Local Content Policies: IGF Members’ Guidance

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LCP Guidance

• Members directed IGF to produce at 2016 AGM
• Primary audience is governments
• Will be produced in hard copy, as well as an on-line resource
Elements of the Guidance

1. Local procurement of goods and services;
2. Direct employment of locals or disadvantaged persons;
3. Downstream linkages (beneficiation);
4. Domestic ownership and national champions in the mining sector;
5. Horizontal linkages: spillover benefits to non-mining sectors and populations.

Cross-cutting: legal elements, impacts of technology
Local Procurement

Starting questions:

• What objectives served?
• How to decide whether or not to pursue
• What information needed?
• How to define local
Local Procurement: Policy Options

Demand side:
• Mandated percentage
• Targeted lists of types of goods that should be locally sourced
• Requirements to provide a local procurement plan
• Tax preferences for achieving a prescribed goal in local procurement or to purchase locally
• Provision that local goods and services will be given preferential treatment or purchased to the extent feasible
• Requirement to consult communities.

Supply side:
• Supplier development programs, including training to bid
• Financing
Local Procurement

Preliminary considerations:

- Need a clear definition of local;
- Need both supply and demand-side policy measures;
- Regulations need to be grounded in the reality of the country context;
- Industry and supporting actors need to be at the table during all phases.

Case studies to be included: Australia, Botswana, Canada, Ghana, Kazakhstan, South Africa, Zambia.
Direct Employment of Locals

Starting questions:

• **What objectives served?**
• **How to decide whether or not to pursue**
• **What information needed?**
• **How to define local or disadvantaged?**
Direct Employment of Locals: Policy Options

**Demand side:**
- Mandated percentage of locals employed in overall workforce;
- Mandated percentage of locals employed in specific job types;
- Required to register plan for boosting local percentages;
- Tax preferences for achieving prescribed goal in local hiring;
- Provision that locals will be hired to the extent feasible.

**Supply side:**
- Government incentives to firms to engage in skills development;
- Government support or joint support for technical vocational education and training.
Direct Employment of Locals

Preliminary considerations:

• Need a clear definition of local or disadvantaged;

• Supply-side efforts needed in parallel, to avoid high turnover rates, low productivity results;

• Critical to understand the needs of the employer in the mid- to long-term;

• Policies need to be in harmony with wider national development goals.

Case studies to be included: TBD
Downstream Linkages

Starting questions:

• What objectives served?
• How to decide whether or not to pursue
• What information needed?
Downstream Linkages: Policy Options

- Incentives (subsidies, tax preferences)
- Prescriptive measures (export restrictions on raw materials)
- Negotiation (as condition of concession agreement)
- Bidding (points in bidding regime for downstream activities)
- Government-led investments (e.g., SOEs)
Downstream Linkages

**Preliminary considerations:**

- For processed commodities where power demand makes up a large proportion of operating costs, access to cheap and reliable power is of critical importance;

- SEZs can work provided there is good logistics and port infrastructure located at strategic trading routes, and conducive business environment;

- Governments have a stronger negotiating position if they have a world class deposit, or have significant market power in the supply of a commodity;

- Primary processing is capital intensive, creates little employment.

**Case studies to be included:** Singapore, Indonesia, Australia, Botswana, Afghanistan, Nigeria
Domestic Ownership and National Champions

Starting questions:

• *What objectives served?*
• *How to decide whether or not to pursue*
• *What information needed?*
Domestic Ownership and National Champions:

Policy Options:

- Technology transfer requirements
- Joint venture requirements
- Free carry obligations
- Creation/promotion of state-owned actors as sole or main player
- Expropriation of existing operations.
Domestic ownership and National Champions

Preliminary considerations:

• Important to understand how existing commitments under international investment law may limit the use of these policies;

• Joint venture only works well where both partners bring something of value to the deal;

• Technology transfer requirements often result in older technology being transferred;

• SOEs require rigorous governance and transparency, especially in the face of high rents.

Case studies to be included: Singapore, Indonesia, Australia, Botswana, Afghanistan, Nigeria
Horizontal Linkages

Starting questions:

- What objectives served?
- How to decide whether or not to pursue
- What information needed?
Horizontal Linkages
Policy Options:

- Supplier development aimed at serving diversified clients;
- Requirements for construction of shared infrastructure (e.g., roads, rail, water treatment, electricity, Internet);
- Investments in the “national system of innovation”
- Public “venture funds” (funding to support training, market research, infrastructure or other public goods, etc.)
Horizontal Linkages

**Preliminary considerations:**

- Linkages thorough shared infrastructure are more common than through building capabilities to “break out” of the mining sector;

- State role in horizontal linkages through capabilities/technology requires complex and arduous coordination, integrated policy making.

**Case studies to be included:** Chile, South Africa, Mozambique, Guinea, Tanzania; Norway, Australia
Cross-cutting issues

• **Legal questions**: what limitations to policy options imposed by international trade and investment law?

• **Impact of technology**: if new technology reduces employment, to what extent does it also reduce the potential for successful local content policies?
Thank you

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