

WHAT IF THERE ARE NO, OR FEW, LOCAL BUSINESSES TO WORK WITH?

There is a high failure rate of SMEs, especially in the first five years. The situation is even more challenging in remote areas where businesses are distant from market centres. Remote locations are generally characterised by small populations, a lack of services and poor infrastructure. In Australia, many potential entrepreneurs in these areas are Aboriginal people who lack knowledge and skills on how to start and operate a business, and market their products and services. Even when there is knowledge on how to access markets, high transportation costs disadvantage these businesses as transportation costs increase the input costs of the business and raise the marketing costs.

There are a number of factors that are critical to success in remote regions (see adjacent). A company wanting to help establish local businesses 'from scratch' should consider how it will assess and address critical factors – whether through partnerships, buying in the required expertise, or setting up an in-house function.

CRITICAL FACTORS INFLUENCING BUSINESS SUCCESS IN REMOTE AREAS

- ▶ The goals, motivation and the personal commitment of the entrepreneur
- ▶ Ideas and a willingness to innovate – the personal abilities and skills of the business owner/manager and supporting staff or employees
- ▶ Access to resources such as start-up capital, operating expenses and labour resources
- ▶ External supporting mechanisms such as business development organisations
- ▶ Favourable economic and market environment
- ▶ Supportive socio-cultural environment.



HOW CAN WE HELP SMES GAIN ACCESS TO FINANCE?

While Australia has a well-developed finance sector, many entrepreneurs in remote areas of Australia are prevented from accessing formal financial institutions (e.g. banks) because of their inability to meet stringent loan conditions, such as collateral requirements. Cultural and social factors can also lead to reluctance amongst some Aboriginal individuals to approach formal institutions for funding; even completing the forms can prove daunting.

Resources companies can assist in facilitating access to finance through instruments such as agreements containing commitments to the contracting of Aboriginal businesses, which businesses can then present to their banks. Companies can also draw on a number of initiatives within Australia that finance business ventures, such as those listed in pages 36-39.

When considering options to assist local SMEs access finance, it is useful to consider the maturity of the enterprise, which will determine the types of finance required by SMEs.

**TABLE 3:
COMMON SOURCES AND TYPES OF DEMAND FOR SME FINANCING**

TYPE OF SME/ FINANCING ASPECTS	UNEMPLOYED SUBSISTENCE	STARTUP	GROWING	MATURE
TYPE OF FINANCE MOST NEEDED	<ul style="list-style-type: none"> ▶ Short-term working capital ▶ Supplier credit ▶ Subsidy 	<ul style="list-style-type: none"> ▶ Term finance for equipment and facilities ▶ Short-term finance for working capital ▶ Leasing ▶ Subsidy 	<ul style="list-style-type: none"> ▶ Term loans for new investment ▶ Mortgage finance ▶ Supplier credits ▶ Factoring ▶ Overdrafts ▶ Leasing ▶ Trade finance 	<ul style="list-style-type: none"> ▶ Mortgage re-finance ▶ Supplier credits ▶ Factoring ▶ Overdrafts ▶ Leasing ▶ Trade finance
DURATION	▶ Short term	▶ Long term	▶ Medium term ▶ Long term	▶ Medium term ▶ Short term
TYPICAL PROVIDERS	<ul style="list-style-type: none"> ▶ Money stores ▶ Cooperative lenders ▶ Microfinance institutions ▶ Family/friends 	<ul style="list-style-type: none"> ▶ Venture capital ▶ Informal sources ▶ Specialised institutions 	<ul style="list-style-type: none"> ▶ Banks ▶ Capital markets ▶ Development capital ▶ Specialised lenders 	<ul style="list-style-type: none"> ▶ Banks ▶ Capital markets

Source: SME Finance toolkit, Cardno Emerging Markets USA

CASE STUDY: ANGLO ZIMELE, SOUTH AFRICA

Companies operating in South Africa are obligated under the Black Economic Empowerment Act (BEE) to demonstrate compliance in relation to ownership, management control, skills development, preferential procurement, economic development and other socio-economic initiatives. A company's B-BBEE (broad-based BEE) status may determine the issue of licences or concessions, as well contracts with the State. In addition to BEE compliance, companies are required to respond to the South African Mineral and Petroleum Resources Development Act (MPRDA), which promotes local development and the social advancement of communities affected by mining. This Act, which is not legislatively restricted to black communities, requires the holders of mining rights to contribute to the socio-economic development of the communities in which they operate.

Anglo Zimele Development and Empowerment was established in 1989 to empower BEE entrepreneurs in South Africa. Anglo Zimele is made of three funds:

- ▶ Anglo Khula Mining Fund, a joint initiative between Anglo American and government-owned Khula Enterprise Finance Limited, providing financing for local junior mining companies in the exploration and pre-feasibility phases until they are able to demonstrate a commercial return.
- ▶ Small Business Start-Up Fund, which provides loan finance in the communities residing around the mining operation. Small business hubs provide training and mentoring in business skills.
- ▶ Supply Chain Development Fund, which works with Anglo American's procurement departments to incorporate local SMEs into the supply chain. The fund provides loan and equity financing and technical assistance. Prospective SMEs apply for funding by submitting a business plan and meeting a set of investment criteria. Applicants who are unable to create their own business plan are given assistance. Funding is granted once the plan is approved by the Anglo Zimele board, after which Anglo Zimele acquires an equity stake in the business. Following approval, the entrepreneur's ability to run a business is assessed, the results of which determine an improvement plan. Capacity is built in four ways: training programs and/or on-the-job training; a technical mentor; assistance from business development officers in management, marketing, operational, and financial aspects; and personal guidance and mentoring from Anglo Zimele staff.



CASE STUDY: ESS GUMALA

In Australia, an example of a joint venture facilitated by a resources company is ESS Gumala. In 1998, Rio Tinto encouraged the establishment of a joint venture (ESS Gumala) between Compass Group's remote services division, ESS Support Services Worldwide, and the business arm of the local traditional owner group, Gumala Enterprises Pty Ltd as a means of providing contracting opportunities to Traditional Owners. Compass Group is a hospitality and support services company operating across 55 countries. Since its first venture, Compass Group has pursued a deliberate strategy of entering into commercial joint ventures with other local Aboriginal organisations based in the areas in which their resources clients operate. In addition to ESS-Gumula, Compass presently has ownership in ESS GEBIE, DeltaFM-GEBIE, ESS-Eastern Guruma, ESS-NYFL and ESS-NAAD.

WHAT IS INVOLVED IN SETTING UP A CLUSTER?

Clusters usually involve collaboration between a resource company, joint venture partners, major contractors, government agencies and development institutions. Clusters often have a physical centre or program that provides business, technical and financial support to increase the competitiveness of local SMEs and enable them to access other clients and markets. The benefits of clusters lie in their ability to reduce risk for the resource company and to enable more rapid development of projects. Ideally, a cluster should serve more than one project, to ensure an ongoing revenue stream to maintain the commercial viability of all the cluster members.

CASE STUDY: ENTERPRISE CONNECT BUSINESS GROUPS

Enterprise Connect, a Commonwealth Government initiative, is facilitating a continuous improvement program derived from the UK SC21 programme and adapted for the resource sector within Australia. The program is designed to increase the competitiveness of the sector by raising the performance of its supply chains. The SC21 program, which can be initiated by resource customers, SMEs, or State/local governments, involves SMEs signing up, followed by Business Groups being formed by SMEs and their resources customers, so as to promote consistency of approach towards quality management, reduce duplication, adapt common standards and validate

quality data. Diagnostics are carried out in the areas of Business Excellence and Technical Excellence and an agreed single improvement programme is implemented, relevant to all customers in the Business Group. Improvement plans have a clear linkage to performance improvement metrics such as quality and delivery. SMEs achieving and maintaining agreed criteria receive recognition in the form of a bronze, silver or gold award sponsored by an SC21 company or Enterprise Connect.

CASE STUDY: WOOD GROUP PRODUCTION FACILITIES, DARWIN, AUSTRALIA

Regional and Northern Maintenance Services (RANms) is an example of a cluster established to service the petroleum industry. RANms was established in 2001 as a cluster of ten enterprises based in Darwin. The group created a separate entity to compete for larger opportunities, with each enterprise owning 10% of the new company. This structure allowed the business owners to secure a contract with Conoco Phillips for the Darwin LNG project. RANms has since undergone

a number of transformations. One of the parent businesses offered to acquire the entity, and ended up purchasing five owner companies. This led to a joint venture partnership with international engineering, production support and maintenance services provider, the Wood Group. The Wood Group then went on to purchase 51% of the entity. The transition from a small business cluster to a globally competitive large contractor has created wealth for the original business owners, at the same time as providing them with an exit strategy.



WHAT SHOULD WE DO INTERNALLY, AND WHERE SHOULD WE PARTNER?

Leading practice companies realise that they cannot (and should not) do it alone. Rather, they need to seek partnerships with local government, development organisations and other private sector organisations (such as banks) to map out appropriate roles for each party. This requires drawing on the expertise of community relations and external affairs staff to identify creative ways to overcome the barriers encountered by SMEs. Some examples of initiatives that can be facilitated by mining, oil and gas companies in partnership with other organisations include; enhancing access to finance, networking, information technology, collaborative marketing and developing better linkages in the supply chain.

There are a number of organisations and programs in Australia that companies can link with to assist in identifying local SMEs and supporting new business ventures. Some of these are listed below.

Aboriginal Enterprises in Mining, Energy and Exploration (AEMEE)

- ▶ AEMEE is a not-for-profit organisation established to advance economic opportunities for Aboriginal enterprises in the resources sector. The organisation facilitates networking between members from the mining, oil and gas industries and private sector businesses. One of its major activities is the organisation of an annual conference linked to the Minerals Council of Australia's Sustainable Development conference. More information can be accessed at <http://www.aemee.org.au/>

Aboriginal Foundation of South Australia

- ▶ The Aboriginal Foundation of SA was established in 2009 to assist Aboriginal economic development by pursuing business opportunities and providing technical and other assistance to Aboriginal people in developing ventures. The target groups are individuals, organisations, communities and native title claimants who would like to take a business idea forward and are seeking advice or a partner.

Australian Indigenous Minority Supplier Council (AIMSC)

- ▶ AIMSC was launched by the Australian Government in September 2009. The three-year pilot program is intended to facilitate commercial linkages between Indigenous businesses and corporations who are registered with the AIMSC.

Digedi

- ▶ Digedi is an Indigenous Business Services Directory aimed at assisting mining and construction industries to identify Indigenous owned or operated businesses. Directories for the Northern Territory and Queensland are currently available, with South Australian and West Australian directories forthcoming. Digedi can be accessed online on www.digedi.com.au and is sponsored by the Australian Government Departments of Resources, Energy and Tourism; and Education, Employment and Workplace Relations; and Indigenous Business Australia (IBA).

Directory of Grants and Initiatives for Desert Businesses

- ▶ The 'Directory of Grants and Initiatives for Desert Businesses' is a compilation of programs and funding initiatives of government, industry and organisations that support desert businesses in Australia. The directory can be accessed online at <http://www.desertknowledgecrc.com.au/publications/downloads/DKCRC-Working-Paper-36-Directory-of-Grants-and-Initiatives-for-Desert-Businesses.pdf>

Enterprise Connect

- ▶ Enterprise Connect is an Australian Government initiative that provides support to Australian SMEs. The program is aimed at boosting productivity, improving innovation and increasing the competitiveness of enterprises. Support is provided in the form of business reviews at no cost to eligible businesses (i.e. those that have been established for at least three years and have an annual turnover of at least \$750,000) and grant assistance to implement recommendations flowing

from the business reviews. Access involves an online 20 minute application process and provides a 24 hour turnaround on the business eligibility approval process. The Australian Government reimburses half the cost (max of \$20,000) of engaging a specialist to implement the changes recommended in the business review. The Resources Technology Innovation Centre, based in Mackay, Queensland, is one of 12 Enterprise Connect centres based around the country that aims to assist SMEs in the mining, oil and gas sector. More information is provided on <http://www.enterpriseconnect.gov.au/Pages/AlternateHome.aspx>.

ePilbara

- ▶ ePilbara is an online Pilbara Business Capability Register managed by the Pilbara Development Commission and supported by Chevron, BHP Billiton, Woodside, Citic Pacific Mining and the Port Hedland, Karratha and Newman Chambers of Commerce and Industry. ePilbara showcases Pilbara companies with capabilities to provide products and services to resource, construction and other sectors operating in the Pilbara region of Western Australia. To be listed, companies must meet the following criteria: a Pilbara postal address, employees permanently based in the Pilbara and the ability to provide products or services from the Pilbara location. The website, www.epilbara.com.au also provides access to the Project Connect service, which links project developers and their major contractors with their own categorised electronic library of suppliers.

Hunternet

- ▶ Hunternet is a member-based organisation based in the Hunter Valley, NSW. Hunternet was established during the economic recession of the 1980s by a group of SMEs wanting to create a network that would allow them to promote their businesses. Now with 130 members, Hunternet's charter is to keep jobs and work locally and to link developers in the region with local businesses. In 2009, the organisation conducted the Hunter Manufacturing and Engineering Skills project to identify new and emerging technologies being adopted by manufacturing and engineering SMEs in the Hunter Region, and the required skills sets arising from those technologies.

Indigenous Business Australia (IBA)

- ▶ The IBA's Emerging Indigenous Entrepreneurs Initiative provides funding to support initiatives to improve the economic development, business skills and financial literacy of Aboriginal people. IBA is a Federal Government initiative offering a small business support model that includes business support staff in Brisbane, Cairns and Mount Isa, and a network of business consultants who provide advice to SMEs. The SMEs client can choose a business advisor from the list of consultants available and IBA pays the consultant for their advice. These consultants provide:
 - ▶ mentoring to new businesses for the first twelve months
 - ▶ feasibility studies
 - ▶ development of business plans
 - ▶ cash flow projections
 - ▶ marketing assistance
 - ▶ bookkeeping help
 - ▶ assistance with compliance.

More information on IBA can be obtained at: <http://www.iba.gov.au/>

Indigenous Capital Assistance Scheme (ICAS)

- ▶ This Commonwealth Government scheme offers Indigenous businesses access to commercial finance and appropriate professional and mentoring support services. The program is delivered through Westpac offices, and provides financial support for loans ranging from \$20,000 to \$500,000 over three years, supported by business advisory and mentoring support services. More information is available at <http://www.deewr.gov.au/Indigenous/Employment/Programs/Pages/ICAS.aspx>



Industry Capability Network (ICN)

- ▶ Australian-based procurement managers often work with ICN consultants to identify the capabilities of local industry. The ICN is supported by the Commonwealth Department of Innovation, Industry, Science and Research (DIISR) to facilitate the matching of Australian companies with local and global supply opportunities. ICN consultants with a focus on the mining, oil and gas sectors draw on a database of Original Equipment Manufacturers (OEMs) and SMEs for various types of projects. Consultants approach project owners and offer, as a free service, to introduce them to local and regional companies. Their role also involves supporting those suppliers who are shortlisted contractors, including facilitating the clustering of suppliers.

iDISC

- ▶ iDISC is a global network of business incubators from about 70 countries worldwide. Through the website (<http://www.idisc.net/en/Index.html>), companies are able to identify incubation experts working in regions of interest, and take part in working groups that collect and share best practices on business incubation issues in the areas of Women, Youth and High Growth Enterprise Development. iDISC also provides an Incubator Toolkit, which provides practical advice for various issues including setting up, managing and financing incubators, raising awareness, engaging partners, and monitoring and evaluation.

MESCA

- ▶ The Mining and Energy Services Council of Australia (MESCA) is a member-based industry body established 14 years ago to act as a conduit between large companies and Australian SMEs. MESCA provides its members with updates on infrastructure projects. It provides a listing of coal and mineral mining projects, energy projects and infrastructure projects and the information is produced on a state-by-state basis.

Many Rivers Opportunities

- ▶ Many Rivers Opportunities (MRO) is a micro-enterprise development (MED) organisation targeting Indigenous and other people who have

enterprise plans and activities but for various reasons lack the necessary support to fully develop their activities into a sustainable business. MRO focuses on the development of a grass-roots market place economy among Indigenous people. In remote areas, this assists in minimising the reliance on opportunities provided by mining companies. MRO originated out of Opportunity International Australia (OIA) (a micro-finance and enterprise development NGO) as a local initiative in Australia. The organisation has strategic alliances with Mission Australia and Westpac Bank. The relationship with Westpac allows MRO to make uncollateralised loans, with a seven days timeframe between filing an application and receipt of funds, without requiring the client to visit a Westpac branch. More information can be accessed at <http://www.manyriversopportunities.com/>

New Enterprise Incentive Scheme (NEIS)

- ▶ This Commonwealth Government scheme provides individuals wanting to establish a business with accredited small business training, business advice and mentoring, as well as ongoing income support for up to 52 weeks. The program is delivered by a national network of NEIS providers under Job Services Australia, including local organisations such as Business Enterprise Centres, TAFE Small Business Centres, community organisations and private sector businesses. More information is provided on <http://www.deewr.gov.au/Employment/JSA/EmploymentServices/Pages/NEIS.aspx>

Pilbara Aboriginal Contractors Association (PACA)

- ▶ PACA Inc was established in 2009 as the Pilbara's peak representative body for Aboriginal business. The aims of the Association are to strengthen relationships between large corporations and local contractors, and to promote member capabilities. The Association provides an avenue for resource companies and other industry bodies to identify and match Aboriginal business capabilities with specific contract opportunities. It also provides opportunities for companies to identify potential employees, with the objective of providing employment opportunities for local Aboriginal people.

USEFUL RESOURCE: SME TOOLKIT

A useful international resource is the SME Toolkit, developed by the International Finance Corporation, a member of the World Bank Group. The SME Toolkit can be accessed online at <http://www.smetoolkit.org/> and offers free business management information and training for SMEs in accounting and finance, business planning, human resources (HR), marketing and sales, operations and information technology (IT). Primarily targeted to businesses wanting to start up and grow in emerging markets, the SME Toolkit offers how-to articles, business forms, free business software, online training, self-assessment exercises, quizzes and other resources.

CASE STUDY: RIO TINTO COAL AND ALLIED, HUNTER VALLEY, NEW SOUTH WALES

Rio Tinto Coal and Allied's Community Trust has provided funding support to the Hunter Region Business Enterprise Centre. This enabled the Centre to employ two full-time business facilitators who provide free advice to small and medium businesses looking to start up or grow. The Centre also provides support to local Aboriginal communities, with a dedicated Aboriginal Enterprise Development Officer and have an employee working on the project, New Careers for Aboriginal People. Since 2008, the two employees helped over 70 Aboriginal businesses become established.



04 CREATE THE CONTRACTS



HOW DO WE ENSURE THE OPPORTUNITIES ARE ACCESSIBLE TO LOCAL SMES?

Local SMEs may be disadvantaged by existing/ traditional procurement and Supply Chain Management practices and adaptations are often needed. Some companies have sought to address this by giving preference to local businesses (see below).

OPTIONS FOR GIVING PREFERENCE TO LOCAL SMES

- ▶ Reserve contracts for local suppliers and directly negotiate, rather than entering into a formal competitive tendering process.
- ▶ Favour smaller work packages to allow for the award of minor contracts.
- ▶ Use weighting and premiums to giving preference to local suppliers in competitive tendering processes, and to non-local suppliers that source locally or enter into joint ventures with local businesses.
- ▶ Integrate local SMEs through life-of-mine contracts.
- ▶ Embed targets and commitments into formalised community agreements.

There are various ways of structuring the relationship between a company and its SME suppliers. Resource companies and their large contractors can choose from a number of different arrangements. Most usual is a straight forward, fixed-scope, fixed-fee arrangement. This is a clear and understandable way of working for most SMEs and is particularly suitable for maintenance and cleaning or catering contracts.

It is also possible to follow other arrangements which change the allocation of risk and return. For example, a 'schedule of rates' or 'cost plus' arrangement allows for a changing of scope, and provides for flexibility on both sides as to volume of work required. This may be advantageous when the volume of work required is hard to estimate upfront, such as with a vehicle and maintenance contract. In such a case, 'cost plus' on a schedule of rates might be preferable for all concerned. However, for a cleaning contract, where offices and living quarters are to be cleaned on a regular and fully specified manner and frequency, a fixed price might be more suitable.

Good practice involves exploring the best arrangement from all possible alternatives. The aim is to ensure a good fit of objectives, risk sharing and incentives. Clarity is important – of scope, fees and work standards – as well as performance monitoring methods. Managers should not assume that start-up companies will have the same way of interpreting contracts and scope of service statements as resources companies are used to, so it is important to 'workshop' the interpretation of any agreement entered into. Further, it is useful to provide some mentoring to the SME where possible, and to build a cooperative relationship.

The following example from Newmont Ahafo Ghana demonstrates how different pre-qualification standards can be applied to local solutions for SMEs, in order to facilitate greater access to opportunities.

**TABLE 4:
LESS ONEROUS INITIAL REQUIREMENTS FOR LOCAL SMES (NEWMONT AHAFO GHANA)**

REQUIREMENTS	NATIONAL/INTERNATIONAL COMPANY	LOCAL COMPANY
Registration of business	Yes	Yes
Audited financial statements (3 years)	Yes	No
Safety Management Plan	Yes	No
Environment Management Plan	Yes	No
Insurance value	Yes	No
VAT registration	Yes	Not yet
IRS registration	Yes	Yes
SSNIT registration	Yes	Not yet
Labor certificate	Yes	Not yet
Tax clearance certificate	Yes	Not yet
Contractor safety and environmental audit	Yes	Not yet
Full compliance with Partnering Against Corruption Initiative (PACI)	Yes	Not fully

HOW SHOULD WE COMMUNICATE OPPORTUNITIES AND PROVIDE SUPPORT IN TENDER PREPARATION?

Opportunities should be communicated to local suppliers with enough time to enable them to build the required capacity and to access finance. Tools such as workshops are essential, providing SMEs with access to information regarding upcoming procurement opportunities, as well as knowledge of the standards demanded by the company of its suppliers, evaluation criteria, and for introducing them to the company's procurement systems.

From the perspective of community members looking to access opportunities, the internal business procurement process can be daunting and difficult to fathom. For this reason, it is worth conducting some preliminary community engagement prior to any workshop to identify information needs. This will ensure that the briefings are relevant and attended by the appropriate company and community people.

Training workshops for potential bidders are also vital where local SMEs have limited experience in responding to the complex tender documentation required by large companies. This skills gap can be addressed during workshops that provide information on bid preparation and the bidding process, and on using the company's procurement systems.

It is important to note that workshops in themselves or communications about tendering are not enough to guarantee higher local participation. Rather, ongoing dialogue and intense engagement is required, involving a delicate balancing act so as not to breach fairness and equity in procurement practice.

e-Procurement

- ▶ The use of e-Procurement systems offers a number of benefits. First, they enable transparency and fairness by providing all suppliers with access to the same bid information and evaluation system. Second, they are a secure system through which to submit the bids. Third, skills development can also be an outcome of adoption of the technology. In principle, e-procurement systems mean that SMEs can gain access to previously unavailable procurement opportunities. However, these systems can also be costly and may exclude small businesses from the tendering process, particularly those situated in remote locations with limited access to technology. Making use of complementary tools to access and submit tenders will ensure that these businesses are not disadvantaged.

CASE STUDY: ARGYLE DIAMOND MINE, KIMBERLEY, WESTERN AUSTRALIA

Argyle Diamond Mine has made a number of adaptations to procurement systems to make these more accessible to local Aboriginal people. These include:

- ▶ a paper-based Expression of Interest form, which is distributed through Traditional Owner organisations and the company office reception,

and a paper version of the tender documentation which is posted to interested people

- ▶ providing a consistent point of contact in the procurement department for each tenderer
- ▶ allowing for lodgement of tenders by email or post
- ▶ offering a longer notification period to Traditional Owner groups (beyond the three months specified in the Participation Agreement) on opportunities coming up, to enable better preparation.

HOW SHOULD WE STRUCTURE THE DECISION-MAKING PROCESS FOR AWARDING CONTRACTS?

A formal evaluation is often used by companies to justify the decision to choose a particular supplier, or select a local supplier in preference to a remote supplier. A multi criteria decision model is a useful tool, as it allows companies to make trade-offs between different and sometime conflicting business drivers. For example, a local supply arrangement may lead to additional costs in the short term, but can strengthen relationships with local or national government.

A table showing multi criteria choices (such as the one below) can be helpful in understanding these tradeoffs.

This simple method provides a logical process for setting out the criteria, the relative importance weightings of these criteria and the evaluation of each short-listed option on each criterion. It can be used to guide thinking and choice, justify decisions and provide a set of important questions to try and ensure that judgements are unbiased and correctly channelled. Without such a systematic approach, errors are often made, and inherent biases can lead to poor decisions.

**TABLE 5:
MULTI CRITERIA DECISION MODEL FOR MAKING PROCUREMENT DECISIONS: A WORKED EXAMPLE**

CHOICE CRITERIA	RELATIVE WEIGHTS OF EACH CRITERION	RATING OF BIDDER 1	RATING OF BIDDER 2	RATING OF BIDDER 3
Total service price	1	8	6	7
Capability	.5	7	6	7
Supply security	.3	5	8	4
Operating risk	.4	8	6	7
Business drivers for local procurement:				
Strengthened relationships with local communities	.5	6	5	7
Strengthened relationships with host governments	.5	7	5	8
Reduced dependency post-closure	.3	8	5	6
Other criteria...				



THE PROCESS FOR COMPLETING THIS TABLE IS AS FOLLOWS.

Step 1

- ▶ Establish the choice criteria. In sourcing a particular good or service, these describe the company's objectives. These criteria should be broad, encompassing operating cost issues, as well as longer-term, strategic considerations associated with choosing a supplier. The potential business drivers for local procurement presented earlier in this guide can be drawn on in compiling a relevant set of criteria. These criteria should be entered into the left column of the table. It is usual to summarise these to have about 5 to 8 such dimensions, leaving out secondary or less important considerations and concentrating on the 'vital few'.

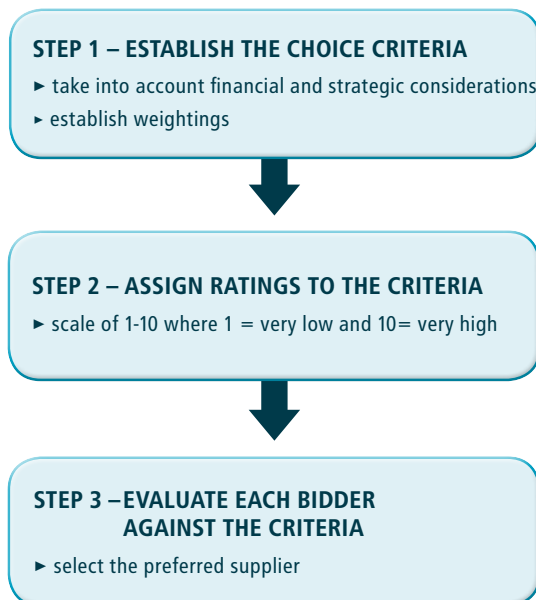
Step 2

- ▶ The criteria are not usually of equal importance, so it is valuable to determine their relative importance. This can be done by giving one of them (usually the monetary dimension of cost/price) a notional value of 1, and then subjectively judging the relative importance of all the other criteria relative to the cost/price. For example, in the table above, it is judged that 'relationship with government' is considered as half as important as price.

Step 3

- ▶ Each short-listed alternative bidder is evaluated against each dimension of value. It is often convenient to use a scale of 1 = very low and 10 = very high. In table 5, alternative 3 is slightly better than alternative 2 on price and much better on relationship with government. Once the table is fully filled out it is usually possible to identify the preferred choice. It is also possible to calculate a total score for each alternative by multiplying the weights and the rates for each column (Figure 5).

FIGURE 5: A MULTI CRITERIA DECISION MAKING PROCESS



The main benefits from using this 'rate and weight' system come from the careful setting up of the criteria, and the inputs, not from calculating a total score. The reason is that this method is aimed at supporting and channelling intuitive judgement, rather than replacing it purely with numbers.



Photo Courtesy of NEWMONT

CASE STUDY: NEWMONT BODDINGTON GOLD, WESTERN AUSTRALIA

Some companies apply a price preference to local businesses in the analysis of bids. For example, when Newmont began planning for the operational phase of the Boddington Gold mine, the approach to local sourcing was formalised through a Buy Local policy. Boddington Gold adopted Newmont's global directive on vendor classification. 'Local local' businesses are located within a 50km radius, 'local' are based in the region, and others are assigned State, National or International classifications.

Criteria employed by Newmont in evaluating bids centre on three areas:

- ▶ Contract Total Cost of Ownership
- ▶ Capability
- ▶ Local-Local Content and Industry Development Potential.

Newmont applies price preferences during the final analysis of bids. The preferences are designed to enhance opportunities for local-local and local businesses and to maximise local-local and local content within bids. A regional content preference is available to businesses located outside the prescribed areas that use goods, materials or services in contracts that are purchased from businesses located within the prescribed areas. The preference applies to the cost of goods, materials or services purchased and used in the delivery of the contract outcomes. All tenderers are required to show the actual cost of their local or regional content.

HOW DO WE ENSURE OUR LARGER CONTRACTORS ARE ALIGNED?

Many opportunities for local procurement are influenced by EPC or EPCM contracting arrangements. EPC contractors are engaged predominantly by oil and gas companies to provide engineering, procurement and construction services. EPC projects are generally managed by the contractor and the EPC contractor is directly responsible for the sub-contractors working on the project. In this case, the EPC contractor, rather than the project owner, accepts most of the cost and risk associated with the management of the project. In the case of EPCM, which is more frequently encountered in the mining and metals sector, the EPCM provider is contracted to deliver engineering, procurement and construction management services but the owner maintains control. Other companies are contracted by the owner directly to provide construction services and are usually managed by the EPCM contractor on the owner's behalf.

From the perspective of local enterprises and SME network organisations, such arrangements can increase the barriers to participation since they reduce the level of operator engagement at the local level. The project owner and large contractors are seen by local SMEs to take the lowest-risk path, preferring to work with people they have worked with before. Moreover, lump sum payments can encourage managers to give preference to contractors with whom they have an existing working relationship. This problem is less frequent in EPCM arrangements, where payments tend to be cost reimbursable. However, EPCM arrangements also present challenges in that the EPCM provider has comparatively limited influence further down the supply chain. In EPCM scenarios (unlike EPC), contractors enter into a legal relationship with the project owner. The EPCM company acts merely as an agent for the owner in supplying management services, and they are required to work with 'preferred' contractors recommended by the owner.

At issue is the strength of alignment between owner-level commitments to supporting local businesses and the design of EPCM and EPC contracts. Unless evaluation and contracting arrangements include

the right incentives, the contracting firm is unlikely to source actively from local firms. In the absence of incentives, a requirement for local community content is likely to be seen as driving up contractor costs, time consuming to implement and difficult to supervise and control.

Incentives can take the form of pre-qualification evaluation criteria, threshold requirements in invitations to tender, KPI-driven budgets, conditions of contract, and post-contract award monitoring.

Pre-Qualification Evaluation Criteria

Prior to bidding, a questionnaire can be used to require interested bidders to provide evidence of:

- ▶ corporate policy promoting local enterprise participation
- ▶ practices for community procurement and community relations that align with policy
- ▶ qualified staff in community procurement management, community engagement and local business support roles
- ▶ experience in other communities with similar levels of capacity and vulnerability to those in the project area, and a history of positive community relations
- ▶ experience in sourcing from local enterprises and developing their capacity and/or commitment to establishing a permanent presence in the local community
- ▶ the contractor having identified aspects of the contract that offer opportunities for participation and capacity-development in affected communities.

Compliance standards and performance-based KPIs in invitation to tender

The operator can set compliance standards for local procurement and supplier development, which are thresholds the bidder is required to meet before being allowed to submit a tender. KPIs can be used to encourage the contractor to venture beyond compliance and to innovate. This may be done by allocating a budget for local economic development and requiring potential bidders to specify how they would draw on the budget to exceed compliance thresholds.

CASE STUDY: OZ MINERALS, SOUTH AUSTRALIA

OZ Minerals is an example of a company setting a KPI for local content. In developing the Prominent Hill copper-gold mine in South Australia, as the work packages were to be provided by Fluor (the EPCM contractor) an Oz Minerals project director was placed on the EPCM team to ensure targets were met.

Working with preferred bidders

After the pre-qualification stage, the owner can work with preferred bidders so that they can develop a local procurement strategy jointly and encourage bidders to suggest adjustments to the contract to enhance local economic benefits. Suggestions for collaborative activities include:

- ▶ reviewing the agreed social impact management and local economic development requirements for the project and agree how risk, costs and management responsibilities are to be allocated between the operator and contractor
- ▶ conducting a survey to identify the skills gaps between project sourcing requirements and community skills and capacities
- ▶ establishing partnerships with government, local business associations or development agencies
- ▶ jointly agreeing regular performance milestones and a reporting and monitoring process.

Variations to Contract are recommended, to allow for the complexities associated with compliance with local procurement objectives, and so as not to penalise contractors where these have been significantly underestimated.

The Industry Capability Network (ICN) was drawn on to develop a procurement strategy. Oz Minerals established a website on ICN's site, through which suppliers were invited to lodge an expression of interest for packages of work. The ICN undertook a first round of screening and Fluor followed with a short listing process.

CASE STUDY: SANTOS

Santos, an Australian-based oil and gas company, uses a dual front-end engineering and design (FEED) contracting strategy in encouraging potential EPC contractors to engage Aboriginal businesses. Preparation of project specifications and FEED are undertaken in parallel by two contractors. Santos facilitates meetings between Traditional Owners and EPC companies to hear and respond to opportunities for broader benefits to be provided to Aboriginal groups.



CASE STUDY: BECHTEL

Bechtel's Mining and Metals division in Australia provides engineering, construction and project management services to industry. The division's Sustainable Development policy articulates the intent to respond to the particular needs of a given project and includes a commitment to enhancing supplier/subcontractor opportunities for local businesses. Implementing the policy requires working closely with clients and establishing procedures to secure alignment with the project owner in the engineering/design, or FEL/FEED, phase and to monitor implementation. One effective mechanism for achieving agreement is a workshop arranged by the Bechtel Project Manager and attended by the Owner Team, Bechtel procurement manager and ESHIA consultants.

Conditions of Contract

A number of financial incentives can be built into conditions of contract, such as:

- ▶ payments for local procurement and/or enterprise development against performance milestones
- ▶ rewards for over-performance up to a certain limit
- ▶ penalising underperformance in circumstances that exceed Variations to Contract conditions
- ▶ sharing costs in the event of cost overruns in meeting KPIs.

CASE STUDY: DIAVIK, CANADA

Contractor Business Plans are one of the tools used by Diavik to drive performance in local procurement. Contractors are required to agree to plans that include:

- ▶ Core and non-core deliverables (KPIs) and demonstrated ability to report on a monthly basis. Core deliverables are driven by contract scope, and non-core deliverables arise from agreements and related Diavik standards in:
 - ▶ Northern Business Participation
 - ▶ Training
 - ▶ Employment and Recruitment
 - ▶ Health, Safety and Environment
 - ▶ On-going Business Improvement Innovation
- ▶ Quarterly contractor review process and Annual Plan updates
- ▶ Database tracking system for Contractor Performance Report Cards
- ▶ Contractor Sustainability Diagnostic and Business Development Toolkit.



05 GROW LOCAL SME CAPACITY



HOW DO WE BUILD THE CAPACITY OF LOCAL SUPPLIERS TO MEET CONTRACT SPECIFICATIONS AND IMPROVE THEIR BUSINESS?

A supplier development program is primarily aimed at meeting the prospective demand of operators. It involves working with SMEs to build their capacity and guide them towards growth and increasing competitiveness. Programs typically involve preparing and supporting a detailed training plan that covers elements such as: business management, quality management, environmental management, occupational health and safety (OHS), finance and costing, sales and marketing, product management and administration. Mentoring sessions usually comprise a significant component of the programs; these are also often linked to other service providers and agencies that promote technological innovation and access to finance.

An example of a supplier development program led by a partnership between Anglo Ferrous Brazil, local government and a local trade association is provided below.

CASE STUDY: ELEMENTS OF ANGLO FERROUS BRAZIL'S SUPPLIER DEVELOPMENT PROGRAM

- ▶ **Management training:** entrepreneurial awareness, initiatives to improve education levels of managers, joint development (owner/family/employees) of a strategic company vision; business management courses; technical training courses in specific areas of work; financial management courses
- ▶ **Business development and growth:** programs to support higher education for employees, courses focusing on sales, production and administration, market research of local demand, financial disclosure, participation in trade fairs and events and bulk purchasing incentives

- ▶ **Improvements to unprofitable businesses:** diagnostics of individual companies experiencing financial difficulties in order to evaluate profitability and potential market repositioning and awareness of the potential to move into other market segments
- ▶ **Creation of new enterprises:** entrepreneurial awareness, promoting the establishment of new suppliers of raw materials, machines and equipment, campaigning to repatriate local residents who have been trained and are living or working elsewhere, attraction of young people to the region through study grants, attraction of company subsidiaries and suppliers, promotion among investors interested in expanding into, or creating new businesses in affected municipalities.

HOW DO WE ESTABLISH THE TRAINING AND DEVELOPMENT NEEDS OF LOCAL SUPPLIERS?

When establishing a Supplier Development Program, the required level of training and assistance is identified through an assessment process. The purpose of this assessment is to investigate the SME's current management practices and what it needs to operate in an effective and competitive manner.

Mozal, a BHP Billiton-owned aluminium smelter operating in Mozambique, in collaboration with the IFC and a local business association, implemented a baseline SME survey as part of its supplier development program, Mozlink. Areas assessed are listed in Table 6.

**TABLE 6:
MOZLINK BASELINE ASSESSMENT OF SME CAPABILITIES**

Management	<ul style="list-style-type: none"> ▶ organisational chart with daily management structure ▶ company goals and strategy regarding marketing, administration, production and human resources ▶ investment plan ▶ management reporting ▶ yearly planning/overview regarding meetings, reporting, sales, production, quality and finance
Marketing Plan	<ul style="list-style-type: none"> ▶ costing ▶ tendering
Finance	<ul style="list-style-type: none"> ▶ budget ▶ financial management ▶ cash management/cash flow statement ▶ credit control ▶ accounting structure ▶ IT level ▶ financial capability ▶ financing needed ▶ requirement necessary to obtain financing
Human Resources	<ul style="list-style-type: none"> ▶ staff levels ▶ training ▶ job descriptions ▶ industrial relations ▶ compliance with labour law
Production	<ul style="list-style-type: none"> ▶ planning and logistics/procurement, materials management, stores ▶ costing ▶ production capacity ▶ maintenance ▶ technical level of machines and equipment ▶ safety
Quality assurance	<ul style="list-style-type: none"> ▶ control system ▶ inspection ▶ testing ▶ service to customers ▶ ISO 9000
Strengths/weaknesses of the company	

HOW DO WE MOTIVATE AND SUPPORT LOCAL SUPPLIERS?

Mentoring is a key component of an SME development program. Mentoring programs should be tailored to the individual needs of each company. Mentors are essentially coaches who teach and motivate SMEs on how to deliver goods and services to contract specifications and how to increase their competitiveness. SMEs generally have limited experience in working in a world-class contracting environment, or even working with large companies. Mentors provide access for SMEs to the actual contracting environment, share best practice and support the business owner in implementing business improvements. Mentors also motivate and support entrepreneurs during difficult times, such as when implementing change within their organisations.

CASE STUDY: MOZLINK, MOZAMBIQUE

Mozlink mentors are selected according to business and technical categories:

- ▶ Technical mentors typically are employees of the lead company selected to volunteer to work with the SMEs. Employees are usually selected from the department related to a category identified for skill development in the SME. Technical mentors typically address the Health, Safety, Environment and Community (HSEC) and Maintenance Capability and Quality Management categories.
- ▶ Business mentors are usually external business consultants contracted to carry out the task of mentoring SMEs in developing business skills. Business mentors typically address Business Management, Finance, Human Resource Management, Marketing and Tendering.

Mozal's technical mentors generally see the value of mentoring as a rewarding development opportunity for themselves as well as for the SMEs, even though mentoring requires an additional set of activities to their existing professional roles. Effective mentors possess:

- ▶ in-depth experience and qualification in their field of specialty
- ▶ patience, as it takes time to for SME managers to learn and implement global standards
- ▶ a love of teaching and coaching, self-motivation and belief in the program.

WHAT SHOULD WE DO INTERNALLY, AND WHERE SHOULD WE PARTNER?

Partnering with other organisations in delivering a supplier development program offers a number of benefits. It can improve the effectiveness of the partnership through greater access to resources, networking and leveraging effect, enable more efficient resource allocation and use and enhance transparency and legitimacy, thereby increasing stakeholder support for the program. Moreover, a program is more likely to be sustainable with the appropriate selection of partners.

For a partnership to be successful, each partner needs to contribute a unique set of skills and resources. For example:

- ▶ **Local business** associations provide access to SMEs and some provide services.
- ▶ **Government agencies** provide service delivery to SMEs and some provide financial support.
- ▶ **Local not-for-profits** provide local knowledge, access to SMEs, credibility and support in implementing programs.
- ▶ **Development and other specialist consultants** are experienced in working with SMEs, coordination and mediation, program delivery, mentoring support and monitoring and evaluation.

It is also important to select a suitable program coordinator. The role of the coordinator is to work with all the partners to handle the day-to-day operations, achieve consensus and mobilise partner resources. It is usually best that this brokerage and coordination role not be filled by an employee of the resource company, to ensure transparency and avoid exposure to accusations of bribery and corruption. Ahafo Mine, Newmont Ghana Gold is an example of a resource company that has entered into successful collaborations to develop a local supply base.

Photos Courtesy of AHAFO



**CASE STUDY: AHAFO MINE,
NEWMONT GHANA GOLD LTD (NGGL)**

The Ahafo Linkages Program is a three year partnership between NGGL and the IFC. The objectives of the program are to increase income and employment opportunities in local communities by building the capacity of local enterprises that are directly or indirectly related to NGGL activities, and to improve the environment for business development. The partnership at Ahafo represents the second IFC partnership with Newmont, the first being Minera Yanacocha in Peru. The IFC Linkages Program includes Technical Assistance Programs which range between two and four years to optimise local procurement by strengthening local SMEs and entrepreneurs linked to IFC’s investment clients or large multinational companies.

Learning from experience at the Yanacocha mine, Newmont established a Local Suppliers and Contractors Development (LSandCD) unit at Ahafo to work within the Supply Chain function. The unit is responsible for:

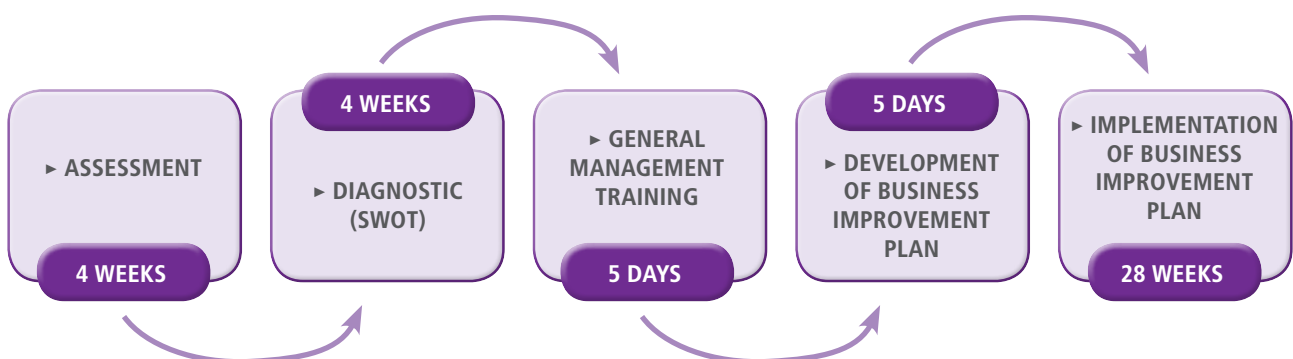
- ▶ defining local content and establishing targets
- ▶ developing a validation form and screening process for local businesses
- ▶ establishing customised procedures to buy locally

- ▶ obtaining internal ‘buy-in’ for local content
- ▶ educating local suppliers on NGGL standards of doing business
- ▶ maintaining a micro, small and medium enterprise (MSME) database to register local vendors.

Ahafo Linkages Program activities are oriented to building skills at management and technical levels, diversifying economic activities at a local level and strengthening a local business association. The methodology is centred on a Business Improvement Plan, which covers organisational structure, administrative systems, finance, marketing, accounting, tax and statutory requirements, and health, safety and environment. The duration of various stages is illustrated in Figure 6 below.

In addition to the local supplier development and local economic development initiatives, the Ahafo Linkages Program also assists with institutional strengthening of the Ahafo Local Business Association (ALBA). Examples of support provided include developing a business plan for ALBA, providing training to officers and training local consultants to deliver business training to local SMEs.

**FIGURE 6:
STAGES IN THE DEVELOPMENT OF THE AHAFO BUSINESS IMPROVEMENT PLAN**



06 MONITOR THE IMPACT



There are a number of benefits to corporate procurement from local SMEs. In addition to creating business for suppliers, local procurement can lead to further economic activity and attract further investment, as suppliers engage other suppliers for inputs and through the multiplier effects of employees spending some of their wages in their communities. Other benefits include improving the quality of life for employees, dissemination of new technologies and innovation to other market participants and attraction of investment in social infrastructure.

Even though SMEs can be a potent vehicle for economic growth and poverty reduction, local SME procurement strategies can also lead to adverse social impacts. For example, setting inappropriate KPIs and targets can encourage perverse behaviour. Similarly, local people are often drawn from other businesses and much-needed services in the area. SMEs can be left vulnerable to the business cycles of large corporate entities. Community dissatisfaction can result from seeing only menial work being given to local people and targeting particular groups can negatively affect social cohesion. For these reasons, it is important to monitor regularly the impact of the local procurement strategy.

HOW DO WE KNOW IF OUR LOCAL PROCUREMENT STRATEGY IS BEING EFFECTIVE?

A number of approaches are available for gathering evidence on the extent to which intended outcomes have been achieved. Some are more complex than others and each approach has its advantages and disadvantages.

For example, demonstrating the extent to which a desired long term impact has been achieved can be expensive and time consuming, due to the greater diversity of sources of evidence, the greater time lag following activities, and the increased probability that changes have been brought about by a range of other factors apart from the program itself. When developing indicators of program impact, therefore, the benefits of seeking 'hard' evidence of accomplishment need to be balanced against the costs of obtaining this information, and 'soft' (or proxy) measures of program impact. In designing a supplier development program, a useful benchmark is a development aid program, where good practice suggests 3-5 percent of program costs should be allocated to monitoring and evaluation.

The example provided below is of a simple logical framework for the evaluation of a Local Supplier Development program. The dimensions of performance include:

- ▶ Long term impact – to the community as well as to the company
- ▶ Immediate effects of the program
- ▶ Outputs (deliverables) produced in order to achieve the immediate impact
- ▶ Activities achieved to accomplish the outputs.

An evaluation should also identify any spin-off or unexpected outcomes that have eventuated. Particularly where the program has been delivered through a partnership, it is valuable to capture evidence of the change brought about in partner organisations. Measurements made by relying solely on the baseline measures developed during program design tend to ignore the complexity of partnerships, the knowledge gained through partnering, how partnerships are shaped by stakeholders over time, and how partnerships change the organisational contexts in which they are situated. For this reason, many development agencies have moved from linear logical frameworks (or logframes) towards 'logic models' or 'causal models'. In essence, these models apply rigorous tracking of performance from activity to output to outcome, but allow for secondary, non-linear effects.

Irrespective of the evaluation model selected, of utmost importance is stakeholder engagement and buy-in in the development of the evaluation design, as well as the monitoring, evaluation and reporting processes. As with previous steps outlined in this Guide, this calls for a partnering approach, one that involves the input of key external stakeholders, program partners and experts. Mutual agreement on indicators, measures, and how the data will be collected and disseminated will provide opportunities for dialogue, learning and reflection, encourage ownership, and increase the likelihood that findings will be acted upon.

**TABLE 7:
EVALUATION FRAMEWORK FOR A LOCAL SUPPLIER DEVELOPMENT PROGRAM**

OBJECTIVES	INDICATORS
<p><i>Long term impacts to local SMEs and communities</i></p> <ul style="list-style-type: none"> ▶ Increased employment and wealth creation by local SMEs ▶ Stimulation of economic activity in local area ▶ Attraction of additional investment in local economy ▶ Knowledge and technology transfer ▶ Long-term increase in regional competitiveness ▶ Access to more affordable, reliable, higher quality goods and services ▶ Increase in local infrastructure, education and health from increasing local tax revenues ▶ Increased confidence in job stability, leading to investment in aspirations of employees, their families and their communities 	<ul style="list-style-type: none"> ▶ Suppliers' total sales ▶ Increase in supplier profitability ▶ New markets accessed by suppliers ▶ Procurement budget of suppliers ▶ Percentage of suppliers' sales with company ▶ Supplier investment in employee training ▶ Company procurement spend as a proportion of overall procurement in area ▶ Change in access to credit ▶ Growth of SME competitors owing to demonstration and network effects ▶ Increase in demand from producers of complementary goods and services ▶ Growth of local suppliers to SMEs ▶ Level of employment and production in the community ▶ Local purchasing power ▶ Level of participation of other large-scale companies in local business and community development ▶ Level of participation of suppliers in community development
<p><i>Long term impacts for the business</i></p> <ul style="list-style-type: none"> ▶ Reduced costs in the long run/increased supply chain efficiencies ▶ Strengthened relationship with governments, facilitating licensing ▶ Greater security over critical supply ▶ Increased quality of supply ▶ Reduced risk of operating stoppages ▶ Reduced dependency by increasing supplier competitiveness ▶ Strengthened trust with local communities by demonstrating a positive impact in local economy, contributing to resource assurance ▶ Minimised community dependency post closure and a lasting heritage independent of the company by building capacity within other sectors and diversifying customer base of localised suppliers 	<ul style="list-style-type: none"> ▶ Value of goods and services procured locally ▶ Local procurement as a percentage of total corporate procurement ▶ Costs associated with delays in delivery ▶ Reputation levels ▶ Quality of supply ▶ Logistic costs, such as cost of transporting people and equipment ▶ Labour costs in service contracts ▶ Immediate impact on participating SMEs
<p><i>Outputs (deliverables) produced in order to achieve the immediate impact</i></p> <ul style="list-style-type: none"> ▶ Assessment process to identify required level of training and assistance ▶ Development and implementation of training plan to meet company requirements and boost supplier competitiveness ▶ Establishment of new enterprises to address gaps in supply chain 	<ul style="list-style-type: none"> ▶ Outputs delivered on time and within budget ▶ Stakeholder and partner satisfaction with design and implementation of supplier development program
<p><i>Activities achieved to accomplish the outputs</i></p> <ul style="list-style-type: none"> ▶ Determine the business drivers for procuring from local SMEs ▶ Conduct prospective demand analysis and assessment of the capability requirements for each opportunity ▶ Engage local communities and stakeholders to determine community capacity and aspirations and identify supply chain participation strategies that are sustainable in the event of a downturn or decommissioning ▶ Profile local business capacity ▶ Pursue partnerships with major contractors, local business associations, government agencies and local community groups ▶ Develop a local procurement and supplier development strategy and build required internal capacity 	<ul style="list-style-type: none"> ▶ Evidence of local procurement and supplier development strategy, practices and accountability systems ▶ Company budget allocated to supplier development program ▶ Satisfaction of community stakeholders and potential partners with engagement processes

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APPENDIX A: THE LEGISLATIVE AND POLICY ENVIRONMENT FOR LOCAL PROCUREMENT IN AUSTRALIA

Companies looking to adopt local content policies are influenced by three main areas of law: international trade law, domestic trade law and anti-discrimination law. This section provides a brief overview of the legislative landscape.

Key points are that:

- ▶ Domestic trade law is not an insurmountable obstacle to implementing policies and practices designed to promote local procurement. Under the Trade Practices Act 1974 (Cth) restrictive tendering processes/policies could constitute anti-competitive conduct in some circumstances. However, the Act recognises an exception when it comes to practices carrying a demonstrable benefit to the public, where the detriment arising from any lessening of competition is outweighed by the public benefit. Practices aimed at promoting local businesses and increased Indigenous involvement are likely to fall in this category.

- ▶ International trade law has no direct bearing on companies seeking to adopt local content policies designed to foster local and/or Indigenous business development/participation in company supply chains.
- ▶ Anti-discrimination legislation is unlikely to function as a barrier in the case of tendering processes/policies designed for the exclusive benefit of Indigenous businesses, as both Federal and State/Territory legislation affords immunity to affirmative action initiatives.

While not a legislative consideration, of further significance is the Australian Government's Australian Industry Participation policy framework. One of the underpinning principles, namely, 'Regional Development Policies', promotes local industry development in regional Australia.



1. TRADE PRACTICES ACT 1974 (CTH)

Contracting processes which favour local suppliers (such as weighting provisions for local/Indigenous businesses) or exclude non-local suppliers (such as invitations to tender that are sent exclusively to local/Indigenous businesses) may constitute a form/s of conduct prohibited under Part IV Restrictive Trade Practices of the TPA. Depending on where the operation is located, State/Territory legislation may also have a bearing; however, these operate concurrently with the TPA. Under the TPA, a contracting policy or process will constitute prohibited conduct if it falls within the realm of an “exclusive dealing”¹, or is contrary to the prohibition established in s45”².

Whether a given process/policy actually constitutes prohibited conduct is determined on the facts of the individual case. The Act enables certain practices to be continued if there is a ‘demonstrable benefit to the public’. Under s47 of the Act, prohibition against exclusive dealing does not apply to a corporation that has given notice to the ACCC under s93 describing the conduct, and the notice is in force. The procedure is an alternative to the authorisation procedure under s88. Legal advice should be sought on a case by case basis about the merits of pursuing the notification or authorisation procedures. Under s88 of the TPA the Australian Competition and Consumer Commission (the ‘ACCC’) has the power to grant authorisations to conduct contravening practices on public benefit grounds. There is no legislative definition of what constitutes a ‘public benefit’ for the purposes of the authorisation provisions. However, case law suggests that a benefit to a narrower segment of the community will only constitute a public benefit

if it can be demonstrated ‘to serve an acknowledged end of public policy’ or be otherwise beneficial to the community generally³.

There are a number of categories of benefits which may constitute a public benefit. Categories of particular relevance to company contracting processes/policies designed to further Indigenous capacity and sustainable local/regional economic development are “employment growth in efficient industries, including the prevention of unemployment in efficient industries and the development of employment growth in particular regions” and “the promotion of equitable dealings in the market”⁴.

Lifting Indigenous standards of living has become an acknowledged cornerstone of Australia’s public policy; and likewise, more broadly, ensuring the long-term sustainability of Australia’s rural/remote economies. Given the strong case for establishing the public benefit ground, it is possible that the benefit to the public of company contracting processes/policies outweighs the detriment constituted by any lessening of competition.

Companies should seek legal advice as to whether a local procurement process/policy is likely to breach provisions of Part IV of the TPA. In the event that a potential contravention exists, the next step involves lodging an authorisation application with ACCC (refer to the ‘Guide to Authorisation’⁵).

¹ The prohibition on exclusive dealing practices in the Act is “a prohibition in respect of vertical conduct, that is, conduct engaged in between a supplier of goods or services and the corporation or person acquiring the goods or services.”, *Halsbury’s Laws of Australia*, 420 – Trade and Commerce, Part (I) 7 A at [420-1085].

² Trade Practices Act 1974 (Cth) Part IV Division 2 s45.

³ *Halsbury’s Laws of Australia*, 420 – Trade and Commerce, Part (I) 1 J at [420-215], specific case law cited.

⁴ *Ibid.*

⁵ Updated November 2009, at <http://www.accc.gov.au/content/index.phtml/itemId/776251>.

2. INTERNATIONAL FREE TRADE AGREEMENTS/CONVENTIONS

Countries such as Australia that are members of the World Trade Organisation (WTO) are subject to global rules of trade affecting their trade in goods and services. These are the Trade-Related Investment Measures (TRIMS) Agreements and the General Agreement on Trade in Services (GATS). The focus of these Agreements is government procurement practices. These regulations do not concern or govern how private entities, such as mining companies, structure internal contract tendering procedures. A company voluntarily adopting a local procurement policy is beyond the scope and reach of the international free trade agreements. However, a government measure requiring particular levels of local procurement by enterprises will be inconsistent with the General Agreement on Tariffs and Trade (GATT).

While a government measure requiring particular levels of local procurement by enterprises would, generally speaking, be contrary to the GATT principles, there is an established exception where preferences are given to Indigenous persons or organisations. For example, the Schedule of Australia's commitments under the Thailand-Australia Free Trade Agreement (TAFTA) lists the following limitation:

***Indigenous Persons and Organisations** Australia reserves the right to adopt or maintain any measure according preferences to any indigenous person or organisation or providing for the more favourable treatment of any indigenous person or organisation in relation to the acquisition, establishment or operation of any commercial*

or industrial undertaking in the service sector. In addition, Australia reserves the right to adopt or maintain any measure with respect to investment that accords preferences to any indigenous person or organisation or provides for the more favourable treatment of any indigenous person or organisation. For the purpose of this exception, an indigenous person means a person of the Aboriginal race of Australia or a descendent of an indigenous inhabitant of the Torres Strait Islands."

Similarly, the Australia-United States Free Trade Agreement Schedule of Australia states:

"This Chapter does not apply to:

- (c) measures for the health and welfare of indigenous people; and
- (d) measures for the economic and social advancement of indigenous people."

It is worth noting that the above limitation also applies to '(a) any form of preference to benefit small and medium enterprises'.

3. RACIAL DISCRIMINATION ACT 1975 (COMMONWEALTH)

This area of legislation has implications for restricting company contracting processes and policies explicitly and/or exclusively for the benefit of Indigenous suppliers. Racial discrimination is unlawful both under Federal and State/Territory legislation. However, in all jurisdictions, the law recognises an exception in the instance of affirmative action⁶. Section 8 (1) of the Racial Discrimination Act states that Part II Prohibition of Racial Discrimination does not apply to special measures entailing policies and programs which provide a form of positive discrimination in favour of individuals or groups such as Aboriginal people, and are required to neutralise the effects of past discrimination, historical legacies or present attitudes which operate to reduce the ability of Aboriginal people to enjoy the entire range of human rights and freedoms which the law may provide to them, but present circumstances impede them from fully enjoying⁷. In *Opinion re: Comalco Aluminium Ltd*⁸ the Anti-Discrimination Tribunal of Queensland found that a clause in the Western Cape Community Cooperation Agreement relating to development of Indigenous specific employment and training programs, notwithstanding it being discriminatory, did not contravene the Anti-Discrimination Act 1991 (Qld). Likewise, procurement processes/policies aimed at incentivising Indigenous business development and participation in company supply chains, whilst discriminatory, are likely to be classed as special measures.

4. AUSTRALIAN INDUSTRY PARTICIPATION NATIONAL FRAMEWORK

The Australian Industry Participation Framework (AIP) is an Australian government initiative aimed at maximising Australian industry participation, by providing 'for the full, fair and reasonable opportunity for Australian industries to participate in significant public and private sector activity'. The AIP's focus on industry development aims to ensure that capable Australian industry is able to access global opportunities and integrate into global supply chains.

The AIP's goal is underpinned by a number of principles, the 'Regional Development Policies' being of most relevance to companies designing local procurement strategies. This principle states that 'Recognising the needs and aspirations of regional communities, Governments have the flexibility to respond to regional issues within the Framework. Governments work to develop partnerships with communities and industry to meet the challenges facing regional Australia'. The policy framework can assist in building a case for public benefit outweighing the detriment of anti-competitive conduct (see above).

⁶ **QLD** – Anti-Discrimination Act 1991 (Qld) Chapter 2 Part 5 General exemptions for discrimination (e.g. s104 Welfare measures); **NSW** – Anti-Discrimination Act 1977 (NSW) Part 2 Racial Discrimination Division 4 Exceptions to Part 2 (e.g. s21 Special needs programs and activities); **WA** – Equal Opportunity Act 1984 (WA) Part III Discrimination on the ground of race Division 4 Exceptions to Part III (e.g. s51 Measures intended to achieve equality); **SA** – Equal Opportunity Act 1984 (SA) Part 4 Prohibition of discrimination on the ground of race Division 7 General Exceptions from Part 4 (e.g. s65 Act does not apply to projects for benefit of persons of a particular race).

⁷ Royal Commission into Aboriginal Deaths in Custody, National Report Vol 5 (<http://www.austlii.edu.au/au/other/IndigLRes/rciadic/national/vol5/>) at 36.4.9. See also Brennan J's dicta in *Gerhardy v Brown* (1985) 159 CLR 70 at 128-129.

⁸ *Opinion re: Comalco Aluminium Ltd* [2003] QADT 17 (14 October 2003)

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IBN 978-0-9581710-3-8