



Solomon Islands Infrastructure Program

Local Content Policy

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Contents

1	Policy Statement: Principles & Commitments	1
2	Introduction and Background	2
2.1	Local Content and SIIP.....	2
2.2	Local Content Policy, Strategy, and Plans	2
2.3	Policy scope and limitations.....	2
2.4	Evidence supporting the Policy.....	2
2.5	Local content rules and actions	2
3	Policy Rationale	4
3.1	Local content objectives	4
3.2	No investment left behind	4
3.3	No worker or enterprise left behind.....	4
3.4	Cover the whole project ‘cycle’ and the whole local ‘value chain’	5
3.5	The supply AND take-up of participation opportunities.....	6
4	Evidence-based rules and actions	6
5	Legal and regulatory compliance	7
6	Good practice – do no harm	7
7	Transparency and accountability	7
8	Equality and inclusion	7
9	Monitoring, evaluation, learning, and change	7
10	Knowledge management	8

1 Policy Statement: Principles & Commitments

Local content objectives	SIIP will mainstream local content to: (i) create local jobs; (ii) promote local enterprise development; (iii) accelerate the transfer of skills and technologies; and (iv) meet Solomon Islands' National development aspirations.
No investment left behind	SIIP will apply this policy to enhance local content on every project it finances or supports.
No worker or enterprise left behind	SIIP will apply this policy to enhance participation opportunities across all types and sizes of enterprise and all worker skills and capabilities.
The whole project 'cycle' and the whole local 'value chain'	SIIP will apply this policy, from project selection, planning and design, through construction, and through to operations and maintenance. SIIP will optimise opportunities for local goods and materials suppliers, engineering and other services providers, and construction contractors.
The supply AND take-up of participation opportunities	SIIP will enhance the supply of contracts and opportunities suitable for local participation. SIIP will help and encourage the local take-up of contracts and opportunities – enhancing the willingness and capacity to participate.
Evidence-based rules and actions	SIIP will enhance local content opportunities based on diagnostic analysis of local content dimensions on every project investment.
Legal and regulatory compliance	SIIP's local content support will comply with all relevant Government legislation and regulations.
Good practice – do no harm	SIIP's local content support will do no harm to project quality and value-for-money, and will reflect good international practice including acting in accordance with rules-based international trade and other economic conventions.
Transparency and accountability	SIIP's local content support will enhance transparency and accountability to maintain a 'level playing field' and contain corruption.
Equality and inclusiveness	SIIP's local content support (supply-side), and its capacity development support (demand-side) will emphasise gender equality and inclusive participation by people with disabilities and other marginalised people.
Monitoring, evaluation, learning, and change	SIIP will set local content performance indicators and targets for each project investment and for the Program as a whole. SIIP will monitor and evaluate local content 'success', will articulate lessons, and will adjust SIIP policy, rules and practices as required.
Knowledge management	SIIP will accumulate and manage its local content knowledge, for the benefit of Government, partners and other stakeholders in the Solomon Islands and beyond.

2 Introduction and Background

2.1 Local Content and SIIP

This Policy Statement commits SIIP to mainstream Local Content in all its investment related activities. This will start at project concept stage and continue through the project cycle to construction and beyond to operations and maintenance.

Strengthening local content is a ‘guiding principle’ of the Solomon Islands Infrastructure Program (SIIP’s). The Solomon Islands Government (SIG) and the Australian Department of Foreign Affairs and Trade (DFAT) prioritise local content and they expect SIIP to ‘*optimise returns for the local economy, strengthen local industry and industry practices, and workers’ skills and opportunities.*’ (SIIP Investment Design Document p.8).

Optimising local content is complex. It is challenged by tensions between project-level efficiency, effectiveness, and value-for-money considerations on the one hand, and local and National economic outcomes and prospects on the other. Nation-building is impacted by local content outcomes. Purposefully planned, designed, and delivered local content policies and practices can balance those tensions, delivering win-win results.

2.2 Local Content Policy, Strategy, and Plans

Three documents will articulate and help manage SIIPs local content mainstreaming:

- **Local Content Policy** (this document): States SIIPs local content principles and commitments. The Policy was endorsed by the SIIP Steering Committee.
- **Local Content Strategy** (to be prepared): Explains how SIIP will deliver on those commitments, and will include templates and other tools for preparing individual project Local Content Plans.
- **Local Content Plans** (to be prepared): A Plan for each SIIP or SIIP-supported infrastructure investment project, stating project **rules and actions** during project design, procurement, construction, and post-construction; and setting local content targets if possible. The Local Content Plan will form part of each sub-project’s Project Management Plan.

2.3 Policy Scope and Limitations

The Local Content Policy applies to SIIP-funded and other SIIP-supported sub-projects. It is not intended for broader SIG application, although it should be suitable for the broader Solomon Islands context.

This Policy statement is founded on the 12 local content principles and commitments presented in Section 1. . Local content targets, resourcing, and timing will come later when the Program develops a pipeline of known project investments.

2.4 Evidence Supporting the Policy

SIIP’s Local Content Policy is customised to the needs and opportunities evident within the Solomon Islands infrastructure construction industry and supply chains. The SIIP Policy draws on local, regional and international literature, and on consultations with local stakeholders and researchers.

The Hub team also communicated with informants who have an appreciation of local content issues in the Solomon Islands, or with an appreciation of local content issues more broadly in the Pacific.

2.5 Local Content Rules and Actions

The following examples illustrate the type of project rules and actions that a project-level Local Content Plan could contain to enhance local content (Section 2.2. previous page). Rules and actions will be customised to

each project. The array of local content enhancing rules and actions is broad and varied, as is the range possible SIIP project and activity types.

2.5.1 Supply of local participation opportunities

Procurement rules and actions:

- Reservation or set asides for local firms.
- Preferencing for local firms.
- Reducing tender size, complexity, procedures, and requirements in line with the capacity of local firms and the capacity of project sponsors to procure and manage contracts.
- Unbundling and reserving works packages.
- Making pre-qualification and accreditation easier for local firms.
- Reaching out to local firms so they know about and respond to tender opportunities.
- General preferencing and price preferencing in bid evaluation.
- Simplifying contracts, allowing longer contract periods, and using appropriate payment terms to ease cash-flow problems.
- Use technical specifications that dissuade predatory non-local bidders.
- Mentoring and giving constructive feedback on tenders and during contract administration.

Select projects with greater local content potential.

Encourage local content through the entire value chain.

Program a greater number of smaller projects, not fewer, larger projects.

2.5.2 Local capability and willingness to participate

Program a long-term, reliable, and well-managed stream of contracts that the local 'industry' can harness and develop around.

Identify capacity gaps and constraints at a project-level, including supplier and contractor company management. Work with partners over the long-term to help develop the missing capacity.

Encourage local bids by reducing tendering and contract risks for local companies.

Local content in the Gizo Market construction project

The Gizo Market project was purposefully designed to increase local employment and materials supply opportunities. It achieved this, together with high quality & resilient construction, and good value-for-money. And all this in a remote location with limited local resources.

Rather than tender a conventional construction contract, DFAT procured a Construction Management (CM) contract.

The CM 'unbundled' the works to better match local contractor capabilities and suppliers. The CM also helped with on-the-job mentoring and training.

For instance, 50m³ of roof framing timber was provided by a community-based (**Barekasi**) milling operation. Locally-based Patu Construction constructed most of the building, using local workers. The firm also provided a work-experience placement for a local engineering student.



3 Policy Rationale

This section covers the issues and rationale underpinning each of the Policy’s principles and commitments.

3.1 Local Content Objectives

SIIP defines local content as **the added value brought to the Solomon Islands through workforce development (employment and training of workforce), and investments in contractor and supplier development (developing and procuring construction and other services and supplies locally).**¹

The overall objective of SIIP’s Local Content Policy is therefore to: (i) create local jobs; (ii) promote local enterprise development; (iii) accelerate the transfer of skills and technologies; and (iv) meet Solomon Islands’ National development aspirations.² Increasing local content can also mitigate climate change and disaster risks, by using local knowledge to plan and design projects, using resilient local materials, and using local firms to maintain and repair infrastructure.

Acting to enhance local content in infrastructure projects -- and in operations and maintenance (O&M) -- is increasingly important for the Solomon Islands. A large proportion of infrastructure capital expenditure in the Solomon Islands is financed externally and is required to meet external standards and ways-of-working. Investment rules, standards, and practices can disadvantage local enterprises and workers, and stifle the transfer of skills and technology. Moreover, aggressive market-entry by outside enterprises can tilt an otherwise ‘level playing field’ away from local enterprises and workers.

This is why SIIP needs a Local Content Policy – to ensure that project investments add economic strength and prosperity, and not just buildings and utilities (that may not be sustainable).

3.2 No Investment Left Behind

Optimising local content is a SIIP guiding principle for all that the Program does. Every SIIP investment will have local content potential to harness. Without deliberate and well-formulated local content project rules and actions, some of this potential will be missed.

3.3 No Worker or Enterprise Left Behind

SIIP is uniquely positioned to enhance local content across all ‘tiers’ of the Solomon Islands infrastructure construction and O&M value chain. SIIP will finance contracts suitable for direct or sub-contracted participation by Tier One construction and engineering companies, right through to contracts suitable for community contracting and day-labour participation. The Australian-supported Gizo Market Improvement Project illustrates what a local content focus can achieve (see Box). SIIP’s local content support aims to benefit workers of all skill and capability levels, and enterprises of all sizes and capabilities.

¹ This definition draws on the local content definition used by the *International Petroleum Industry Conservation Association*. The international and regional literature contains many bespoke local content definitions. However, they are variations on the same theme and there is no fundamental dispute as to what constitutes ‘local content’. There are, of course, disputes as to what is good local content policy and practice.

² This draws on the 2013 World Bank description of local content objectives.

3.4 Cover the Whole Project ‘Cycle’ and the Whole Local ‘Value Chain’

Decisions around the entire project cycle can affect local content outcomes:

Planning, identifying and conceptualising the project:

- Projects that are technically complex, large and difficult to ‘unbundle’, and are challenging to design and supply and construct, will provide limited local participation opportunities.
- Some projects necessarily require higher foreign content.

Designing the project:

- Engineering and architectural designs will impact local participation opportunities.
- Most projects will have some level of design flexibility, which can be used to align scale, techniques, and technologies to local capabilities.

Procuring design and other services and construction

- Procurement plans can be designed to optimise local participation.
- Large and complex contracts can be unbundled into discrete smaller contracts, some of which are suitable for local supplier and contractors, e.g. a separate contract of earthworks and site preparation.
- Domestic preference rules and other tools can also be used to optimise local participation.
- Contracts can be designed to encourage or require sub-contracting or joint venturing with local firms.

Constructing the project

- Decisions earlier in the project cycle will determine local content outcomes during construction and post-construction (commissioning, hand-over, defects liability period).

Operations, routine maintenance, renewals, and repairs (together, O&M)

- O&M may offer the best local participation opportunities of all. It must not be overlooked.
- Decisions earlier in the project cycle will impact local content O&M opportunities. For instance, using complex electrical, mechanical and ICT technologies may limit servicing and repair opportunities for local firms.

Participation opportunities should be available for the entire local ‘value chain’, depending on project choices. There is no reason to exclude any part of the value chain. The value chain includes:

- Land-use planning and planning/building permit firms
- Engineering, architecture, and quantity surveying firms
- Specialist (system) design firms
- Engineering investigation firms (e.g. geotechnical, services potholing, and so on)
- Topographical survey firms
- Social and environmental survey and safeguards firms
- Building materials suppliers, including for local and overseas sourced materials
- Electrical, mechanical, ICT and other systems suppliers and installers
- Suppliers of non-construction, support services
- Construction contractors and their work force
- Materials testing firms
- Servicing and repair contractors
- Others.

3.5 The Supply and Take-Up of Participation Opportunities

Effective local content support must tackle both sides of the local content ‘coin’ – the supply of local participation opportunities on one side AND the take-up of those opportunities by local enterprises and individuals on the other. Sections 3.5.1 and 3.5.2 below explain why this approach is important for the Solomon Islands.

3.5.1 For the supply of opportunities

- Most large infrastructure development contracts are funded externally and are not necessarily local content friendly.
- As infrastructure projects and contracts are ‘lumpy’ and are typically not unbundled, the pipeline of suitable contracts is intermittent and not reliable.
- The choice of some infrastructure technology also reduces the local content potential of O&M contracts.
- The procurement level playing field is *not* always level, partly because of predatory behaviour by some market players.
- The Solomon Islands Government does not have comprehensive and effective local content policy and regulations, so, for instance, there is no formalised domestic preferencing except for the *Foreign Investment Act 2005*.

3.5.2 For the take-up of opportunities

- The Solomon Islands’ construction industry value chain has significant capacity limitations and gaps, for instance, few Certificate III-IV trade persons.
- Procurement and contract administration practices can dissuade local enterprises from competing for contracts.
- There are limited local opportunities for Solomon Islander technical professionals to develop careers in cutting edge and sophisticated construction.

Removing local content barriers on one side without addressing barriers on the other side, will have little impact.

4 Evidence-based Rules and Actions

Local content support works best when it is well-considered and customised to the characteristics of each individual project. For instance, domestic preferencing rules and other procurement plan elements should reflect the supply-side and demand-side characteristics and potential of an individual project. Ill-conceived rules and actions may do harm, or at best may be ineffective.

That is why every individual Project Management Plan will contain a bespoke Local Content Plan, carefully and deliberately prepared to enhance local content and to do no harm.

Small-scale contractors and road improvements

DFAT’s Roads for Development partnership with the Government of Vanuatu helped establish local civil works contractors in remote locations. Around 30 ‘small-scale contractors’ (SCCs) are now viable, functioning businesses.

A key success factor was having a reliable pipeline of suitable contracts for the SCCs to take up. Each year, Vanuatu’s Public Works Department (PWD) rolls out a program of road ‘spot improvements’ suitable for SCCs. Much of the work requires concreting – road pavements, flood-ways, drainage structures, retaining walls, etc. SCCs and their local workers are now skilled at using fibre-reinforced and steel-reinforced concrete.

Vanuatu has a National Roads Policy that prioritises converting its fragile gravel roads into a low maintenance and resilient concrete core road network.

Contracts are unbundled so that larger national contractors and SCCs win most of this work.



5 Legal and Regulatory Compliance

SIIP's local content rules and actions will be progressive, however they will not get ahead of legal and regulatory boundaries, both for the Solomon Islands and Australia. Procurement is the area requiring most care. Government procurement laws and regulations aim to protect competitiveness and transparency, and to achieve value-for-money. Good local content rules and actions manage and balance tensions between these universal procurement principles and local content tools such as domestic preferencing; while remaining within local legal and regulatory boundaries.

6 Good Practice – Do No Harm

Ill-considered and overly aggressive local content rules and actions can harm a project, an economy, and a country in unintended ways. This happens when the balance referred to above becomes skewed.

For the **supply** of opportunities, project-level risks include: i) compromised project outcomes, including reduced value-for-money, efficiency, quality, and sustainability; and ii) increased scope for corruption and manipulation by vested interests. Broader market and economic risks include: i) loss of trust and confidence by other market participants; ii) departure of foreign enterprises and their capital, expertise, and technology; iii) the survival and growth of 'zombie' companies; and iv) reluctance of development partners to fund projects. At the international level, a country's reputation as a fair, transparent, and reliable trading partner can suffer.

There are fewer risks around the **take-up** of opportunities. It is important for industry-based vocational training, scholarships and exchanges, and other capacity development support to align with pipelines of contract and employment opportunities. Development of advanced skills without a competitive and thriving sector that can support the employment of skilled and educated staff can lead to disillusionment and 'brain drain' out of the country. Participation and utilisation rates could decline.

7 Transparency and Accountability

Domestic preferencing and other local content support may unwittingly benefit well-connected individuals and firms, and even increase corrupt behaviour. International experience shows it is critically important to maintain transparency and accountability in local content support.

8 Equality and Inclusion

Local content rules and actions can and should broaden participation opportunities for all. Equality and inclusion are allied to, but not limited to, the 'no worker left behind' principle. Projects and their implementation can be purposefully designed to broaden the reach of employment and other opportunities. Projects can apply a wide range of technologies and contracting modalities, some that specifically target women, people with disabilities, and other marginalised people. They can, for instance, include small-scale contracts, which tend to have higher rates of female participation.

SIIP will help local firms build capacity, including in environmental and social risk management, and in meeting equality and inclusion requirements. This will allow them to compete and participate, and to achieve good safeguards and equality outcomes.

9 Monitoring, Evaluation, Learning and Change

Local content outcomes are one measure of 'success' for SIIP. SIIP's monitoring, evaluation, and learning (MEL) plan will articulate what local content success 'looks like'; and the performance assessment

framework (PAF) will include local content performance indicators and targets. DFAT and the SIIP Steering Committee require progress toward targets to be tracked and reported.

International and Pacific experience shows that measuring local content in a project/program/sector is challenging. Domestic preferencing laws and rules can be circumvented by devious business or joint venture registration practices, so that what appears to be 'local' is not. SIIP's local content rules will cover off this kind of loophole to ensure a true and clear picture of local value chain participation in individual investments and across the Program.

This is doubly important. First, lessons and decisions around 'what-to-change' should be informed by accurate information. And second, SIG may use SIIP's local content work to inform a National local content policy.

10 Knowledge Management

Few development partners and programs purposefully have 'local content' as a core principle of their operation. There have been many technical assistance (TA) activities that look into domestic preferencing and procurement, and (usually separately...) industry capacity development. SIIP's approach is different and the experiences and lessons are potentially unique. Progressively over 10 years, SIIP will accumulate experiences and lessons around optimising local content in real investments. SIIP will convert these experiences and lessons into knowledge that can be shared – within SIG and DFAT, with other Solomon Islands and Pacific development partners, and with broader international development communities-of-practice.