APPENDIX 5

Initial assessment of current supply patterns to the mining sector in Liberia and Burkina Faso

This appendix captures the current supply patterns in the mining sector in Burkina Faso and Liberia and relates to Module 2: Defining Local Procurement and Estimating the Baseline in *A practical guide to increasing mining local procurement in West Africa*. Results are based on research conducted by the World Bank and Kaiser Economic Development Partners (Kaiser EDP) during the “West African Mining Local Procurement Implementation” (WALPI) project between 2013-2014 in Burkina Faso and Liberia.

I. Methodology

The results of Appendix 5 draw from research conducted with suppliers and mining companies in Liberia and Burkina Faso. Kaiser EDP created a system of categorization of suppliers according to the geography, participation of citizens, and the extent of value-add taking place locally.

Geography refers to both the country of registration of the company and the physical location of the company.

- The Registration of the company can be expressed in one of the following ways:
  1. Local: supplier is registered in the country of the mine
  2. Regional: supplier is registered in a country in the West African region
  3. International: supplier is registered

- The Physical location of the company can be expressed in one of the following ways:
  1. "Local-local"/ "Localised": supplier's operations are located within affected communities to the mines
  2. National: supplier's operations are located in the country of the mine
  3. Regional: supplier's operations are located in the West African region
  4. Foreign: supplier's operations are located outside the West African region

Participation of citizens is ideally measured by ownership, management, and overall employment of citizens. Attempts were also made to capture gender data (e.g. female ownership, female employees, and female managers). While data was initially compiled in all of these categories, the decision was made to assess participation based on **ownership**, because it was the most readily available data.

- Ownership is defined in the following three categories:
  1. Locally-owned: At least 50% ownership by a citizen of the country where the mine is located (in the case of Liberians, Liberians of non-African descent cannot be identified as citizens)

  2. Mid-level ownership: One or more of the following:
     - Between 26% and 49% ownership by a citizen(s) of the country where the mine is located
     - At least 50% regional ownership (e.g., ECOWAS countries)
     - At least 50% resident ownership of the country where the mine is located (non-citizens, e.g., naturalised Liberians)

  3. Foreign-owned: Does not meet the above criteria

Extent of **value-add** taking place locally was based on Kaiser EDP's research and drew on a number of sources, such as ECOWAS and WAEMU definitions. Unlike geography and participation, the categorisation of a supplier's value-add or local content requires some level of interpretation or an educated guess as many times numerical data on value add is not available.

- Value-add is defined in the following three categories:
  1. Manufacturing or providing services locally
     - Majority of services provided by supplier are delivered locally
     - Supplier provides majority local unprocessed goods (e.g., animal, plant, and mineral products) and handmade products
     - Majority of products provided by supplier are substantially transformed locally (i.e. would change tariff heading)
     - Supplier uses more than 60% local originating raw materials
     - At least 30% local value-add

  2. Manufacturing or providing services regionally (e.g., ECOWAS) or minimum level of local value-addition
     - Supplier has some utilised local manufacturing capacity
     - Supplier imports products but provides associated value-adding services (other than sales, marketing, and delivery)
     - Supplier uses at least some local materials
     - Supplier delivers some services locally
     - Some value-add, but less than 30% overall

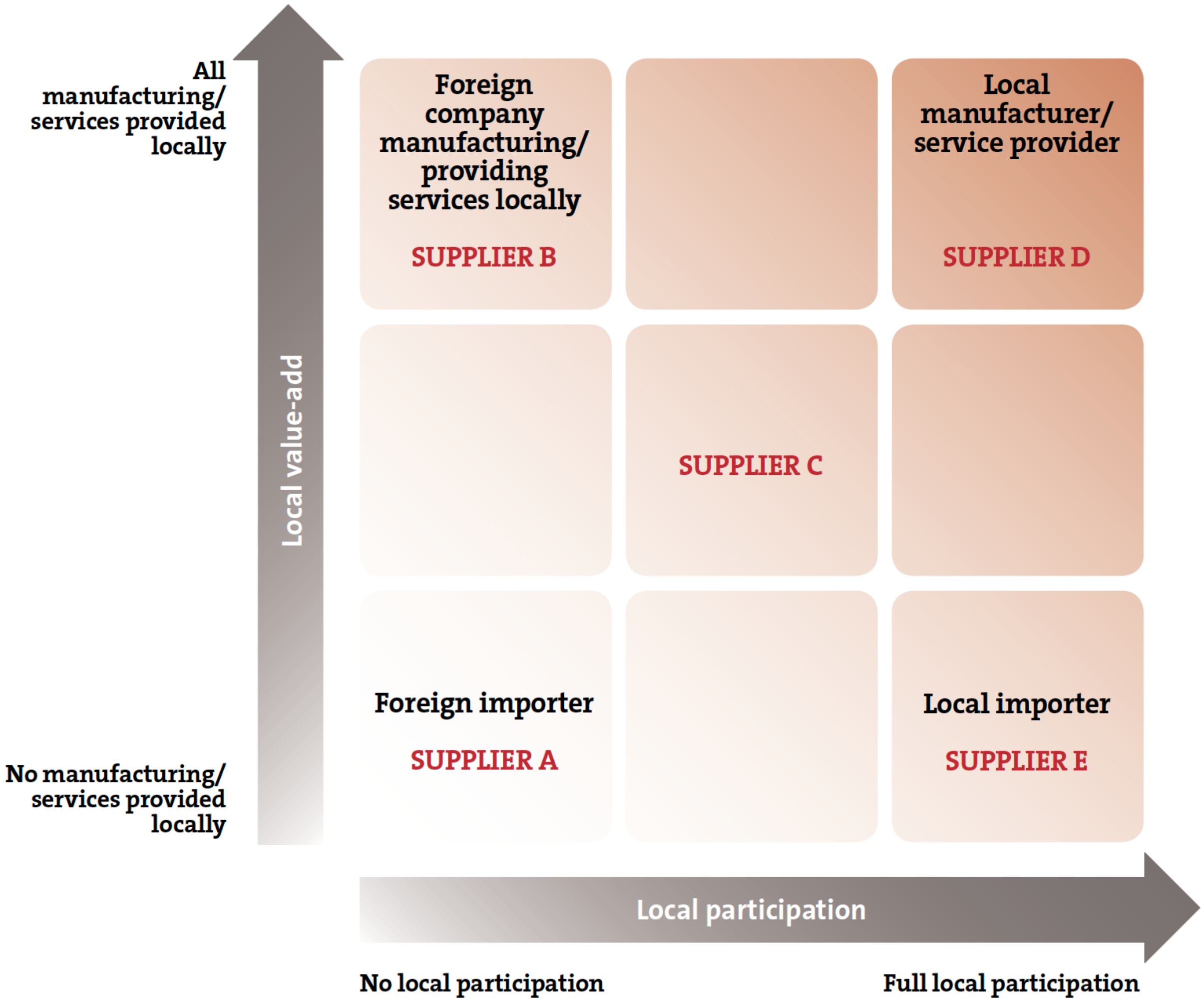
  3. Not manufacturing or providing services in the country or region where the mine is located
     - Exporter not located in country
     - Locally based importer without any value-add other than sales, marketing, and delivery e.g., not holding stock, aftercare, guarantees
     - A Company that is not locally or regionally registered is a quick indicator that it should be in this category

Kaiser EDP received the spend details of 5 mining companies in Liberia (4 iron ore, 1 gold) and 6 mining companies in Burkina Faso (6 gold). This process identified 1,300 suppliers in Liberia and 2,041 suppliers in Burkina Faso. Kaiser categorised many of the individual suppliers between these 11 mining companies based on the system described above. Of the $1.55 billion spent by the 5 mining companies in Liberia between 2010-2013, 93% was classified. Of the $821 million spent by the 6 mining companies in Burkina Faso between 2010-2012, 87.7% was classified.

	Liberia	**Burkina Faso**
Number of mining companies providing data	5 (4 iron ore; 1 gold)	6 (all gold)
Total procurement spend analyses	$1.55 billion (2010 – 2013)	$821 million (2010 – 2012)
Number of suppliers **identified**	1,300	2,041
% of supplier spend **classified**	93%	87.7%

The mining company spend was analysed based on **local participation and value-addition** using the framework below. Whilst local participation can include ownership, management, and employment, Kaiser's final categorisation for the supplier spend analysis only used ownership.

FRAMEWORK FOR CATEGORISING SUPPLIERS

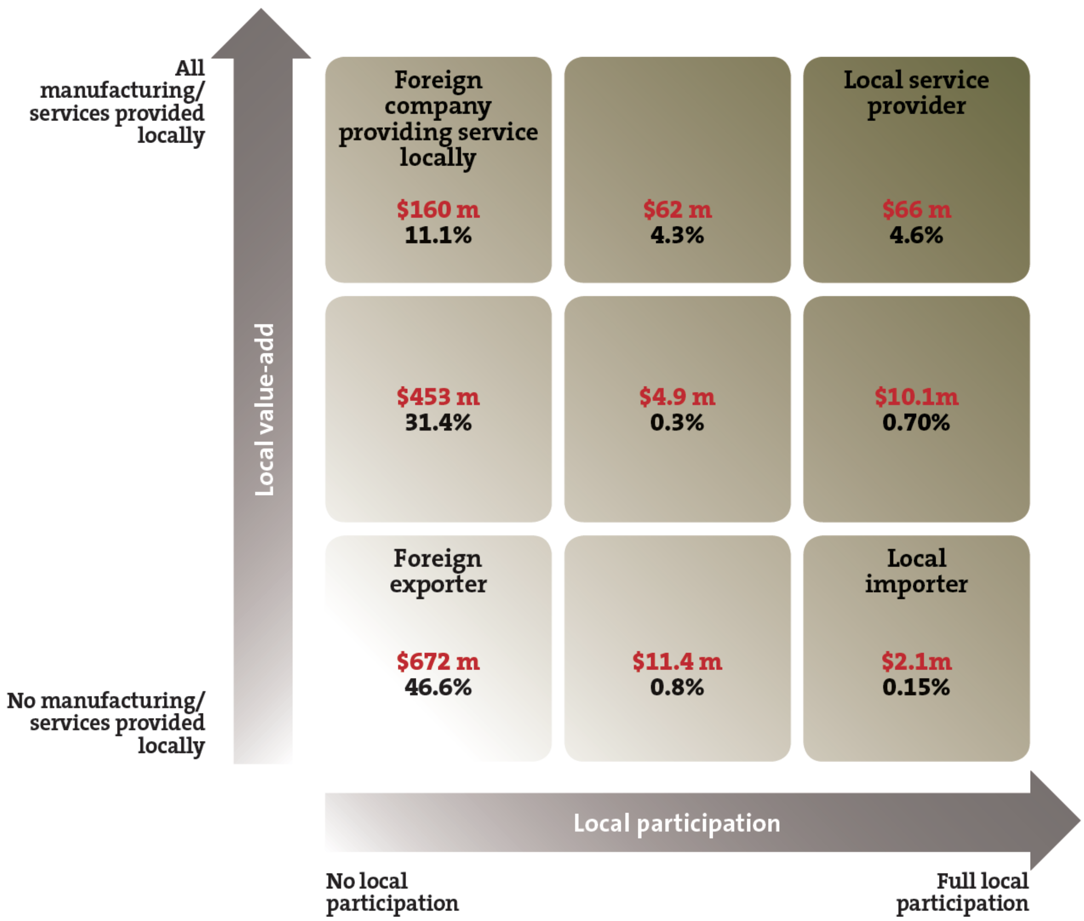


Between the two variables, **value addition** and **local participation**, there are 9 different possible combinations for a supplier. Local value-addition ranges from a supplier not manufacturing or providing services locally through to all manufacturing or services are provided locally. Similarly, the range for local participation from left to right is from no local participation through to full local participation (in terms of citizen ownership, management, and employment).

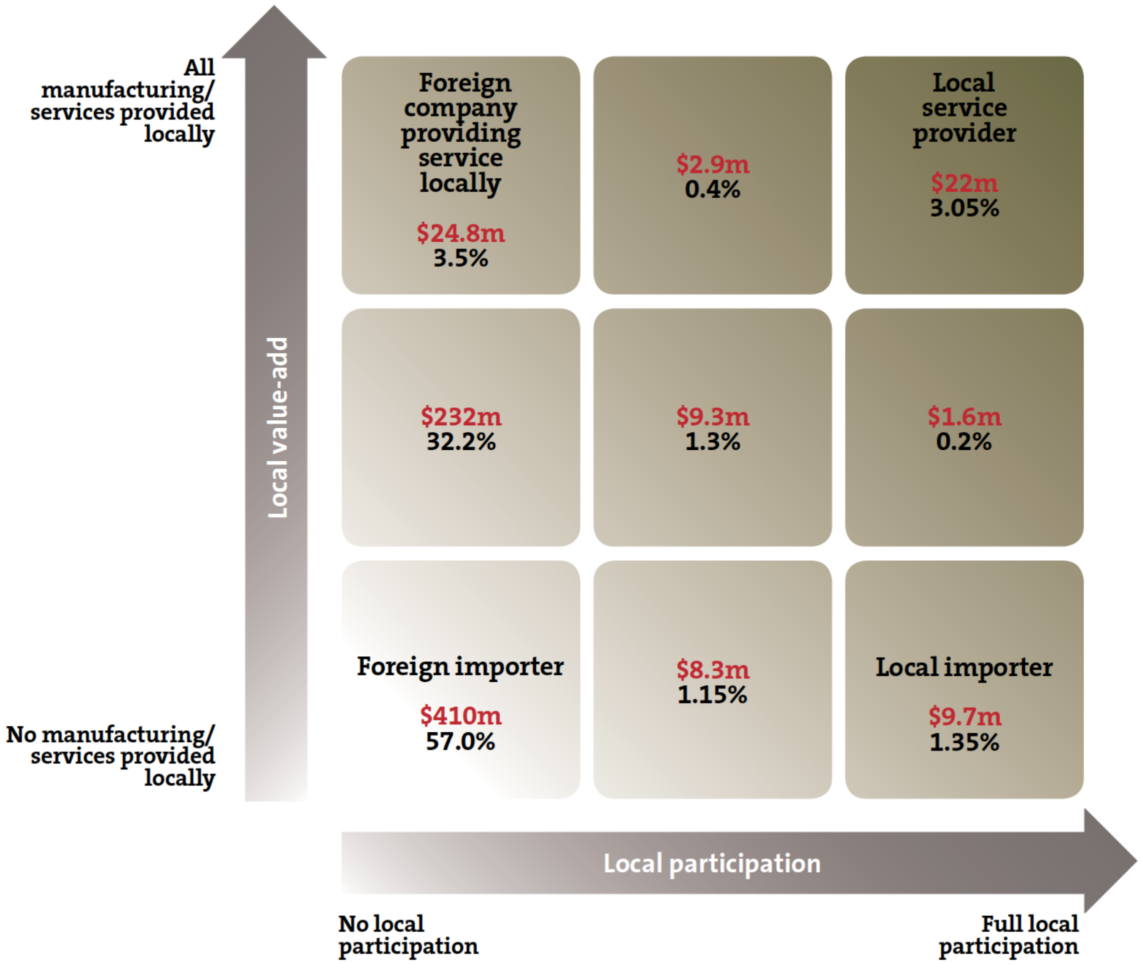
II. Results

Once the spend for Burkina Faso and Liberia was transferred onto the 3x3 matrix in the above "Framework for Categorising Suppliers", there were some interesting results. The first was that **21.4% of spend in Liberia** and **47.2% of spend in Burkina Faso** was on **locally-registered** companies. Whilst this may seem as though a significant portion of spend is providing local value, since it is going to locally-registered companies, most of them are not locally-owned and few are producing or delivering services locally.

In Liberia, **foreign-owned** companies make up **89.1%** of total spend, and **Liberian-owned** businesses **producing or delivering services in Liberia** (maximum local value-add and majority ownership) only account for **4.6%** or $66million.



Burkina Faso's mining industry is more established than Liberia's, and whilst one might expect there to be an increase in spend on local suppliers, that was not the case. In fact, **92.7%** of suppliers were **foreign-owned** and only **3.05%** of spend was on **Burkinabé-owned** businesses **manufacturing or providing services locally**.



The above results emphasize the importance of the definition in local procurement analysis. Using "locally-owned" suppliers produces very different results to using measures that focus on value addition and participation.