

Enhancing Procurement Practice and Local Content in Pacific Infrastructure



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In this report, "\$" refers to United States dollars, unless otherwise stated.

Cover

The Parliament House of Samoa was completed in 2019. Built by Samoans for Samoans, the Maota Fono

“is a showcase of quality skills of our local trades men and women and something that Samoa can be proud of as a symbol of our national identity”.

— Government of Samoa
(excerpt from quote at architecture.com.au)

The project was funded predominantly by the Government of Australia and implemented by the Government of Samoa using national procurement systems and an international project manager and designer.

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“Local content starts at the top. It starts with governments and development partners.

“The private sector can advocate—and governments and development partners can enable—but, in order to participate, there is a requirement for policymakers to implement change.

“To participate, development partners will need to adapt. We need to stop the stigma that local contractors can’t deliver. Development partners need to encourage local content and local participation in all stages of the infrastructure cycle: policy, planning, design, and procurement.

“Local content cannot become another development buzzword. Acknowledging the need is not enough.”

— Solomon Islands contractor

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Abbreviations

ACP	Africa Caribbean Pacific
ADB	Asian Development Bank
AIFFP	Australian Infrastructure Financing Facility for the Pacific
APTC	Australia Pacific Training Coalition
CSO	civil society organization
DFAT	Department of Foreign Affairs and Trade (Australia)
EIB	European Investment Bank
EU	European Union
FIDIC	International Federation of Consulting Engineers
GDP	gross domestic product
GNI	gross national income
JICA	Japan International Cooperation Agency
IRR	internal rate of return
ISO	International Organization for Standardization
LCDF	Local Content Development Fund
LCP	local content policy
LIPP	local industry participation plan
M&E	monitoring and evaluation
MFAT	Ministry of Foreign Affairs and Trade (New Zealand)
NIIP	National Infrastructure Investment Plan
PIPSO	Pacific Islands Private Sector Organisation
PRIF	Pacific Region Infrastructure Facility
RfQ	request for quotation
SICCI	Solomon Islands Chamber of Commerce and Industry
SOE	state-owned enterprise
USAID	United States Agency for International Development
USP	University of the South Pacific
VfM	value for money
WBG	World Bank Group
WHS	work health and safety
WTO	World Trade Organization

Glossary of Terms

Admeasurement. The contract is based on estimated quantities of work, whereas the basis of payment is the actual quantity of work performed.

Advance Payment. Payment made upon commencement of a contract and prior to any work having been completed. Payment is often made against a form of security provided by the contractor.

Bid Security or Bid Bond. A financial security provided by a bidder that accompanies their tender. The objective of a bid security or bid bond is to penalize a bidder if they withdraw their bid, and thus deter collusive tendering.

Competitive Dialogue. The process of seeking bids through separate direct negotiations with more than one bidder.

Construction Management. A contractor is engaged to manage the construction process for a fee. The subcontracts are between the principal and subcontractor directly.

Contract Splitting or Unbundling. Splitting or unbundling a larger project into smaller components for the purposes of facilitating local capacity. Note, this is different to contract splitting for the purposes of avoiding procurement threshold requirements and/or taxation obligations.

Consultant. A person or entity who provides expert services to a person or organization on a particular subject.

Contractor. A person or entity who undertakes construction of works.

Cost Plus. The contractor being reimbursed based on the actual cost of the works plus a fee or percentage for overheads and margin.

Defects Liability Period. A period of time (typically 12 months) following completion of construction in which the contractor assumes responsibility for attending to any defects in the works.

Design and Build. A procurement methodology characterized by single-point responsibility for both the design and construction of a project; typically the contractor.

Development Partner or Partners. One or more of the Asian Development Bank, Australia's Department of Foreign Affairs and Trade, the European Investment Bank, the European Union, the Japan International Cooperation Agency, New Zealand's Ministry of Foreign Affairs and Trade, the United States' Department of State (via the United States Agency for International Development), and the World Bank Group.

Domestic Preference. The allowance for preference to be given to domestic (local) providers in the evaluation of goods or works or services contracts. The preference can be in the form of evaluated price adjustment (goods and works) or technical points evaluation (services).

Early Contractor Involvement. A procurement methodology whereby a contractor is engaged during the design stage of a project.

Engineer, Procurement, and Construction. A form of design and build whereby the contractor undertakes the stated functions to deliver a turnkey solution to the principal.

Expression of Interest. A process used to identify likely market appetite for a project procurement, often including specific prequalification.

Fixed-Price Lump Sum. A single fixed price to complete the works.

Force Account. The contracting of labor by a public entity (who typically supplies the materials and machinery and/or equipment) to complete a project. Typically used where there is no proper full service contracting capacity available.

Goods. Merchandise or materials required for construction of works.

Framework Contract. A contract in which the terms are agreed in anticipation of future work requirements, and whereby the principal can subsequently call upon the contractor to complete or supply an item without the need for a subsequent full tender process.

Guaranteed Maximum Price. The maximum contract amount that a principal will pay to a contractor, often accompanied by a savings regime that rewards both parties for cost-efficiencies.

Infrastructure. The physical public facilities required for the operation of a society. This includes economic infrastructure (energy, telecommunications, transport, solid waste management, water and sanitation facilities) and social infrastructure (education, health, community, cultural, and governance facilities).

International or Open Competitive Bidding. The soliciting of bids in the international arena.

Joint Venture. A proposal from two or more companies who legally combine their resources to bid for and deliver a project.

Least-Cost Selection. Contract award is based solely on price.

Local Content. The engagement of local businesses (e.g., consultants, contractors, suppliers) in the delivery of infrastructure on a commercial basis. This may include employment of national residents, goods and services procured from companies based in the country, partnerships with local entities, the enhancement of local skills and capacity of local businesses, or the improvement of local technological capabilities. "Local" typically refers to businesses domiciled, registered, and/or licensed in the country of delivery of infrastructure; those that predominately employ local nationals; and from which the benefits of their inputs in infrastructure projects largely flow to, or are retained in, the host country, economy, or community.

Lowest Evaluated Substantially Responsive Bid. The lowest bid price that meets the minimum capacity and technical requirements to complete the contract.

Main Contractor. The entity contractually responsible for delivering the works and/or services and/or supplies to the principal.

Managing Contractor. A contractor appointed to manage a project or program, and who subsequently engages consultants and contractors to undertake the services and works.

National Competitive Bidding. The soliciting of bids in the domestic arena. Sometimes referred to as limited competitive bidding. National bidding does not necessarily exclude international competition.

Negotiated Bidding. The process of seeking a bid and/or contract through direct negotiation with one bidder.

Nonprice Criteria. Criteria, other than price, that are used in the evaluation of bids.

One Envelope. Bids are submitted in a single envelope containing both technical and financial proposals, then evaluated together.

Open Bidding. The process of soliciting bids openly by inviting all to tender.

Pacific Island Country or Countries. One or more of the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu

Parent Guarantee. A guarantee given by a party's ultimate or intermediate holding company in favor of the contracting party to secure the performance of that (subsidiary) party's obligations under the contract.

Performance Security. A financial security provided by the contractor in favor of the principal to ensure successful fulfilment of their contractual obligations.

Postqualification. An assessment of contractor or supplier capacity during bid assessment.

Prequalification. An assessment of contractor or supplier capacity, with a view to shortlisting for inclusion on a subsequent tender process.

Procurement. The methodology and processes to obtain, deliver, and/or construct infrastructure requirements. This includes both the methodology of project implementation (e.g., traditional contracting with its distinct and

separate design and construction phases and specialists) and the tendering, evaluation, and award processes for the necessary services required to instigate the procurement methodology (e.g., open competitive bidding, national competitive bidding).

Public-Private Partnership and/or Build Own Operate Transfer. A consortium of stakeholders from the public (i.e., government) and private sectors (e.g., contractors, consultants, financiers) that forms a partnership to deliver a piece of infrastructure. Typically, the infrastructure is financed and **built, owned** (under license), and **operated** for a number of years by the private sector consortium, before ownership is **transferred** to the public entity.

Quality-Based Selection. Contract award is based solely on technical proposals and a price is negotiated subsequently.

Quality-Cost-Based Selection. Contract award is based on a combination of best technical proposal and lowest cost, usually weighted in favor of the former. Typically used for evaluation of consultancy proposals.

Restrictive Bidding. Bidding that places limitations on who may participate.

Request for Bids, Tenders, or Proposals. The process and documentation to solicit goods, works, or services.

Request for Quotations or Shopping. A simplified form of procurement typically used for low-value, standard, “off the shelf” items or repetitive services contracts.

Rise and Fall. A provision in the contract to adjust the contract price based on variances in the cost of labor, materials, plant and equipment, etc., during implementation.

Schedule of Rates. A list of labor, work items, or activities for which contractual dollar rates are provided against a predetermined unit of measurement, and applied for any adjustments during construction.

Selected or Restricted Bidding. The process of soliciting bids from a selected or restricted group, determined through a formal prequalification or other process.

Single Stage. A bid process conducted in one submission (i.e., qualification, evaluation, award).

Services. What the contract requires the consultant to provide to the principal.

Set Asides. The reservation of certain procurement (usually by value or service) for small and/or local business only.

Subcontracting. The process of engaging an entity (subcontractor) to perform a component of the contract requirements on behalf of the entity (main contractor) that retains responsibility for delivering the overall contract requirements.

Supplier. Provider of goods.

Traditional Procurement. Characterized by the distinct separation of the design and construction stages, with a consultant typically responsible for the former and a contractor responsible for the latter.

Tender-Securing Declaration. A declaration by a bidder to agree to be barred from future bidding if they withdraw their bid. The intention is the same as bid security or bid bond, but without the provision of the financial security.

Thresholds. A predetermined financial value or range that determines the procurement methodology and process to be utilized.

Two Envelope. Bids are submitted in separate envelopes for technical and financial proposals. Typically, technical proposals are evaluated prior to opening and consideration of financial proposals.

Two Stage. A bid process conducted in two separate submissions (i.e., a qualification stage followed by a separate request for bid, evaluation, and award stage).

Value for Money. Contract award based on an evaluation of the relevant costs (both capital and recurrent as appropriate) and benefits of a proposal, including an assessment of risks and nonprice attributes.

Works. What the contract requires the contractor to construct, install, and turn over to the principal.



Executive Summary

This report explores the opportunities for enhancing local content in infrastructure procurement in the Pacific to increase economic growth, jobs, and broader development outcomes.

Core Concepts

For the purposes of this report, the term “infrastructure” embraces the physical public facilities required for the operation of a society. This includes economic infrastructure (energy, telecommunications, transport, solid waste management, and water and sanitation facilities) and social infrastructure (education, health, community, cultural, and governance facilities).

“Procurement” refers to the methodology and processes to obtain, deliver, and/or construct infrastructure requirements.

The concept of “local content” covers the engagement of local businesses (e.g., consultants, contractors, and/or suppliers) in the delivery of infrastructure on a commercial basis. This may include employment of national residents, goods and services procured from companies based in the country, partnerships with local entities, the enhancement of local skills and capacity of local businesses, or the improvement of local technological capabilities. “Local” typically refers to businesses domiciled, registered, and/or licensed in the country of delivery of infrastructure; those that predominately employ local nationals; and from which the benefits of their inputs in infrastructure projects largely flow to, or are retained in, the host country, economy, or community.

The particular countries considered in this report (often referred to collectively as “Pacific island countries” or “the countries”) are the Cook Islands, the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

The term “development partners” or “partners” refers to the eight partners of the Pacific Region Infrastructure Facility. The bilateral partners are Australia, Japan, New Zealand, and the United States. The multilateral partners are the Asian Development Bank, the European Union, the European Investment Bank, and the World Bank Group. Partners typically provide funding and/or technical assistance to countries to support the delivery of various physical infrastructure programs and projects designed to address the identified need.

Current Scenario

Compared to many other parts of the world, Pacific island countries have relatively low levels of electrification, paved roads, airport services, telecommunications, and port facilities. There has also been a lack of adequate maintenance for the region’s existing infrastructure assets, often causing Pacific islanders to endure degraded roads, uncomfortable schools, outmoded health facilities, and other inadequate services. This low base of infrastructure development has been exacerbated by the increased frequency of natural disasters experienced by Pacific island countries since the turn of the millennium. Extreme natural events have severely impaired or destroyed vital infrastructure, affecting people’s lives through loss of shelter and access to essential services.

It is estimated by the Asian Development Bank that the Pacific region requires \$3.1 billion annually to fully address infrastructure needs. Similarly, the Government of Australia has estimated the infrastructure shortfall in the Pacific and Timor-Leste to be \$46 billion from 2017 to 2030. Pacific island countries have insufficient economic resources to fulfil these funding requirements and, as such, they require assistance from development partners.



Physical infrastructure programs and projects cover a wide variety of needs, but are typically categorized by sector, which are regarded as either economic or social. Irrespective of sector, the delivery of physical infrastructure projects by countries and their development partners generally requires the use of private sector expertise and specialist skills, including feasibility studies, detailed design work, construction supervision, and project management. The methods and processes by which such expertise and skills are sourced, contracted, and deployed are generally known as “procurement”.

Procurement for infrastructure projects is complex due to the inherent risk of such projects. Although variable for different types of infrastructure projects, risk generally emanates from each project’s scale, cost, uniqueness, timeframe for implementation, and technical complexity. Consequently, successful procurement is critical to overall project success.

It is therefore not surprising that countries and partners have developed detailed procurement policies, processes, regulations, and standard bidding documents to govern procurement. These procurement policies have been promulgated by either national legislation in the case of the countries and bilateral partners, or in the form of regulations and guidelines by the multilateral partners (consistent with their respective charters).

Efficient and transparent use of public funds is central to the procurement regulations of all countries and partners. International consultants, contractors, and suppliers are often best placed to deliver infrastructure and infrastructure services to the required quality and within timeframe and budget requirements. This approach has, however, been questioned in terms of the economic benefits flowing to the countries, skills transfer to local industries, domestic employment, and the sustainability of infrastructure technologies (especially those not conducive to local maintenance capacities and resources).

Many Pacific island countries also suffer from frequent and economically damaging natural disasters, particularly cyclones. For instance, during the period of this study, Tonga suffered damage to infrastructure as a result of volcanic activity and an associated tsunami. The ability of all countries to respond quickly using local resources is vital to restoring connections to critical infrastructure and essential services.

More recently, the impact of the Covid-19 pandemic has highlighted the need for greater reliance on the use of local resources to deliver infrastructure projects. This has primarily been due to international travel restrictions enforced during the pandemic. In addition, there is a need to contribute to the post-pandemic economic recovery of the Pacific region. The Lowy Institute estimates that the pandemic will result in a “lost decade” of development for Pacific island countries.

The use of local resources, typically referred to as “local content”, in infrastructure projects can support economic recovery from natural disasters and the Covid-19 pandemic as well as contributing to general economic development more broadly.

Evidence of the economic and social benefits of using local content can be found in a number of infrastructure projects detailed in this study. A locally targeted road maintenance program in Tonga created 200 jobs. A schools reconstruction project in Vanuatu provided much-needed disaster recovery and economic stimulus, while enhancing maintenance of infrastructure at the local level. The development of a local content policy and strategy for roads infrastructure in Fiji has resulted in an increase of contract awards to local companies, with corresponding increases in employment.

Such examples have led to calls for greater input from the private sector within countries to help deliver local content in infrastructure projects.

The precise “level” of local content in infrastructure projects across the Pacific island countries could not be established definitively. However, looking at one of the partners of the Pacific Region Infrastructure Facility that captures this better than most, World Bank data (2016–2021) identifies



that, across the 13 countries as a whole, 85% of World Bank-financed works contracts were “locally won”, representing 50% of total works contract expenditure. In Solomon Islands, 90% of World Bank-financed works contracts were “locally won”. This represented 40% of the financial value of total works contracts. For Tonga, 94% of World-Bank financed works contracts were “locally won”, representing 72% of the total value. For the purpose of the analysis, “locally won” included registered branches of international firms, but this was not a significant factor affecting either Solomons Islands and Tonga statistics.

This study explores ways to enhance local content in infrastructure projects through the procurement process.

Key Findings

The study assessed the scope for local content in infrastructure projects and the potential benefits and costs to the domestic economy associated with such content. These vary depending on the nature of the infrastructure project and the capacity of the local market to meet the various requirements of project implementation. The potential benefits of using local content include increases in employment, capacity building for contractors and the domestic workforce, economic multipliers (as earnings circulate and contribute to the output of other sectors of the economy), application of appropriate technologies, technology transfer, and more effective maintenance. The potential costs of local content include an adverse impact on project quality, additional management and supervision costs, and the environmental damage that the greater use of local natural resources may invite.

Because there can be costs as well as benefits associated with local content, it is considered appropriate to optimize local content (as distinct from maximizing it). It should, however, be noted that the optimum level of local content can be difficult to identify accurately because local content is not defined in terms suitable for quantifiable economic analysis (e.g., in terms of domestic value-added). Further, the lack of existing performance indicators linked to local content in project design and monitoring frameworks makes it difficult to evaluate or quantify.

The study identified a number of barriers that inhibit the incorporation of local content into the procurement of infrastructure projects in Pacific island countries. These barriers are categorized into demand-side (governments and development partners), supply-side (the private sector), and the broader external environment that surrounds infrastructure project implementation. Not all barriers apply to all stakeholders, nor to the same extent.

For countries, the absence of national policies on local content contributes to a lack of demand for such content and, consequently, missed opportunities for integration into project designs and procurement plans. Countries would likely be more successful in incorporating local content when negotiating project implementation arrangements with partners if specific content policies existed. Other barriers include procurement capacity constraints, cultural complexities, lengthy award time lines, and slow or delayed payments.

Development partners vary in the extent to which they pursue local content. While some partners proactively incorporate local content into infrastructure projects, others are more averse to overt requirements for such content. While general principles described in their respective procurement policies and regulations encourage development of local capacity, other considerations—particularly requirements for economy and efficiency—tend to dominate at the expense of, or in competition with, use of local content.

The study identified a lack of consideration of local content at the project concept and design phase, and a lack of local content monitoring and evaluation baseline indicators for project performance reviews. It also identified areas of improvement for both countries and partners in giving prominence to



opportunities to bid for infrastructure projects through readily accessible advance information, which would help suppliers better position themselves to bid.

For consultants, contractors, and suppliers, there is a lack of visibility and analysis of local capacity that restricts the tailoring of projects to available local content. Relevant professional and umbrella organizations, such as professional associations and chambers of commerce, generally lack capacity and fail to provide the visibility and advocacy required on behalf of their members. The exception appears to be Samoa, which reportedly provides good representation for members.

Consultants, contractors, and suppliers (particularly small or emerging entities) may not fully understand the challenges of meeting the specified financial and technical capacity requirements to bid and may not possess appropriate skill sets, including estimating, tendering, and contract management. Consultants, contractors, and suppliers often lack of access to capital to support both bidding (bid security, performance security, cashflow financing) and investment (in equipment and facilities). In addition, trade and professional skills are limited at the local level and may not be to international standards.

External barriers arise when comparing the business-enabling environments of Pacific island countries to those in other regions of the world. There are multiple and persistent constraints on private sector development in the Pacific, including wide geographic dispersion, distance from major markets, limited economic capacity, complex legislation, weak policy, human and institutional capacity constraints, and limited access to financial services. These constraints are compounded by exposure to natural disasters that frequently result in significant economic disruption.

The combination of supply-side, demand-side, and external barriers to local content can produce a cycle of cause and effect that continues to constrain the optimizing of local content in infrastructure projects in Pacific island countries. For example, the lack of local content policy is not conducive to (some) partners reconsidering their risk profile and creating an enabling environment that actively seeks the integration of local content. This results in local content not necessarily being considered at the forefront of project design and implementation. This, in turn, inhibits development of local industry capacity, which perpetuates the lack of visibility and analysis of local capacity. Consequently, there is little advocacy to national government and little inclination for change, resulting in continued capacity constraints in procurement processes and the private sector. External barriers perpetuate the cycle.

On the positive side, this study identified initiatives implemented by some partners explicitly designed to lift local content levels—despite there being no local content policy or country-level legislation requiring them to do so.

Recommendations at a Glance

In general terms, this study recommends that procurement—particularly where public financing is involved—be prudent, well-regulated, and transparent. Moreover, in light of the high costs associated with infrastructure provision and maintenance, risks should generally be minimized (though some risks are inevitable).

To enhance the prospects of optimizing local content into infrastructure projects in Pacific island countries, the study identified a matrix of recommendations categorized by stakeholder (countries, development partners, the private sector). Some of the key considerations include:

- (i) developing local content policies and/or enabling environments;
- (ii) incorporating local content as early as possible into projects;
- (iii) strengthening promotion and awareness of infrastructure pipelines;

- 
- (iv) embedding local content indicators into infrastructure project monitoring and evaluation requirements and post-project reviews;
 - (v) using procurement mechanisms that facilitate local content;
 - (vi) establishing procurement competency frameworks and related training programs;
 - (vii) creating pathways for skills development and recognition for local workers within infrastructure programs;
 - (viii) researching the quantifiable costs and benefits of local content to facilitate objective project decision-making;
 - (ix) establishing a local content infrastructure development fund; and
 - (x) strengthening the capacity of professional associations and chambers of commerce to provide representation for local content providers.



1 Introduction

1.1 Background

For the purposes of this report, “infrastructure” is defined as the physical public facilities required for the operation of a society. This includes economic infrastructure (energy, telecommunications, transport, solid waste management, water and sanitation facilities) and social infrastructure (education, health, community, cultural, and governance facilities).

While significant progress has been made in the provision of infrastructure to Pacific island countries, more remains to be done.

In the Pacific (including Papua New Guinea):

- (i) 52% of the population does not have access to proper drinking water;
- (ii) 69% of the population does not have access to basic sanitation;
- (iii) 45% of households across the region (overwhelmingly those in Melanesia) do not have access to some form of electricity;
- (iv) 66% of the road network is unpaved (mostly in Melanesia) and the condition of roads is generally “inadequate”;
- (v) 92% of airports are unpaved, which restricts usage and detrimentally impacts tourism and broader economic development; and
- (vi) some shipping ports cannot facilitate direct cargo and passenger loading and unloading, resulting in inefficient double-handling by barge or similar¹.

It is estimated by the Asian Development Bank (ADB) that the Pacific region requires \$3.1 billion annually to fully address its infrastructure needs. Similarly, the Australian Government has estimated the infrastructure shortfall in the Pacific (and Timor-Leste) to be \$46 billion from 2017 to 2030², or approximately \$3.2 billion annually³.

As a percentage of gross domestic product (GDP), the Pacific requires greater levels of infrastructure investment compared with the individual regions of Asia⁴.

This study looks at the procurement processes in 13 Pacific island countries, identified as the member countries of the Pacific Region Infrastructure Facility (PRIF), comprising the Cook Islands, the Federated States of Micronesia (FSM), Fiji, Kiribati, the Marshall Islands, Nauru, Niue, Palau, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

These countries are often supported by development partners to finance their infrastructure needs and meet national development objectives.

The major partners included in this report are ADB, Australia’s Department of Foreign Affairs and Trade (DFAT), the European Union (EU), the European Investment Bank (EIB), the Japan International Cooperation Agency (JICA), New Zealand’s Ministry of Foreign Affairs and Trade (MFAT), the United

¹PRIF. 2021. *Review of Economic Infrastructure in the Pacific: Pacific Infrastructure Performance Indicators 2021*. Manila: ADB.

²DFAT. 2017. 2017 Foreign Policy White Paper. <https://www.dfat.gov.au/publications/minisite/2017-foreign-policy-white-paper/fpwhitepaper/index.html>.

³The figures of both ADB and the Government of Australia are believed to include Papua New Guinea, which is not included in the scope of this study. Estimates for infrastructure requirements for the countries upon which this study is focused could not be obtained.

⁴ADB. 2017. *Meeting Asia’s Infrastructure Needs*. Manila. p. xiv (note: in this publication, the Pacific is believed to include Papua New Guinea).

States' Department of State via the United States Agency for International Development⁵ (USAID), and the World Bank Group (WBG), all of whom, as partners of PRIF, supported this study.

Development partners more broadly⁶ support Pacific island countries in the provision of infrastructure either by financing projects implemented by the countries or by direct implementation of projects themselves. In 2019, development partners included in this study disbursed and/or committed approximately \$980 million to Pacific island countries across the communications, energy, transport, and water and sanitation sectors. This represented approximately 79% of the entire donor infrastructure funding to these countries across these sectors⁷.

1.1.1 Growing Economies by Promoting Local Content

Regardless of the method of implementation, provision of infrastructure requires cooperation between the countries and their partners. The countries generally take responsibility for project implementation, which includes preparing project procurement plans and implementing procurement. Generally, procurement must conform with the partner's guidelines and regulations, and partners often finance additional expertise where gaps in procurement capacity are identified.

In this report, "procurement" refers to the methodology and processes to obtain, deliver, and/or construct infrastructure requirements. This includes both the methodology of project implementation (e.g., traditional contracting with its distinct and separate design and construction phases and specialists) and the tendering, evaluation, and award processes for the necessary services required to instigate the procurement methodology (e.g., open competitive bidding, national competitive bidding).

Partners generally place high importance on achieving project economy and efficiency as a core principle of procurement. Ensuring that infrastructure outputs are of the required quality is also a prime objective. At times, economy and efficiency are sought through maximizing the size of any particular contract to achieve economies of scale and to attract bids from international bidders that may have greater capacities than local bidders.

However, this focus can have negative downstream implications for local content in infrastructure projects within Pacific island countries⁸.

In this report, "local content" is defined as the engagement of local businesses (e.g., consultants, contractors, suppliers) in the delivery of infrastructure on a commercial basis⁹. This may include employment of national residents, goods and services procured from companies based in the country, partnerships with local entities, the enhancement of local skills and capacity of local businesses, or the improvement of local technological capabilities¹⁰. "Local" typically refers to businesses domiciled, registered, and/or licensed in the country of delivery of infrastructure; those that predominately employ local nationals; and from which the benefits of their inputs in infrastructure projects largely flow to, or are retained in, the host country, economy, or community¹¹.

⁵ As the implementing agency for the United States' State Department, who is the official PRIF partner.

⁶ The Lowy Institute Pacific Aid Map and Database identifies 67 donors to the Pacific region. <https://pacificaidmap.lowyinstitute.org/lists>.

⁷ Lowy Institute. Pacific Aid Map. <https://pacificaidmap.lowyinstitute.org>.

⁸ J. Hawkins and J. Wells. Undated. Modifying Infrastructure Procurement to Enhance Social Development.

⁹ As distinct from a noncommercial basis, e.g., where local communities and businesses are engaged and funded to develop infrastructure under not-for-profit arrangements.

¹⁰ International Petroleum Industry Environmental Conservation Association. 2016. Local Content: A Guidance Document for the Oil and Gas Industry.

¹¹ It is acknowledged that this definition requires some flexibility to suit differing country contexts. There are various forms of "local" enterprises in Pacific island countries, such as companies that may operate locally but have an international parent or similar. There are also "local" enterprises that operate regionally across the Pacific. Further, there are variances of the "local" definition within any given Pacific island country, e.g., local resources in a rural area may be considered differently to resources that are mobilized from a larger city.

As an example of the barriers to utilizing local content, greater levels of financial and technical capacity might be required for larger-scale works that cannot be met by local contractors, even where there is a junior joint venture partner in association with an international partner (which is a common method for encouraging local content). Moreover, experience has shown that large international consultants and/or contractors do not necessarily engage local suppliers, fearing additional costs in terms of management fees, delays, reworks, and other issues. Thus, local content, particularly in large-scale works or services, may not be optimized.

At the same time, the provision of infrastructure in Pacific island countries also faces challenges because of the region's dispersed geography, comparatively small economic scale, and remoteness from major markets.

A desire to challenge established practice¹² and accrue economic benefits to local economies¹³—as well as the need to respond quickly to more frequent natural disasters and overcome travel restrictions imposed during the Covid-19 pandemic¹⁴—has stimulated thought and effort on the part of some development partners to review their procurement protocols to increase opportunities for local content. Calls from some countries' private sectors for increasing local content are contributing to this impetus¹⁵.

1.1.2 The Need to Optimize Rather Than Maximize Local Content

Balancing the objectives of a project's economy and efficiency with the utilization of local capacities is at the core of optimizing local content. Not all projects can be delivered solely by local entities (e.g., due to scale or technical complexity), although discreet opportunities for local content may exist within such projects (e.g., through the use of local suppliers and subcontractors). Generally, smaller and less technically complex projects (e.g., roadworks and school construction) lend themselves to greater levels of overt local content. This study identifies examples of this.

The objective should be to optimize the level of local content in the provision of infrastructure projects in Pacific island countries, commensurate with local capacities. The consequences of suboptimal local content at the macro level is constrained national social and economic development.

More specifically, suboptimal levels of local content in infrastructure delivery are perceived to result in:

- (i) higher capital costs for infrastructure;
- (ii) longer delivery timeframes for infrastructure;
- (iii) missed capacity development opportunities for local industries and workforce;
- (iv) technically and financially burdensome infrastructure maintenance regimes due to reliance upon foreign resources and/or increased recurrent costs (that are generally funded from national budgets)¹⁶; and

¹² See, for example, ADB's Pacific Approach 2021–2025.

¹³ Australian Infrastructure Financing Facility for the Pacific. 2019. Investment Design.

¹⁴ DFAT. Undated. Partnerships for Recovery: Australia's Covid 19 Development Response.

<https://www.dfat.gov.au/sites/default/files/partnerships-for-recovery-australias-covid-19-development-response.pdf>

¹⁵ For example, the Solomon Islands Chamber of Commerce and Industry has taken the initiative to develop a local content policy and advocate for adoption by government.

¹⁶ It should be noted that over a 50-year period, the operation and maintenance of infrastructure assets are estimated to represent 75% of the total life cycle of infrastructure in Pacific island countries. PRIF. 2021. *Maintenance Benchmarking Report: 2021 Baseline Assessment*. p.iii.

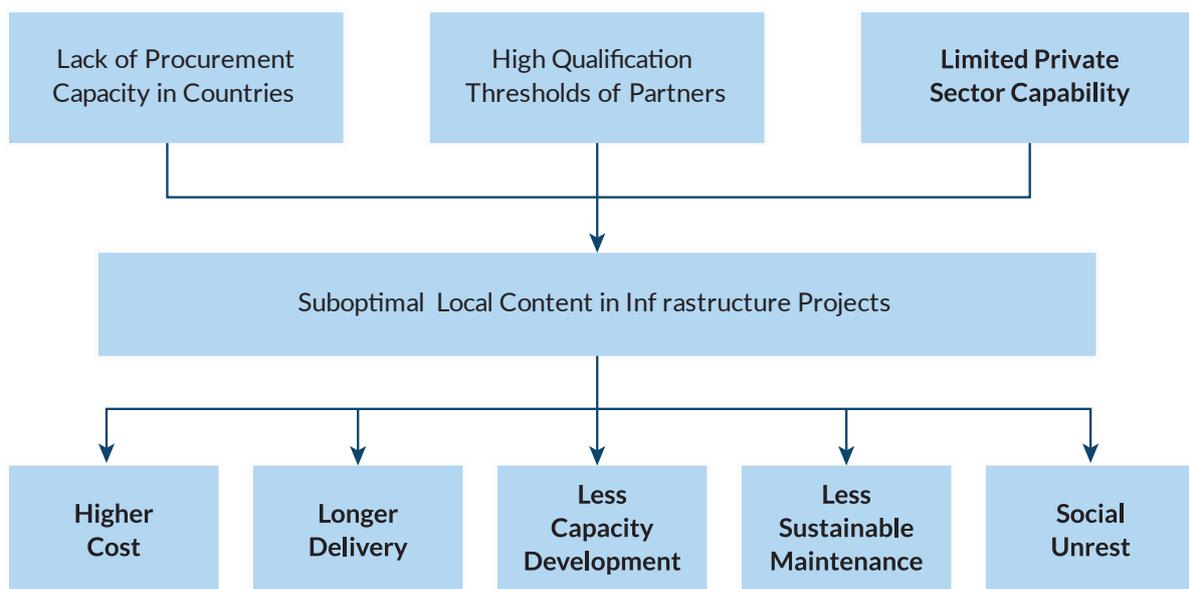
(v) frustrations in the community, potentially contributing to social unrest¹⁷.

However, positive impacts of local content are perceived to include direct and indirect economic benefits, social development, and greater sustainability of maintenance regimes.

Reasons hypothesized for the suboptimal level of local content include those related specifically to procurement. This includes (i) limited procurement knowledge, capacity, and processes within governments' procurement agencies; (ii) high technical, financial, and experience qualification thresholds for local consultants and contractors required by development partners; and (iii) limited local private sector capability in tendering and compliance with bid submission requirements.

These factors manifest in the procurement practices of the three key stakeholder groupings (the countries, their development partners, and the local private sector), as shown in Figure 1.

Figure 1: Hypothesized Cause and Effect Analysis for Suboptimal Local Content



Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

These practices may be barriers to local content. If so, examining and addressing those impediments may stimulate the growth of local content over time and reduce the negative consequences identified above.

1.2 Purpose and Objectives of the Study

The purpose of the study is to enhance the use of local content through the procurement procedures of infrastructure projects in the Pacific. Within this contextual background, the specific objectives of the study are to:

- (i) identify opportunities for improving procurement practices to facilitate local content, and
- (ii) develop a greater understanding of the social and economic costs and benefits of using local content.

¹⁷ The November 2021 rioting in Honiara, Solomon Islands, was alleged to have stemmed partly from inequitable access to infrastructure project funding to local business, compared with foreign providers. ABC News. *Solomon Islands Unrest Driven by Poor Living Standards and Resources Being Sold Off*. YouTube. <https://www.youtube.com/watch?v=b6S1AZJkyds/>

1.3 Methodology of the Study

1.3.1 Overarching Methodology

The study undertook both a broad (wide) and focused (deep) analysis across two phases:

Phase 1: Regional stocktake¹⁸ to provide an overview of the procurement and local capacity environment in the Pacific, comprising:

- (i) summaries of existing procurement legislation, rules, and/or guidelines in each country;
- (ii) review of the procurement processes of development partners to identify particular approaches to local content, best practices, and opportunities to promote local content;
- (iii) collection of available data on local contractors and consultants (e.g., professional and contractor registrations);
- (iv) identification of the main barriers to local content across the countries;
- (v) summarizing vocational education training authorities and their collaboration with industry; and
- (vi) identifying relevant procurement initiatives and best practice examples.

Phase 2: Detailed analysis for two select countries. Solomon Islands and Tonga were selected¹⁹ for in-depth case study analysis, including:

- (i) identification of infrastructure project pipelines;
- (ii) identification of the potential outcomes of scenarios involving varying degrees of local content in infrastructure delivery;
- (iii) key informant interviews with government and private sector representatives; and
- (iv) analysis of infrastructure contracts awarded to identify extent of local content. In Solomon Islands, the study was able to leverage a symposium on local content in publicly financed infrastructure projects hosted by the Solomon Islands Chamber of Commerce and Industry (SICCI)²⁰.

1.3.2 Data Collection Methods

The study employed the following data collection methods:

Desktop Study. A review of publicly available and relevant resources on the internet (e.g., procurement legislation, guidelines, regulations, contract awards, etc.).

Interviews. Detailed discussions with key stakeholder groupings, including:

¹⁸ The intention of Phase 1 was to capture and comment upon existing data, as opposed to conducting new analyses. For example, the study reviewed and reported on industry skills analysis undertaken by training providers, but did not undertake any new analysis. Similarly, for information on local contractors and consultants and relevant procurement initiatives, the authors identified what had been done, but did not undertake a detailed evaluation of those initiatives.

¹⁹ A country selection matrix was established using unweighted 2020 parameters of population, region, subregion, land area, GDP, gross national income per capita, income group, Human Development Index, fragility status, investment by PRIF partners for 2009–2015, comparative industry maturity, and practicality of achieving successful and timely results. Solomon Islands and Tonga were selected as they were considered to provide a reasonable balance between the need for contrast, the need for reasonable size, and the need to implement the study in a timely manner. No objections were raised in respect of the selection after consultations with partners (ADB, DFAT, MFAT, and WBG). The selections were proposed and approved by PRIF and confirmed in the project inception report.

²⁰ Although conducted independently, the symposium was well aligned to this study both in terms of the agenda and the stakeholders that participated.

- (i) Pacific island country governments, contractors, and consultants.
- (ii) Development partners (ADB, DFAT, EIB, EU, JICA, MFAT, USAID, WBG).
- (iii) Professional organizations. (e.g., South Pacific Engineers Association, Fiji Institute of Engineers, Institute of Professional Engineers Samoa).
- (iv) Education and training providers. (e.g., Australia Pacific Training Coalition, National Training Institutes, Don Bosco Technical Centres, University of the South Pacific).
- (v) International contractors and consultants who bid for work in the Pacific.

Key Informant interviews were conducted, predominantly via teleconferencing and face-to-face, in Solomon Islands and Tonga, by locally based team members. Responses were recorded using a common format. A total of 64 such interviews were conducted.

Survey. An online survey was developed and utilized. This received 19 responses.

Project Examples. Actual infrastructure projects were utilized to exemplify the potential costs and benefits of local content and differing implementation arrangements. This approach was subsequently applied to the local content analysis of the national infrastructure investment plans of Solomon Islands and Tonga.

1.4 Limitations of the Study

Limitations that affect the overall efficacy of the study are as follows:

- (i) There was engagement with representatives of stakeholders in nine countries but engagement with representatives of all stakeholder groups was only achieved in three countries²¹.
- (ii) North Pacific countries are underrepresented, which is important noting that the procurement environment is different to that in the South Pacific²².
- (iii) A planned stakeholder workshop for Tonga could not proceed due to the volcanic eruption in January 2022. Additionally, Government of Tonga contract award data could not be obtained.
- (iv) The study was impacted by the Covid-19 pandemic. While some study team members were based in Pacific island countries, international travel to other countries was not possible.

Notwithstanding these limitations, sufficient data were collected to produce findings and recommendations that are considered generally applicable across the countries.

²¹ The study aspiration was to obtain both public and private sector data in all 13 countries.

²² Infrastructure procurement in the North Pacific countries of the FSM, the Marshall Islands, and Palau is heavily influenced by financing provided under the Compact of Free Association with the United States of America. Infrastructure projects financed under the Compact are managed by the United States Department of Interior. In this instance, the application of the USA Federal Acquisition Regulations varies in certain material respects from their application in other (non-Compact) countries where projects are funded and managed through USAID. For example, in the FSM there is a 100% bonding requirement, compared with the more typical 10% required in other countries where projects are managed by USAID.

2 Infrastructure Procurement in Pacific Island Countries

2.1 The Role of Procurement in Promoting Local Content

Procurement occurs during the design and implementation stage of the project cycle, with the aim being to secure the best result for the host country from the design and construction of the infrastructure asset. This section considers the scope for local content at the procurement stage.

It should be noted that consideration of local content in terms of procurement is also relevant at earlier stages in the project cycle, such as project identification and project selection, recognizing that this is when operation and maintenance aspects should be considered. Project options identified and analyzed at these stages would benefit from considering local content. Project prioritization undertaken within and across sectors at these earlier stages of the project cycle could also consider local content²³.

Local content in infrastructure delivery plays an important role in strengthening domestic economies through direct employment, multiplier effects, and building the capacity of local consultants, contractors, suppliers, and the workforce generally. Suppliers in the country context are, in the main, importers. Meanwhile, for larger developing countries in the international context, domestic manufacturers of building materials and other products used in construction can be a major consideration in local content policies. Policy relating to support for domestic manufacturing is not addressed here, though this has been an important area of policy debate in the post-independence experience of some of the larger Pacific island countries²⁴. Not entering this policy debate does not, of course, preclude local suppliers from supplying domestically manufactured inputs.

Comparisons have been made between the relatively low profile of local content in infrastructure delivery in Pacific island countries and the high profile afforded to local content in the extractive industries of developing countries. These comparisons can be instructive, though there are differences in context. In the extractive industries, local content policies are often seen as a means of boosting returns to the domestic economy when foreign investment is involved and financial instruments, such as taxes and royalties, have underperformed, with the efficiency of the industries being a secondary consideration (especially where the output is exported directly, without domestic processing).

This contrasts with the situation in infrastructure delivery, which involves the development of assets considered vital to the domestic economy, with the quality and efficiency of these assets being of crucial concern. This means that the bar is set higher for local content policies in infrastructure delivery to demonstrate a strong business case, though ample room remains for sound local content policies that are of net benefit to the domestic economy.

The scope for local content in a project depends both on the nature of the project and the capacity of the local market in the various aspects of project implementation (capacity that varies significantly from

²³ For example, PRIF-supported national infrastructure investment planning undertaken by a number of countries utilizes multicriteria analysis to rank potential infrastructure investments across sectors. This prioritization is normally directed at establishing a ranking of project concepts for further development, appraisal, and on to submission for final approval and funding. Consideration could be given to including the potential for local content as a criterion in these project prioritization exercises.

²⁴ This policy debate centers on whether tariffs on imports and other support measures are warranted to encourage import substitution and new or infant industries. The downside of such measures is the impact on the cost structure across all other sectors of the economy.



country to country and within a country, between rural and urban areas for example). Some projects lend themselves more readily to local content than others, depending on factors such as the level of technology involved. As an example, road maintenance projects lend themselves to local content (due to the high—and relatively unskilled—labor requirement, use of local materials, and basic machinery required), while undersea communications cable projects are less conducive to local content (due to the sophisticated technology required for cable-laying). A response to this challenge can be to seek out appropriate technologies and build technology transfer into project design, though there will remain cases for which the prospects for local content are limited.

The use of local contractors in project implementation can be expanded through well-designed projects, and these projects should be championed, though this is a gradual process due to limits associated with small markets and economies of scale. This may come at a cost, but potentially results in a better project outcome. At the same time, the costs of collecting and maintaining data on consultants, contractors, and suppliers can be reduced by the national authorities progressively creating a database informed by past procurement exercises.

As there can be costs as well as benefits associated with local content, it is appropriate to work towards optimizing local content rather than maximizing it.

2.2 Categorizing Procurement in the Pacific

Infrastructure procurement in Pacific island countries can be categorized by source of funding.

2.2.1 Self-Funded Projects

These are projects self-funded by countries with no external financial assistance. In this situation, the procurement is conducted by the national government.

Procurement within countries is typically implemented using a decentralized system, whereby the local ministry of finance retains overall authority for the procurement process and provides a support and compliance role to line ministries and/or state-owned enterprises (SOEs), who are responsible for the actual procurements within their remits. For example, the ministry of infrastructure (or equivalent) typically will be responsible for procurement of infrastructure-related goods, services, or works within the overall national procurement framework overseen by the ministry of finance.

2.2.2 Partner-Funded Projects

These are projects funded through either a grant or loan facility to the country. In this situation, the procurement is conducted in one of two ways.

- (i) The country uses procurement systems and documents that have been approved by, or are otherwise compatible with those of, the development partner. The procurement systems and documents are usually based on standard partner processes and templates, yet harmonized with the legal requirements of the country. The standard national procurement system of the country can be used “as is” if approved by the partner. In addition, a project implementation unit with procurement expertise or similar may be established for infrastructure programs that have multiple procurement activities (e.g., subprojects).
- (ii) Procurement is conducted directly by the partner, using their own procurement systems.

Partner-funded projects can be bilateral (i.e., country to country), or multilateral (through a multipartner agency, e.g., ADB, WBG). They can also include joint or parallel funding arrangements between two or more partners, including the country itself.

Within this overarching framework, there are a myriad of procurement methodologies and procurement processes, and numerous variations and combinations thereto, that can be utilized to procure an infrastructure project and associated goods and services. These methodologies and procurement processes are listed in and defined in the report's glossary of terms.

Table 1: Procurement Methodologies and Processes

PROCUREMENT METHODOLOGY	PROCUREMENT PROCESS				
	Solicitation	Contract	Tender Type	Mechanics	Evaluation
Traditional	International / Open competitive	Fixed-Price Lump Sum	Open	Single Stage	Lowest Evaluated
Design and Build		Rise and Fall	Selected / Restricted	Two Stage	Substantially Responsive
Managing Contractor	National / Local Competitive	Admeasurement	Negotiated	Prequalification	Least-Cost selection
Construction Management		Schedule of Rates	Competitive Dialogue	Postqualification	Quality-Cost-Based Selection
Public Private Partnership / BOOT	Request for Quotations / Shopping	Guaranteed Maximum Price		One Envelope	Value for Money
Force Account	Framework	Cost Plus		Two Envelope	Quality-Based Selection

BOOT = build own operate transfer

Source Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

This broad overview of infrastructure procurement belies its complexity. This complexity is magnified when considering that each of the 13 countries assessed, and each of the eight partners, has its own set of procurement rules, regulations, and processes.

These are now considered in the context of enabling local content.

2.3 Procurement Procedures of Pacific Island Countries

A desk study revealed the procurement rules and regulations for each of the countries²⁵. These are summarized in Appendix 1. Select key attributes that could impact the use of local content in infrastructure projects are listed Table 2. It is important to note that the table indicates whether or not the regulations make provision for each attribute, and not whether the procuring entity is actually implementing that provision. For example, only Fiji's procurement office appears to be publishing

²⁵ Some countries allow for separate procurement regulations to be applied by authorities or SOEs. For example, Fiji has 25 such entities, including major recipients of partner financing such as the Fiji Roads Authority, the Water Authority of Fiji, and Energy Fiji Ltd. Conversely, other countries apply central procurement regulations to all entities. For example, in Samoa, major procurement by the Land Transport Authority and the Samoa Ports Authority is conducted through the Government Tenders Board (though chief executive officers and boards have authority to approve relatively small contracts). Procurement practices of SOEs have not been examined in detail, with the exception of those of the Fiji Roads Authority, selected as an example that proactively implements a local content policy (Appendix 4). However, it is essential to determine which procurement rules apply if an SOE is to implement a partner-financed project as, in general, there may be more flexibility but also more potential for conflicts with partners' regulations that will need to be resolved. For example, negotiations with more than one bidder after receipt of bids may be practiced and, while considered acceptable in the private sector environment, it may be in serious conflict with a partner's guidelines.

annual procurement plans online, though many others are required to do so. Similarly, no listings of contractors and suppliers can be found on any of the websites.

Table 2: Select Attributes of Procurement Regulations to Facilitate Local Content

	Cook Islands	Fiji	Federated States of Micronesia	Kiribati	Marshall Islands	Nauru	Niue	Palau	Samoa	Solomons	Tonga	Tuvalu	Vanuatu
Threshold for competitive bidding (\$)	42k	15k	50k	8k	25k	P		10k	60k	12k	45k	73k	90k
Nonprice criteria	Y	N	N	Y	N			Y	Y	N	Y	Y	Y
Electronic procurement	Y	Y	P	Y	Y			N	Y	P	P	N	Y
Domestic preference	Y	N	Y	Y	N			Y	N	N	Y	N	N
Register of contractors	Y	N	N	Y	N			N	N	N	Y	N	Y
Annual procurement plans	N	Y	N	Y	N			N	Y	N	Y	Y	Y
Complaints mechanism	Y	Y	Y	Y	Y			Y	Y	Y	Y	N	Y
Blacklist	N	N	N	Y	N			N	N	Y	Y	Y	N

\$ = United States dollars, k = 1,000, N = no provision in the regulations, P = partial provision, Y = express provision

^A Thresholds are listed for works. Thresholds for goods may be lower.

Source: Procurement procedures of the various countries, as identified in the Appendix.

Relatively comprehensive regulations exist for all countries, with the exception of Nauru and Niue.

In Nauru, there are no national procurement regulations. Nauru currently uses a system of procurement agents and this is understood to be a temporary “stop-gap” measure. Consequently, this was not explored further in the study.

Niue’s procurement regulations are under development. The country’s Financial Secretary shared the draft of these regulations on a confidential basis and it is apparent that Niue’s regulations will be largely similar to those of the other Pacific island countries.

Broadly speaking, the procurement regulations of each of the 13 countries are similar, but they are not uniform. Basic best-practice procurement principles are described and generally align with those of the partners. Measures designed to promote local content are generally applicable only to lower-value contracts and open competitive bidding for large contracts is universal. Thresholds for competitive bidding vary considerably, but are generally quite low (Table 2).

An assessment of the key attributes is provided as follows:

2.3.1 Value for Money and Nonprice Criteria

Most countries procurement policies expressly state that the objective of procurement is to obtain best value for money (VfM). Many countries allow for nonprice evaluation criteria. However, little direction is found in the countries’ guidelines as to how the bid evaluation criteria should be established to

reflect desired VfM attributes, or how VfM differs from traditional bid awards based on the common “lowest-evaluated substantially responsive” criteria.

VfM could weigh perceived benefits of local content against potential costs, i.e., perceived increased risks of inefficiency or lack of quality. Nonprice criteria could in some cases reflect value-added by virtue of local presence and knowledge, e.g., if delivery time is critical, or if the use of available local materials and technologies is possible. Appendix 4 contains an example of how nonprice evaluation criteria could be incorporated in a bidding document and in the context of seeking to identify and measure VfM attributes of local content. Box 1 outlines a leading example of an attempt to provide guidance on VfM and nonprice criteria, using conditions set out in the Kiribati procurement manual

Box 1: Nonprice Criteria to Assess Value for Money in Kiribati Procurement

Nonprice evaluation criteria include employment opportunities, decent work, compliance with social and labor rights, social inclusion (including people with disabilities), equal opportunities, accessibility design for all, taking account of sustainability criteria, including ethical trade issues, and wider voluntary compliance with corporate social responsibility. These criteria work to advance sustainable development and achieve the government’s social objectives.

The Kiribati procurement manual provides an explicit and detailed approach to utilising value-for-money approaches to promote local content through procurement. For medium-value procurements, it is highly recommended to include a scoring benefit for international tenderers who commit to use domestic resources. This additional scoring can be included as a separate technical evaluation criterion and allocated a value (recommended at 5%–15% of the total technical nonprice criteria). The application of this mechanism should be based on an analysis of local content capacity and not to increase the risk for an international tenderer.

For high-value procurement, the mandatory (emphasis added) use of domestic resources, through local partners, consortia, joint venture or similar, together with an additional scoring criteria in the nonprice evaluation, may be considered.

Source: Government of Kiribati. 2021. *Manual for Public Procurement in the Republic of Kiribati*. March. pp.76–77. <http://procurement.gov.ki/-8>

2.3.2 Domestic Preference

Some countries’ regulations (as in the Cook Islands, the FSM, and Kiribati) expressly allow a margin of preference for local bidders, also known as domestic preference. Preferences range from 5% to 15% of price on a case-by-case basis, or as a mandatory factor to be included as a nonprice evaluation criterion (typically in the selection of consultants under quality-cost-based award criteria). In the short term at least, the practice may encourage local content. However, beyond consultant firm selection, it could not be established how often the preference mechanism is applied in each country. Some countries advised that, although regulations permitted preferences, they are not generally used.

2.3.3 Thresholds for Competition

All countries have relatively low thresholds for procurement by request for quotations (RfQ) in comparison with ADB, for example, where the threshold is commonly set at \$100,000 or more. However, the RfQ procedure itself may require only local advertisement or direct solicitation of (usually) three quotations. It is therefore likely that most, if not all, minor works falling below the RfQ threshold would be awarded to local entities. RfQ for low-value procurement is generally considered good practice as it is proportionate in terms of time and effort, particularly where overseas bids would be unlikely.

2.3.4 Electronic Procurement

Some procurement entities use either their own or an external electronic procurement website for advertising, tender stage management (clarifications, etc.) and bid receipt (e.g., Fiji, and, more recently, Samoa). In some cases, the procurement agency's website is used only for advertising bidding opportunities. Use of full electronic procurement, such as that provided by Tenderlink²⁶ and Pacific Islands Forum Secretariat Tender platform²⁷ enables wide access to the bidding documents, usually free of charge. This is of particular benefit to local entities as they can easily and cheaply identify potential subcontracting opportunities and meet with other potential bidders at prebid and site meetings that are normally conducted for larger projects. Use of electronic tendering platforms (in countries that have good internet connectivity) is considered best practice, not only in terms of enabling local content, but for procuring goods, works, and services generally. Use of electronic tendering platforms is gaining currency, likely due to partner encouragement and improved internet connectivity.



Emergency procurement in action. Considerable damage was sustained by Fiji's transport infrastructure, including coastal erosion to road sidings, due to Cyclones Ana and Yasa. The Fiji Roads Authority was able to reallocate funding from an ongoing partner loan to finance emergency repair works under area maintenance contracts held by local contractors (photo supplied by ADB)

2.3.5 Contractor Registers

Some regulations (as in the Cook Islands and Vanuatu) require procuring entities to develop registers of market participants and monitor their performance. This is considered good practice and potentially a means of providing a more informed view of the risks and benefits associated with local content. The study found that few, if any, countries maintained a database or list of suppliers of goods and services, notwithstanding that their regulations require them to do so. With this basic information lacking, it is difficult to develop strategic procurement plans in support of local content.

2.3.6 Visibility of Procurement Plans

Some procurement regulations mandate government ministries to prepare annual procurement plans and submit them to the central procuring authority for publication on its website. Advance notice of upcoming opportunities is important for local entities that may have more limited resources for bid preparation, bid security, etc., than do their international counterparts. Publication of annual procurement pipelines is therefore good considered good practice. Unfortunately, few are actually putting this into practice and no annual procurement plans could be found during this study (except that of the Fiji Procurement Office²⁸).

2.3.7 Emergency Procurement

All procuring entities allow (either explicitly or implicitly) for regulations to be waived to procure goods and services for an expedited response to a disaster. Infrastructure in Pacific island countries is highly exposed to damage caused by cyclones, floods, earthquakes, volcanic activity, and/or tsunamis. Local

²⁶ Illion TenderLink. <https://illion.tenderlink.com/>

²⁷ Pacific Islands Forum. Tenders and Procurement. <https://www.forumsec.org/pacific-islands-forum-tenders-and-procurement/>

²⁸ Fiji Procurement Office. Future Opportunities. <http://www.fpo.gov.fj/index.php/for-suppliers/future-opportunities>

entities are often best placed to respond. Some procuring entities allow for framework or “call off” agreements to be in place in readiness for anticipated needs, and this is considered good practice that could be adopted by others. The Tonga volcano and tsunami disaster of January 2022 demonstrates the clear need for rapid response, which local entities are often best placed to deliver.

2.3.8 Tender and Performance Securities

Most procurement regulations rigidly specify a requirement for bid security and performance security from the successful bidder. Some allow for a risk assessment to be undertaken and securities to be specified accordingly. This is the case in the following extract from the Kiribati procurement manual:

The use of Tender securities should be restricted to, subject to an analysis, it is deemed that (i) there is a significant (sic) risk, based on previous experience or frequent behavior in the relevant market segment and/or (ii) the consequences would be severe to the Procuring Entity, in particular if the Public Procurement procedure would have to be reopened, not having a qualified or valid, due to the Tender validity time having expired, second-best Tender.

This flexible approach is considered good practice and likely to reduce barriers to entry for local entities. Similarly, some procuring entities allow for a bid-securing declaration in lieu of an actual bid security and this is particularly appropriate where most bidders are expected to be local and the threat of being barred from future bidding is a sufficient deterrent to ensure compliance.

2.3.9 Complaints Mechanisms

All countries’ regulations specify a mechanism for dealing with complaints. However, some depend on referring matters to the courts, which essentially makes the system ineffective because of the high costs and time required, particularly to hear small-value complaints. Good practice requires that a complaints mechanism is transparent and easily accessible.

2.3.10 Debriefing

Most regulations specifically allow for debriefing of unsuccessful bidders. This is considered good practice provided that no information pertaining to the bids of other bidders is disclosed (apart from price, technical scores, or other information that is required to be disclosed).

2.3.11 Annual Reports

Some procuring entities are required to prepare and publish annual reports on their websites. This is good practice as it provides the information needed to develop procurement strategies, rather than simply procure on a contract-by-contract basis. The Fiji Procurement Office again provides a good example²⁹.

To expand on the particular features of country regulations described, the regulations of Solomon Islands and Tonga were reviewed in detail from the perspective of opportunity for local content. The reviews are included in Appendix 1.

²⁹ Fiji Procurement Office. <http://www.fpo.gov.fj/>

2.4 Procurement Procedures of Development Partners

A desk study of the procurement procedures of each development partner was undertaken. Detailed results are contained in Appendix 2 and a comparative summary is provided here. Select key mechanisms that could facilitate local content are listed in Table 3 and arranged by development partner. It should be noted that conditions may apply to the use of these mechanisms, as explained in Appendix 2.

Table 3: Procurement Mechanisms Available to Facilitate Local Content

Mechanism \ Partner	ADB	AIFFP ³⁰	EIB	EU	JICA	MFAT	USAID	WBG
Non-Price Criteria	✓	✓	x	x	P	✓	x	✓
Restrictive Bidding	x	x	x	x	x	x	P	x
Joint Venture / Subcontract	✓	✓	✓	✓	✓	✓	NS	✓
Domestic Preference	✓	✓	✓	✓	x	NS	NS	✓
– Goods	✓	✓	x	✓	x	NS	NS	✓
– Works	✓	✓	x	✓	x	NS	NS	✓
– Services	✓	✓	x	✓	x	NS	NS	✓
Limited / National Competitive Bidding	✓	✓	✓	P	✓	x	✓	✓
Tender Securing Declaration	✓	✓	x	x	x	NS	NS	✓
Advance Payment	✓	✓	NS	NS	✓	✓	x	✓
Contract Splitting / Unbundling	✓	✓	x	x	✓	✓	✓	✓
Framework Contracts	✓	✓	NS	✓	NS	✓	✓	✓
Set Asides	NS	NS	NS	NS	NS	NS	✓	NS
Force Account	✓	✓	✓	NS	NS	NS	NS	✓
Parent Guarantees	NS	NS	NS	✓	NS	✓	NS	NS
Local Industry Participation Plan	x	✓	x	x	x	x	x	X
Targeted Procurement Guidelines for Countries	P	NA	x	x	x	NA	x	✓

ADB = Asian Development Bank, AIFFP = Australian Infrastructure Financing Facility for the Pacific, EIB = European Investment Bank, EU = European Union, JICA = Japan International Cooperation Agency, MFAT = Ministry of Foreign Affairs and Trade (New Zealand), USAID = United States Agency for International Development, WBG = World Bank Group.

Legend: ✓ = Permitted, x = Not Permitted, P = Partial, NS = Not Stated, NA = Not Applicable.

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content (using the procurement frameworks of key development partners).

³⁰ Revised from original publication with advice from AIFFP that World Bank procurement guidelines have been utilized as the baseline for their framework and supplemented to introduce additional AIFFP requirements

While there are similarities between the procurement processes of the Pacific's key development partners, there are also considerable variances and no one standard approach exists.

In terms of procurement principles, the requirements of economy and efficiency feature prominently in a number, but not all, of the partners' procurement processes. Economy and efficiency are typically achieved through international competitive bidding or open competitive bidding.

Eligibility to bid by nationality may be restricted depending on the source of funds. ADB generally requires bidders to be nationals of its member countries and the EU requires bidders to be nationals of EU member countries or its African Caribbean and Pacific member states. These restrictions sometimes impact contracts for goods in particular. ADB and the WBG maintain public lists of bidders that are barred from bidding or otherwise sanctioned.

Some partners identify local content as an objective of their procurement activities, although this varies from overtly specific to more understated encouragement of local industry. Other partners have no such requirement, or consider local content as contrary to their procurement requirement to be nondiscriminatory based on nationality.

2.4.1 Nonprice Evaluation Criteria

More recent procurement processes of some partners have introduced VfM principles, which potentially enables consideration of value beyond price and life cycle cost to include, among other things, socioeconomic objectives. This could be (and, in certain instances, is) applied to pursue local content objectives through the development of relevant nonprice evaluation criteria. In other instances, the guidance offered for VfM does not explicitly mention local content and thus specific application of the concept to foster local content remains undefined and vague. Appendix 4 contains a detailed example of how nonprice evaluation criteria can be incorporated into a bidding document in the context of seeking to identify and measure VfM attributes of local content.

2.4.2 Procurement Planning for Local Content

Procurement plans are a requirement of most, if not all, partners. These are typically the responsibility of the countries to complete for partner approval or endorsement to ensure conformity with partner procurement processes. Procurement planning provides an opportunity to assess potential for local content (e.g., through an analysis of local market capacity as is done by, at least, the WBG) and for integration of those opportunities into the procurement plan (e.g., smaller contract package size to match local capacity). This does not necessarily mean that the opportunity would be restricted to local providers (unlikely to be permissible by partners), but rather that the procurement process permits local content to either compete with international bidders on an equal basis, or supplement bids (e.g., by joint venturing).

One partner, the Australian Infrastructure Financing Facility for the Pacific (AIFFP), funded via DFAT³¹, goes further and actively develops project-specific local content plans. The AIFFP has a number of core principles that guide its work. One of these is local content, asking the question: Is the project maximizing the use and skilling of local labor and the private sector? This requires an overt consideration of each project, including an analysis of the local labor market and private sector, which is mandatory for all AIFFP procurements.

A specific local content plan can be developed either through the procurement planning process or through project specific local content capacity research, analysis, and subsequent development of a

³¹ As instructed by PRIF, the review of DFAT procurement processes is confined to the AIFFP. No review of the procurement processes of DFAT's bilateral or regional programs has been undertaken.

local industry participation plan (LIPP) or similar³². This plan identifies the extent and nature of project-specific local content requirements and benefits. In turn, the local content plan is incorporated into the procurement planning, bidding, and implementation process. VfM nonprice evaluation criteria might be used to facilitate this. Cost reimbursement items for using local content within the bid pricing schedule could be another way of compensating for any additional cost or risk identified by bidders.

The key difference between this direct approach and the more nebulous VfM mechanism is the overt identification of local content requirements by the partner in consultation with the country.

As an example, MFAT specifications for the construction of a multipurpose hall in Solomon Islands required the successful contractor to engage a minimum of 12 youth from local technical colleges on the project (Case Study 3.1). The youth (at least 25% girls and women) were recruited via local training providers and were required to be employed for a minimum of 12 months. Other prescriptive stipulated requirements included rates of pay, employee benefits, work hours, health and safety training, skills transfer, employment contracts, etc. Bidders were required to submit methodologies that included their approach to the inclusion of youth training and employment within the contractor's build team. Although comparatively minor, costs were included as a separate line item.

This form of overt local content specification contrasts with vague or ill-defined local content requirements or no requirements at all. It is important to bidders because it allows for a considered allocation of any risk for local content to be segregated from other project risks (e.g., quality and time). In turn, that provides greater certainty and ability to manage that risk, knowing that contracts will not be awarded on price alone and/or that specific risk allocations for local content are included in the cost schedules and/or bills of quantities. This enables a project to be "de-risked" from the bidder's perspective; not in absolute sense, but in a manner that is conducive to overall project success, including capturing the benefits of local content.

Coupled with this point is the creation of an overt and formalized risk-enabling environment in the procurement approaches of some partners. A minority of partners' procurement processes steadily encourage (in a general sense) measured risk-taking to maximize project and/or program results. This philosophy can potentially include environmental and social outcomes that may result from enhanced local content. Presumably, this approach promotes an organizational environment that supports the incorporation of rationally assessed local content into infrastructure projects, insofar as such local content is considered to be a risk by partners. Thus, any risk avoidance culture that may otherwise be a barrier to local content can be diluted. As one partner put it, risk measures should be developed "based on risk management rather than risk avoidance".

Such an organizational environment may also encourage innovative procurement methodologies, including those that are conducive to optimizing local content.

2.4.3 Early Contractor Involvement

"Design and build" is an obvious example of a departure from the traditional separated design and contract procurement methodology. A more recent variation is early contractor involvement (ECI), which has long been used in Australian and New Zealand construction markets as a mechanism for integrating contractor expertise (primarily in terms of buildability and cost) into the project design phase, where it will have the most impact.

The same approach could be used to facilitate local content by use of a locally based ECI contractor to provide specific design advice regarding, for example, construction technologies and material selections

³² See, for example: Government of Western Australia, Department of Commerce. *Industry Participation Plan: Suggested Template*. https://view.officeapps.live.com/op/view.aspx?src=https%3A%2F%2Fwww.commerce.wa.gov.au%2Fsites%2Fdefault%2Ffiles%2Fatom%2Ffiles%2Findustry_participation_plan_-_350m_or_greater23022017.docx&wdOrigin=BROWSELINK

that suit local markets from both buildability and maintenance perspectives. This can be done in conjunction with specialist consultancy advice, which may also incorporate local content considerations. The ECI contractor role is not intended to replace design services, but rather supplement them.

In Tonga, for example, MFAT are applying the ECI methodology in the Tonga Parliament House Reconstruction Project, following destruction caused by Cyclone Gita in 2018 (Case Study 3.2). A local contractor has been engaged to provide design and construction advice, alongside international design consultants, to ensure that maintainable local technologies are utilized and local content harnessed.

By its nature, the ECI model injects a level of local content into project design through enhanced buildability incorporating the use of local construction techniques, materials, etc.

The ECI contractor may not necessarily be engaged for the construction works proper. However, where the ECI contractor is engaged for construction, there may be opportunity to build in local content through having noncommitted subcontract construction budgets³³. At the same time, the principal accepts more risk (by comparison with a traditional fixed-price lump sum contract), but also retains significant control over local content requirements.

2.4.4 Project Implementation Arrangements

The use of management contractors to implement broad programs comprising a number of projects, or for very large one-off projects, is another innovative procurement methodology that could be used to facilitate local content. The management contractor subsequently engages consultants and contractors to undertake the services and works as required. This mechanism presents similar opportunities to ECI for incorporation of local content.

There are also examples of development partners adopting innovative project implementation arrangements that involve a more hands-off approach to procurement and a greater emphasis on the use of country procurement systems. A good example is the results-based lending program for transport projects in Solomon Islands (Case Study 3.3). While not necessarily facilitating local content as such, this example does demonstrate flexibility in procurement by a partner. Local content, in turn, may be incorporated to the extent afforded by local procurement regulations. Moreover, the case study suggests that timely expenditure of project funds can be achieved using country procurement systems, implying that procurement is not necessarily less efficient than implementation through partner processes.

2.4.5 Design and Construction Framework Contracts

One development partner has established nonmandatory framework contracts for both main contractors and principal-side project managers. These contracts can be accessed and utilized by Pacific island countries. This facility provides countries with access to a prequalified, partner-approved international design and construction capacity that is fully aligned with the partner's requirements, including for local content. In theory, this should facilitate local content into infrastructure project delivery. The framework contractors consulted for this study confirmed their preference for this approach and the allied LIPPs. Indeed, one contractor suggested such plans should be mandatory on all projects.

³³ Where not engaged for construction proper, the ECI contractor is engaged effectively as a specialist consultant and paid a fee accordingly. Where engaged for construction, the ECI model seeks contractor bids based on competitive pricing of preliminaries, profit, and overhead only, with budgets for the trades for construction subsequently awarded on a deferred let open book basis as construction progresses.

However, this approach may also reinforce that nonlocal entities will, in the main, lead projects (when utilized), albeit with the explicit requirement to meet minimum local content requirements. In a sense, this provides a balanced risk management mechanism whereby greater certainty of quality and delivery is retained, but local content is also factored into that delivery.

2.4.6 Other Specific Procurement Mechanisms

There are a number of specific procurement mechanisms within the processes of partners that can facilitate local content. These include joint venturing with local partners³⁴; domestic preference (both on price for goods and for encouraging use of national experts as team members in teams of international experts)³⁵; limited competitive bidding; provision for tender-securing declarations in lieu of bid securities, or locally acceptable bid bonds; provision for advance payments (unsecured in some instances), framework contracts, force account³⁶, contract splitting, and parent company guarantees (accepted by some partners only); and the use of set asides earmarked for local bidding only.

Whilst some partners operate largely within the Pacific, others are regionally or globally active. Some of these latter partners have developed additional and specific procurement guidelines and associated bidding documents that are either specifically targeted to Pacific island countries or can be easily adapted thereto³⁷. These specific procurement guidelines acknowledge the unique characteristics of the countries and incorporate more flexible mechanisms, e.g., reduced financial and technical capacity requirements, often in conjunction with contract splitting.

For example, in Solomon Islands, the WBG has identified reduced financial and technical capacity requirements as an enabler to the engagement of local contractors on road and aviation construction projects. Research was needed (and undertaken by the WBG) to identify actual local capacities, subsequent training in bid preparation, and then reshaping actual contract packages to match the identified capacities. A similar approach is being implemented in Tonga.

Other flexibilities in procurement mechanisms include increased advance payment amounts, bid-securing declarations in lieu of bid securities, framework agreements, more autonomous use of country procurement rules, restrictive bidding, and segregation of labor and materials contracts—all specifically to broaden the pool of local contractors that can qualify to bid. Such flexibilities are evident in the Kiribati Kitset Classroom Rehabilitation Project, whereby the materials are procured and supplied by the client, with labor-only contracts for construction with the client-supplied materials (Case Study 3.4). Clients supplying materials effectively mitigates financing and quality risks that may be associated with less experienced or financially less capable contractors. This procurement approach has become established for classroom construction in a number of Pacific island countries.



Rural road in Solomon Islands. Some Pacific island countries have placed a focus on procurement processes for transport infrastructure (photo by Solomon Today Post).

³⁴ For some partners, each joint venturer is required to meet the overall financial capacity requirements, which undermines this method of encouraging local content.

³⁵ The application of domestic preference is clearly intended to do just that. However, there remains debate over the effectiveness of the application of domestic preference. See, for example: ADB. 2018. *Domestic Preference: Guidance Note on Procurement*. <https://www.adb.org/documents/procurement-domestic-preference>

³⁶ The use of force account as a mechanism to promote local content is debatable. It should be used only as a last resort (i.e., where no other contracting capacity exists) but not as means to compete with and potentially “crowd out” local content providers.

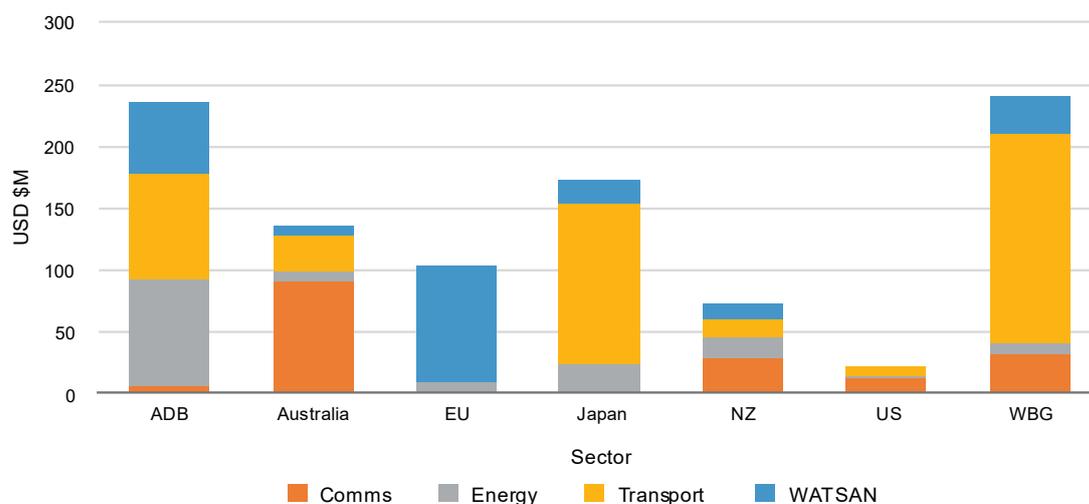
³⁷ WBG. 2017. *Making Procurement Work for Fragile and Small States in the Pacific* (not publicly available); and ADB. 2018. *Fragile, Conflict-Affected and Emergency Situations: Guidance Note on Procurement*.

2.5 Extent of Local Content in Public Infrastructure Contract Awards

Regardless of how infrastructure procurement is funded, or the methodology for implementation, there is always opportunity to incorporate local content. This begs the question of how much local content is included in infrastructure projects in the Pacific.

In 2019, the PRIF partners funded and/or committed approximately \$1 billion for infrastructure in Pacific island countries, across the communications, energy, transport, and water and sanitation sectors, as shown in Figure 2.

Figure 2: Development Partner Funding to Pacific Island Countries, 2019



\$ = United States dollars, ADB = Asian Development Bank, Comms = communications, EU = European Union, NZ = New Zealand, WATSAN = water and sanitation, WBG = World Bank Group

Note: Education and Health are excluded as the infrastructure component of these sectors could not be identified.

Source: Lowy Pacific Aid Map

However, due to lack of available contract award data, it cannot be ascertained precisely how much local content was included in this overall expenditure. While individual contract awards may be disclosed, annual summaries of contract awards are generally not published by national procurement authorities. Further, information is only available for winning bids, obscuring bidding activity of other local entities and subcontractors.

Nevertheless, some attempt can be made to quantify the extent of local content in Pacific island infrastructure by looking at relevant WBG³⁸ data for 2016–2021. Across the 13 countries assessed, 85% of WBG-financed works contracts were “locally won”³⁹, representing 50%⁴⁰ of works contract expenditure. Moreover, if Papua New Guinea is added to the WBG data, the value of local contract awards increases to 55%.

³⁸ Of the partners included in this study, the WBG financed approximately 25% of infrastructure to the Pacific island countries in 2019.

³⁹ For the purpose of the analysis, “locally won” includes registered branches of international firms.

⁴⁰ African Development Bank. 2006. Annual Procurement Report as cited in J. Wells. Undated. Relieving Chronic Poverty Among Construction Workers: An Exploration of Possibilities to Improve the Quantity and Quality of Jobs. http://engineersagainstpoverity.org/wpcontent/uploads/2018/07/Relieving_chronic_poverty_among_construction_workers.pdf.

This compares favorably with sub-Saharan Africa. In 2006, less than 40% of the financial value of new works contracts was awarded to companies from the subcontinent – and this figure includes contracts awarded to international firms that set up offices in African countries.

An analysis of available data for the countries assessed in Phase 2 of this study, i.e., Solomon Islands and Tonga, yielded more detailed and comprehensive results.

2.5.1 Solomon Islands

From 2018 to 2020, the Government of Solomon Islands awarded 183 infrastructure-related contracts to 109 local contractors for a total of approximately \$44.2 million (SI\$356 million)⁴¹. Most contracts were of very low value, though a small number were in the range \$0.5 million to \$0.8 million. The contracts included both capital works expenditure (44%) and refurbishment and/or maintenance expenditure (56%) by value.

- (i) Capital works expenditure by government ministry comprised: Infrastructure (36%); Education (22%); Health (14%); Fisheries (4%); Police, Security, and Correctional Services (4%); and various others (20%).
- (ii) Refurbishment and/or maintenance works expenditure by ministry comprised: Infrastructure (91%); Education (4%); Health (3%); and various other (2%).
- (iii) The Ministry of Infrastructure's recurrent spending was overwhelmingly for road maintenance, which made up 81% of the overall total⁴².

From 2018 to 2021, 20 ADB-financed contract awards amounted to approximately \$36.17 million. All were awarded to international entities. Of this, \$11 million was in respect of consultant services in connection with project preparation, detailed design, and construction management (13 contracts, all international). There were two civil works contracts worth \$19.1 million (one of which was for \$18 million). In addition, there was a \$6.3 million disbursement under the results-based lending program, the majority of which indirectly financed small works contracts managed by the Ministry of Infrastructure under the National Transport Fund (Case Study 3.3)⁴³.

From 2016 to 2021, 37 WBG-financed works⁴⁴ contracts were awarded to 20 local contractors for a total value of more than \$3.92 million. This represented 90% of the total works contracts awarded and 40% of the total monetary value of works contracts⁴⁵. The contract value of locally awarded works ranged from \$6,000 to \$354,000 (average \$106,000). Of local contract awards (by value), 71.5% was for road-related works and maintenance. Conversely, a low number (4) of higher-value contracts were awarded to international contractors (total \$5.91 million, ranging from \$68,000 to \$3.28 million)⁴⁶.

According to the Lowy Institute Pacific Aid Map⁴⁷, in 2018 and 2019, \$73.8 million was disbursed on DFAT-funded infrastructure sectors (communications, energy, transport, and water and sanitation)

⁴¹ Solomon Islands Central Tenders Board Awards to local contractors 2018, 2019, and 2020. Awards to international bidders could not be identified.

⁴² It is believed much of this is donor-funded through the results-based lending program jointly funded by ADB and DFAT.

⁴³ ADB. Projects & Tenders. <https://www.adb.org/projects/tenders/country/sol/sector/education-1058/sector/energy-1059/sector/transport-1064/sector/water-and-other-urban-infrastructure-and-services-1065/type/contracts-awarded-1541/group/consulting/group/goods/year/2019>. Excludes regional contracts.

⁴⁴ Infrastructure-related consultancies and supplier contracts could not be disaggregated and therefore have not been included.

⁴⁵ Data provided by the WBG indicate that several high-value contracts to international entities have been delayed (possibly due to the COVID-19 pandemic) and will substantially reduce the market share by contract value of the local contractors, once awarded.

⁴⁶ Of the four international works contracts, two were awarded to a Fijian entity and their combined value represented 62% of the total international awards.

⁴⁷ Lowy Institute. Pacific Aid Map. <https://pacificaidmap.lowyinstitute.org/graphingtool#>. No data available beyond 2019.

contracts. However, the extent of local contract awards could not be identified from the publicly available data on relevant contract awards⁴⁸.

In 2018 and 2019, the following amounts were disbursed on infrastructure sector (communications, energy, transport, and water and sanitation) contracts by partners: EU, \$6.53 million; JICA, \$19.85 million; MFAT, \$7.66 million (footnote 46). It could not be ascertained to whom these contracts were awarded.

USAID did not disburse any loan or grant funds on infrastructure for Solomon Islands in 2018 and 2019 (footnote 46). The EIB is not listed on the Lowy Institute Pacific Aid Map.

Allowing for overlaps and gaps in the data, the study estimates that local contractors are currently delivering miscellaneous works valued at approximately \$15 million per annum. This suggests that, on the face of it, a significant amount of local capacity exists in Solomon Islands for contracts of similar type and lower value, particularly road related. However, it was not possible to obtain verification from the Ministry of Infrastructure that the contracts were satisfactorily performed. Indeed, the award of contracts to “unproven” local contractors was identified as an issue in Solomon Islands; conversely denying those opportunities to competent entities. Moreover, established contractors indicated that they were less interested in bidding due to lack of transparency in procurement. Nevertheless, evidence from the Fiji Roads Authority suggests that, with appropriate policy and capacity development, this transparency can be improved over time (Case Study 3.5).

2.5.2 Tonga

Infrastructure contract award data from the Government of Tonga could not be obtained.

From 2018 to 2021, 14 ADB-financed infrastructure-related contracts worth approximately \$20.67 million were awarded: four were awarded to local suppliers or consultants for a total of approximately \$1.5 million, representing 7.32% of the total amount by value⁴⁹.

From 2016 to 2021, 44 WBG-financed infrastructure-related works⁵⁰ contracts were awarded to 13 local contractors for a total value of \$24.1 million. This represented 94% of the total number of works contracts awarded, and 72% of the total monetary value of works contracts. The contract value of locally awarded works ranged from \$18,000 to \$3.43 million (average \$548,000)⁵¹. Of local contract awards (by value), 41% was for school classroom construction and 27% was for road-related works and maintenance (the road maintenance component was for two contracts only). Conversely, a low number (3) of higher-value contracts were awarded to international contractors (total \$9.5 million, ranging from \$2.32 million to \$4.07 million)⁵².

In 2018 and 2019, \$3 million was disbursed on DFAT-funded infrastructure sector (communications, energy, transport, and water and sanitation) contracts (footnote 55). However, the extent of local contract awards could not be identified from the publicly available data on relevant contract awards (footnote 57).

In 2018 and 2019, the following amounts were disbursed on infrastructure sector (communications, energy, transport, and water and sanitation) contracts by partners: EU, \$6.36 million; JICA, \$21.25

⁴⁸ DFAT. Contracts. <https://www.dfat.gov.au/about-us/corporate/contracts>

⁴⁹ ADB. Projects & Tenders. <https://www.adb.org/projects/tenders/country/ton/sector/education-1058/sector/energy-1059/sector/transport-1064/sector/water-and-other-urban-infrastructure-and-services-1065/type/contracts-awarded-1541/group/consulting/group/goods/status/awarded-1586/year/2021>

⁵⁰ Infrastructure-related consultancies and supplier contracts could not be disaggregated and there have not been included.

⁵¹ Dataset provided by the WBG.

⁵² Of the three international works contracts, the largest was awarded to a Fijian entity and represented 43% of the total international awards.



million; MFAT, \$9.94 million (footnote 55). It could not be ascertained to whom these contracts were awarded.

USAID did not disburse any loan or grant funds on infrastructure for Tonga in 2018 and 2019 (footnote 55). The EIB is not listed on the Lowy Institute Pacific Aid map and no data could be located.

The above data suggests that, on the face of it, local capacity exists in Tonga for contracts of similar type and mid value, particularly school classroom construction and larger road construction and maintenance. However, this inference is drawn solely from the WBG dataset. The absence of government contract award data precludes any dollar-per-annum estimate of current local capacity.

3 Examples of Promoting Local Content in Pacific Island Infrastructure Projects, Programs, and Initiatives

3.1 Skills Development in the Construction of a Multipurpose Hall

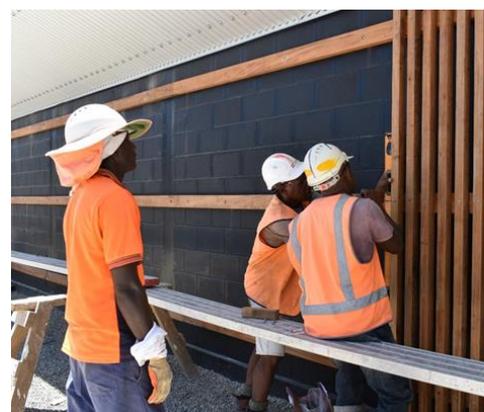
Country: Solomon Islands

Partner/s: MFAT

Infrastructure Type: Social; Community and Cultural

Summary:

MFAT specifications for the construction required the successful contractor to engage a minimum of 12 youth (at least 25% girls and women) from local technical colleges on the project. The youth were required to be employed for a minimum of 12 months, sourced from local training providers. Prescriptive stipulated requirements included minimum employment periods, rates of pay, employee benefits, work hours, health and safety training, skills transfer, employment contracts, etc.



Multipurpose hall in Honiara. MFAT specified conditions for local content in this Solomon Islands infrastructure project (photo supplied by MFAT).

Bidders were required to submit methodologies that included their approach to the inclusion of youth training and employment within the contractor’s build team. Costs were included as a separate line item.

The program was successful with the contractor reporting that the majority of the youth were retained on the project for 12–18 months. The contractor highlighted that this exercise represented no risk to their commercial operation and no significant additional cost. Moreover, the benefits were significant and it was reported that one of the females went on to gain subsequent employment as a cadet architect—an opportunity that may not have eventuated without this opportunity.

3.2 Early Contractor Involvement in the Reconstruction of a Parliament House

Country: Tonga

Partner/s: MFAT

Infrastructure Type: Social; Governance

Summary:

In Tonga, MFAT are applying the ECI methodology in the Tonga Parliament House Reconstruction Project, which aims to restore amenities following destruction caused by Cyclone Gita in 2018. A local contractor has been engaged to provide design and construction advice, alongside international design consultants, to ensure that maintainable local technologies are utilized and local content harnessed. By its nature, the ECI model injects a level of local content into project design through enhanced buildability incorporating the use of local construction techniques, materials, etc.



Tonga Parliament House. A local contractor is advising international experts on the reconstruction. (photo by BBC News).

3.3 Results-Based Lending for Transport Projects

Country: Solomon Islands
Partner/s: ADB, DFAT, WBG
Infrastructure Type: Economic; Transportation

Summary:

An innovative approach has been applied to infrastructure financing in the Solomon Islands: Sustainable Transport Infrastructure Improvement Program⁵³. The program adopted a results-based lending (RBL) approach. Under RBL, disbursements by the partners were programmed on annually assessed achievement of disbursement-linked indicators, e.g., that the target length of sealed and major unsealed roads had been adequately maintained and that the host country had made its contribution to the program.

The cost of the program (originally intended to be implemented from 2016 to 2020) was estimated to be \$78.7million, comprising a \$21.0 million loan from ADB, \$23.3 million from the Government of Australia, and \$34.5 million from the Government of Solomon Islands. An additional grant of \$4.5 million from Australia was intended to finance the associated technical assistance needed to develop capacity in various areas.

The assistance was designed to support the Solomon Islands National Transport Plan 2010–2030 to improve access to socioeconomic opportunities and promote inclusive growth. The program was a nationwide initiative that supported the transport plan’s priorities from 2016 to 2020, financed through the National Transport Fund.

As the program was designed to be implemented using the RBL modality, it placed reliance on the Solomon Islands government procurement system and processes for implementation.

In particular, the development partners assessed that procurement system adhered to the principles of (i) competition, with less than 10% sole source contracting; (ii) transparency, with bidding processes considered open and transparent; (iii) fairness and equal opportunity; and (iv) economy and efficiency. All proposed contracts under the program were envisaged to remain significantly below the so-called high-value contracts (as defined in World Bank guidance on RBL).⁵⁴ Packaging could nevertheless be arranged to optimize local content and capacity development.

3.4 Multiple Contracts for Material Supply, Prefabrication and Installation with Classroom Rehabilitation Program

Country: Kiribati
Partner/s: N/A
Infrastructure Type: Social; Education

Summary:

The Kiribati Education Improvement Program has included classroom construction since 2011. Over that time, it has trialed a number of differing procurement methods to facilitate



New classrooms in Kiribati. New kitset classrooms raised on timber stumps – Teeraka PS, Butaritari (2012) - the prefabricated buildings are erected by local teams

⁵³ ADB. 2016. *Report and Recommendation of the President. Proposed Results-Based Loan and Administration of Technical Assistance Grant Solomon Islands: Sustainable Transport Infrastructure Improvement Program*. Manila

⁵⁴ World Bank. 2015. *Program for Results: Two-Year Review*. Washington, DC.

design, construction and maintenance requirements of classrooms. This commenced with a trial of imported “kitset” buildings prefabricated in Fiji and shipped to Tarawa and then on to outer islands. This was successful from a quality perspective, but the logistics of delivery from overseas was expensive, and fast on-site erection done by locals resulted in less project finance being retained in local economies.

However, over the years the concept of Kitset buildings has evolved to a system that now satisfies project requirements in terms of time, cost and quality, but also optimizes local content to the point of acceptable project risk allocation.

In effect, materials are procured internationally by the Infrastructure Team (client). Originally, materials were sourced from Fiji, but subsequently from New Zealand due to supply issues with the former. The materials are shipped to Tarawa. This provides quality assurance over material requirements and removes the high cost (and risk) of materials procurement from the contractor.

Fabrication contracts are then let locally to prefabricate as much of the building as possible in Tarawa (e.g., roof and wall trusses, window and door assemblies etc). This provides for maximum quality control as much of the work occurs in a factory environment. In turn, the prefabricated assemblies are shipped to outer islands for installation by local contractors using essentially labor-only contracts. This suits local contractors as they generally do not have the technical or financial capacity to procure materials internationally.

Essentially, this procurement model achieves project delivery objectives while optimizing local content within an acceptable project risk allocation. Other benefits noted included lower maintenance of treated timber and plywood framing (compared with reinforced masonry construction), various opportunities for women to be involved with the works, and building the capacities of local tradespeople.

3.5 Development and Implementation of Local Content Policy

Country: Fiji

Partner/s: N/A

Infrastructure Type: Economic; Transportation

Summary:

The Fiji Roads Authority (FRA) was established in 2012, to succeed the Department of National Roads. It is a corporate entity responsible for the effective management and administration of the whole roading system in Fiji, and also for wharves and jetties (other than Suva, Lautoka, Vuda, Malau, Rotuma, and Wairiki, which are under the auspices of the Fiji Ports Corporation Ltd).

The FRA’s annual budget for maintenance and capital works in recent years has typically been of the order of \$300 million,⁵⁵ which is considerably larger than the budgets typically managed in other Pacific island countries. In terms of the size of its operations, the FRA is atypical, however, its practices provide an example of



Building road maintenance capacity in Fiji. The Fiji Road Authority’s policy to give opportunity to local contractors has resulted in seven or more local firms having capacity to compete for road maintenance and rehabilitation contracts, as discussed in Case Study 3.5. (photo supplied by the FRA)

⁵⁵ Amounts cited in the Operations Manual in Fiji dollars have been converted to US\$ at a rate of 2 Fiji dollars equals one American Dollar. The exchange rate has been relatively stable for several years.

how strategic procurement planning can be effective in promoting the growth of the local road construction industry, and be potentially capable of replication elsewhere on a smaller scale.

The FRA's operations manual sets out the authority's overarching procurement principles. Prominent amongst these principles is building local capacity⁵⁶. The manual explicitly states the policy (in the context of procurement) as follows:

To develop capacity and capability at all levels of the Roads' industry such that Fijians are ultimately able to be appointed to any role within the FRA, Principal Engineering Services Provider or Maintenance Contractor organizations.

More specifically, the operations manual describes "social factors" that are to be considered in procurement decision-making. Whenever possible, the FRA endeavors to organize their work and make other procurement decisions in ways that benefit the local community and Fiji's wider development as a country, including by (i) employing and encouraging the FRA's consultants and contractors to employ local people wherever possible, and (ii) purchasing goods and services locally wherever possible. The manual acknowledges that there are limitations, but reiterates that one of its three goals is to build local capacity and this means:

...on occasions employing local people who don't currently have the necessary experience but who are anxious to learn, together with a programme to upskill and develop them.

The operations manual further describes the desired outcomes of its Sustainable Procurement Policy with regard to local firms.

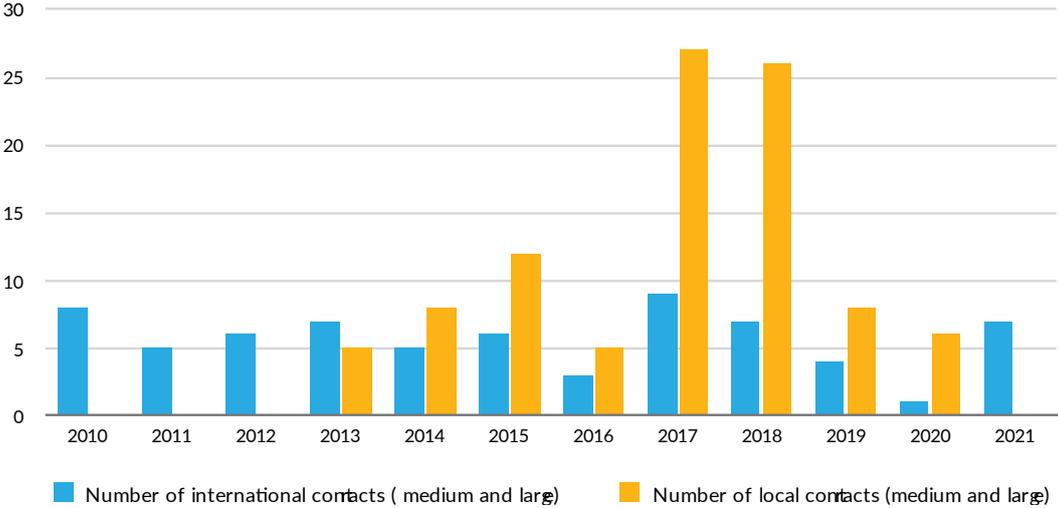
- (i) to have a range of sustainable road consulting and contracting businesses;
- (ii) to have a sufficient number of sufficiently skilled local people employed in the sector;
- (iii) to have firms with the capability of providing the required results to the standard required and within the time required;
- (iv) to have firms that are constantly bidding for the FRA work at competitive prices; and
- (v) to have enough capable firms from which the FRA can choose at least one that would be able to satisfactorily perform.

One local contractor confirmed that, since 2012, its average annual turnover had increased by a factor of 4 (to about \$5 million per annum) and the number of persons employed had increased in the same proportion. The firm is engaged in both roadworks and concrete works and is currently constructing its first significant bridge structure. A number of other local firms have experienced significant expansion over the same period. In 2017 and 2018, 17 different local firms were awarded "medium-sized" contracts by the FRA.

The success of the strategy is also shown in FRA contract awards to local entities as shown in Figure 3.

⁵⁶ FRA. 2015. *Operation Manual. (Version 4 - Final Amended 16 July 2015)*. Suva Fiji Roads Authority Operations Manual 2015 - Bing

Figure 3: Contract Awards to Expanding Local Entities versus International Entities in Fiji



Source: Fiji Roads Authority data compiled by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

3.6 Local Trade Skills Development

Country: Tonga

Partner/s: DFAT

Infrastructure Type: Economic; Water and Sanitation

Summary:

Tonga Skills for Inclusive Economic Growth (S4IEG) Program, commonly referred to as 'Tonga Skills' is an initiative of the Government of Australia, working collaboratively with Tonga's Ministry of Education and Training and the Tonga National Qualification and Accreditation Board to deliver skills trainings to ensure inclusive economic growth in Tonga. The program ran from July 2016 to 30 June 2021 with a total investment is AUD\$7.575 million.

"When I was introduced to Tonga Skills' plumbing training, I was eager to participate as it is compatible with my current skills and knowledge and I thought of it as an opportunity to upgrade my plumbing skills," said Semisi Mafi, a 30-year-old resident of Vava'u.

Semisi participated in a basic plumbing skills training course in 2019, which has proved useful in increasing his income.

"My participation in Tonga Skills' plumbing training was a major upgrade of my skills, which boosted my earning and resulted in extra significant income that helped me and my family in many ways. My income was not doubled, it was tripled," Semisi said.

As a full-time teacher, Semisi not only used his new skills for extra employment and income but also taught them to his students at Mailefihi and Siu'ilikutapu College after consulting with the principal to allow him to expand the curriculum he was teaching his students.

3.7 Expanding Domestic Capacity in Road Maintenance

Country: Tonga

Partner/s: DFAT, WBG

Infrastructure Type: Economic; Transportation

Summary:

In 2010, DFAT provided funding to Tonga through the WBG, with the primary objective of establishing a routine and periodic road maintenance program and a secondary objective of stimulating the economy by creating employment through road works.

Donors were cautious of investing in road maintenance activities in Tonga, predominantly for two reasons: (i) the lack of a domestic contracting industry would mean international companies would likely be awarded the contracts and therefore donor funds would unlikely be injected into Tonga's economy, and (ii) the approach would be unsustainable in terms of financing and implementing the works, with periods when no maintenance would occur, as had happened in the past.

The project addressed the above concerns by:

(i) Supporting the creation of a road maintenance capacity with domestic contractors participating in the program as opposed to the previous approach where international contractors would undertake the large works contracts. To help build local capacity, the project offered domestic contractors an opportunity to bid on contracts of a size appropriate to their current equipment and financial capacity; introduced Otta seals, a new pavement technology that had never been trialed in the Pacific; provided training opportunities to both the contractors and ministry staff on various road maintenance activities (including competitive bidding and tender processes for civil works); and helped update a number of key pieces of legislation in the road sector, which were either redundant, contradictory, or nonexistent.

(ii) Assisting the new Ministry of Infrastructure and Government of Tonga to establish a road maintenance fund to secure funding for future and ongoing road maintenance, once the backlog was addressed by donor-funded projects. To help establish a viable road maintenance capacity, DFAT and the WBG agreed contractors would not be allowed to collapse financially after the project support ended. To meet this objective, the Government of Tonga, with technical assistance provided through the project, established a sustainable fund for future road maintenance activities.

Three separate domestic contractors were awarded the first-year periodic maintenance contracts (total value of approximately \$1.3 million) and a further four local contractors were awarded the first-year routine maintenance contracts (total value of approximately \$600,000). Competition within the market has now been established and new contractors continue to emerge in Tonga.

One of the successes under the project was the Ministry of Infrastructure proactively developing technical standards based on experiences under the road maintenance program from local contractors. Not only did this show an increase in capacity within the ministry but also an increased understanding from staff on the new technologies introduced to Tonga.

Notably, through the efforts of the project, an estimated 200 domestic jobs, although predominantly part-time, have been created. This includes the employment generated by the road maintenance activities and the involvement of private sector in the divestment of noncore ministry functions.

3.8 Contrasting Approaches to School Rehabilitation

Country: Vanuatu

Partner/s: N/A

Infrastructure Type: Social; Education

Summary:

Following Tropical Cyclone Pam in Vanuatu in 2015, two development partners embarked on separate school reconstruction projects on Tanna island; for the same project principal and using the same design and supervision consultant.

In the first project, the partner was willing to accept higher levels of risk to adopt a local content approach. This, in turn, shaped the project design by:

- (i) simplifying the building design as much as possible and providing more detail than usual on construction documentation;
- (ii) instigating a local competitive bidding procurement process for the supply and delivery of materials, including prefabrication of roof trusses and windows in Port Vila;
- (iii) instigating a local competitive bidding procurement process for local contractor “labor only” contracts (nine local contracts were awarded, ranging in value from approximately \$44,000 to \$92,000);
- (iv) providing permanent consultant supervision; and
- (v) allowing for staggered construction implementation to assist risk management.

The result was the timely construction of 42 quality classrooms by local contractors; significant capacity building of local contractors in terms of technical understanding of construction, including disaster-resilient design; economic benefits, including employment opportunities and skills advancement, for local communities; and an enhanced maintenance culture in Vanuatu.

The project has provided flow-on effects for local men and women learning new management and construction skills. The community strategy also enhanced project ownership and has helped to build a better understanding of ongoing building maintenance. It has also provided an incentive at central and provincial levels of government to implement a school maintenance program.

The cost of the approach was the increased design, procurement, and supervision requirements to successfully implement the project.

In the second project, the partner had lower risk tolerance and was bound to an international contracting format. This geared the project toward the engagement of an international contractor. The international contractor used all international skilled labor, with local unskilled labor. The result was the reconstruction of four junior secondary schools to a high level of quality.

The project was instigated with a comparatively high level of safeguarding, and supervision costs were high as the project required international experts and supervisors. Social outcomes were “tacked on” to the infrastructure project. The contractor adopted a high-labor-intensity approach due to difficulties in



moving heavy plant and machinery to the site. This led to it providing employment to 200 local workers who gained skills in constructing disaster-resilient buildings. Some have been employed afterwards on other construction projects and rebuilt their homes and community buildings to be more disaster resilient. The contractor also provided practical training in building maintenance to school and community representatives during project implementation.

It should, however, be noted that the level of technical complexity was comparatively higher in this project (compared with the first project) and it is debatable as to whether the implementation model of the first project would have been as successful in this instance.

3.9 Tailoring Bidding Requirements to Local Capacity

Country: Solomon Islands

Partner/s: N/A

Infrastructure Type: Economic; Transportation

Summary:

In 2021, bids were invited from eligible bidders for 59 kilometers of the Malaita main road network in Solomon Islands, with the submission deadline being 3 May 2021.

Two bids were received from national civil contractors, but both were rejected during the evaluation process. The first bid was found to be ineligible in the areas of financial capacity, financial performance, and project experience. The second bid was abnormally low in price (59% of the engineer's estimate) and posed a risk to both the contractor (bankruptcy) and the client (abandoned contract).

Given the low number and poor quality of bids received for this tender, a survey of all national contractors was conducted to establish their capability, historical performance and experience, and their willingness to work in Malaita Province.

Ten surveys were received from the national civil contractors. In summary, it was found that some relaxation of qualification requirements and splitting the proposed works into smaller lots would increase the number of responsive submissions when retendering the works.

Specifically, the following changes were recommended for the retendering of the works, with the aim being to increase the number of local contractors that would be qualified for the work contracts.

- (i) Relax the requirement for the contractor to have sufficient means to meet the construction cash flow requirements from a period of 3 months to a period of 2 months.
- (ii) Relax the work lot qualification requirement for the contractor's turnover to be 50% of the annual contract amount to 33% of the annual contract amount.
- (iii) Relax the requirement to calculate the annual turnover over a period of 5 years to a period of 2 years.
- (iv) Relax the specific construction and contract management experience required for a minimum number of similar contracts that have been completed in the past 10 years from two to one, being a minimum value of 33% of the budget estimate of the contract.
- (v) Split the three lots of the proposed works into future sublots as that would potentially result in a maximum of eight contracts.



In conjunction with the above, a training workshop to build capacity on bid process, preparation (including calculation of rates), evaluation, etc., was also conducted, with a view to strengthening bidding processes of local contractors.

The project is at the time of writing being retendered, incorporating the revised requirements. It remains to be seen whether the process of meeting the local content market has been successful. The case study demonstrates the need for flexibility and market research to target local content effectively. It also demonstrates the need for flexible procurement processes to facilitate local content.



4 Potential Benefits, Costs, and Opportunities of Local Content in Infrastructure Projects

This section considers a range of potential benefits and costs associated with local content in infrastructure project procurement, discussing their significance to the domestic economies of Pacific island countries. The benefits identified serve to strengthen domestic economies and build their resilience in the face of climate change, natural disasters, and health shocks such as the current pandemic.

A constraint faced in quantifying the benefits and costs associated with local content is that it is not defined in terms suitable for economic analysis. While local content could be defined in terms of domestic value-added, it tends to be thought of more in terms of the domicile of entities securing contracts. The inability to track local content through the project cycle also makes analysis difficult. At the concept or early design stage, assumptions are often made about the breakdown between foreign and local costs, but these assumptions don't necessarily align with the actual level of local content realized through the procurement process. Current practice generally does not identify local content as a project output and consequently does not embed relevant monitoring and evaluation mechanisms in the project implementation arrangements. It is therefore not possible to assess the success or otherwise (particularly quantitatively) of local content in past projects.

4.1 Benefits

4.1.1 Capacity Building – Contractors

Local contractors need experience to secure work, but need work to gain experience. Procurement can be structured (e.g., unbundling and/or contract splitting) so that some contracts (those that are smaller and less complex) are available to contractors with limited experience. Alternatively, through procurement mechanisms such as joint venturing and subcontracting, local contractors can participate in larger projects involving international contractors so that locals can learn on the job. Further, projects can include specific objectives to develop local capacity in consulting, contracting, and supply functions related to infrastructure delivery.

A regular flow of work is key to building the capacity of local contractors and keeping their unit costs down through spreading overheads over a greater pool of work. This is a significant problem in smaller markets, where tendering of infrastructure work may be sporadic. Regular work provides local contractors with the financial resources and confidence to invest in the capital equipment and skilled personnel necessary for competitiveness. Building capacity in this way is a critical element in strengthening domestic economies and paves the way for a higher level of local trade activity in construction services, both domestically and across the Pacific region. Contractors note the importance of a forward pipeline of tender opportunities to facilitate planning with a reasonable level of confidence.

The economic benefit associated with investing in building the capacity of local contractors through local content could be valued in terms of higher recurring profits made by these businesses as their capacity increases.

4.1.2 Employment

The availability of skilled and unskilled work is a major factor in relation to the health of small Pacific island economies. These countries have struggled over recent decades both to maintain delivery of essential services and to expand income-earning opportunities. Such challenges have been especially acute in countries with young and rapidly growing populations such as Solomon Islands.

A recent economic study by the WBG⁵⁷ concluded that slow economic growth, high population growth, and accelerating urbanization mean that employment creation is a pressing priority for Pacific island countries. The study called for the setting of realistic expectations concerning the trajectory of development and identified efforts to increase labor mobility as pivotal. Other strategies proposed in the study to strengthen job prospects within domestic economies included harnessing the positive potential of: (i) urbanization through investment in improved rural services (thereby encouraging urbanization as part of a more broadly based and strengthened economy, rather than as a response to lack of services in rural areas); (ii) connective infrastructure; and (iii) improved urban administration⁵⁸.

More recently, economic studies⁵⁹ have addressed the implications of the COVID-19 pandemic for the labor market in Pacific island countries and have identified strategies to facilitate economic recovery. The WBG study concludes⁶⁰, perhaps unsurprisingly, that tourism-dependent countries have seen a major blow to their economies. Efforts to support the tourism sector through promotion of domestic tourism have had little impact. Such contraction in tourism has resulted in unemployment. There have also been job losses in other tourism-related sectors, such as the retail and food service industries, across the countries. Disruptions in donor-financed infrastructure activities, lower commodity prices, and some reductions in inward remittance flows have also contributed to the economic downturn, with some offset (at least initially) from lower oil import prices. The overall conclusion is that the pandemic poses tremendous downside risks to domestic labor markets.

Among strategies canvassed to address these impacts of the pandemic on the labor market, the WBG study suggests⁶¹ that domestic labor could be used as a substitute for foreign workers in the construction industry, given that donor-funded infrastructure construction is expected to be an important source of job creation and economic recovery. The study cautions that the substitution of foreign workers in the construction industry is likely to require substantial upskilling and reskilling.

Substitution effects may come into play if additional employment opportunities associated with local content attract skilled workers from other productive uses in the economy. On the other hand, availability of work locally may reduce the incentive for skilled workers to migrate.

The economic benefit associated with new jobs through local content could be valued in terms of the incremental lifetime wages associated with these jobs.

The construction industry is a significant employer in both Solomon Islands and Tonga (assessed as part of Phase 2 of this study). Table 4 provides some key indicators, recognizing that some employment related to infrastructure delivery falls outside the construction sector (e.g., in quarrying and in professional services). Official statistics on the rate of unemployment in Solomon Islands and Tonga provide quite low estimates (in the order of 3% in both countries) and more innovative indicators, such

⁵⁷ WBG. 2014. *Well-Being from Work in the Pacific Island Countries*.

<https://openknowledge.worldbank.org/bitstream/handle/10986/18642/878940WPOP12960fic0Island0Countries.pdf?sequence=1&isAllowed=y>

⁵⁸ Footnote 73, p.23.

⁵⁹ See, for example, WBG. 2020. *Pacific Island Countries in the Era of COVID-19: Macroeconomic Impacts and Job Prospects*.

<https://documents1.worldbank.org/curated/en/835131608739709618/pdf/Pacific-Island-Countries-in-the-Era-of-COVID-19-Macroeconomic-Impacts-and-Job-Prospects.pdf>

⁶⁰ Footnote 73, p.13.

⁶¹ Footnote 73, pp. 49–50.

as the composite rate of labor underutilization estimated in Tonga, may provide a more realistic picture of the state of the labor market⁶².

Table 4: Labor Force and Employment in Construction

Indicator	Solomon Islands (2009)	Tonga (2018)
Working age population (number) ¹	342,424	63,189
Labor force (number)	215,269	29,504
Labor force participation rate (%)	62.9%	46.7%
Labor underutilization (number) ²	n.a.	6,180
Total paid employment (number)	81,240	28,598
Paid employment in construction (number)	4,979	2,459
Proportion of total paid employment (%)	6.1%	8.6%
Gender ratio (% of paid employment in construction female)	1.9%	2.0%

¹ working age population is defined as 12+ in Solomon Islands and 15+ in Tonga

² sums the unemployed + those experiencing time-related underemployment + potential additions to the labor force

Sources: Government of Solomon Islands, National Statistical Office. 2009 Census of Population and Housing; and Tonga Statistics Department. 2018 Labour Force Survey.

4.1.3 Capacity Building – Workforce

The greater the degree of local expertise in a project, the more likely that skilled and unskilled workers will be drawn from the domestic market rather than brought in from overseas. Continuity in demand for this workforce is important for both upskilling and retention. As the skill level develops this contributes to the productivity of the workforce and boosts the productive capacity of the domestic economy. This improved capacity consequently increases employment opportunities in the domestic economy, making it less likely that skills will be lost through migration.

The economic benefit associated with building the capacity of the workforce through local content could be valued in terms of higher lifetime wages for workers as new skills are developed. This has been evident in the Tonga Skills program (Case Study 3.6). Program participant, Semisi Mafi, aged 30 and a resident of Vava'u, suggested his wages as a plumber have tripled as a result of upgrading his skills through the program. Semisi is reportedly now thinking about how he can obtain a registered business license in plumbing⁶³.

4.1.4 Economic Multipliers

Proceeds received by local contractors, consultants, and suppliers from the implementation of infrastructure projects are generally reabsorbed in the local economy (to the extent these proceeds are spent rather than saved) and contribute to the output of other sectors of the economy. Additional spending by those sectors then flows on to yet other sectors. This recurring process is known as the multiplier effect and contributes to growth in the economy. Multipliers in small open economies, such as those of Pacific island countries, are likely to be less than those in larger and more integrated economies because of the more rapid leakage of expenditure into imports in the former. Nevertheless, such multipliers are still significant.

National accounts statistics provide estimates of the annual value-added of the construction sector in the economy and the contribution of the sector to GDP. These estimates are published periodically and

⁶² Solomon Islands is planning a labor force survey in 2023.

⁶³ Tonga Skills. Plumbing Skills Provide Financial Security in Vava'u. <https://tongaskills.com/plumbing-skills-provide-financial-security-in-vavau/>

are readily available⁶⁴. Input-output tables⁶⁵ build on this and estimate the interplay between the construction sector and other sectors of the economy, facilitating the estimation of output multipliers. Unfortunately, these tables are not readily available for Solomon Islands⁶⁶ or Tonga. In addition to the multiplied effects on output, similar calculations can be made in relation to the impact on employment, which is the number of new jobs created per \$1 million in sectoral output.

In the absence of current input-output tables for Solomon Islands and Tonga, estimates of the direct employment impacts of local content in the construction sector could be made from developing rules of thumb in relation to job-years created per \$1 million in contracts awarded to local contractors. This would require in-depth analysis of local contract awards.

Variations in local content are likely to have tax implications. These could be positive in relation to expansion in domestic services, employment, and local materials as local content increases. The implications could, however, be negative in relation to taxes foregone from the foreign-sourced services, employment, and goods that are replaced by the local content. This consideration would be particularly relevant in evaluating alternative approaches to boosting local content in infrastructure delivery.

There is considerable debate as to how large multiplier effects might be and how they should be used in economic analysis⁶⁷. However, revenues received by local entities will make a greater contribution to the domestic economy through the multiplier effect than will revenues received by international contractors (and paid or remitted overseas with less interaction with the domestic economy)⁶⁸. This is an argument for the pursuit of higher levels of local content in infrastructure procurement—if such considerations are not outweighed by loss of efficiency of the infrastructure project and its overall contribution to the economy. Again, effort should be directed towards optimizing rather than maximizing local content.

4.1.5 Appropriate Technology

The technology adopted for infrastructure projects has implications for the implementation of those projects, their operational performance, and their sustainability. Local contractors, consultants, and suppliers are likely to be familiar with the level of technology that has been shown to work best in the domestic economy. Projects with a high level of local content can innovate in relation to appropriate technology and encourage the adoption of these technologies. Sample Project Application 4.3.1, presented later in this section, notes the trialing of more appropriate technology in routine and periodic road maintenance activity, utilizing local aggregate and relying on road plant available locally.

⁶⁴ Recent estimates for Solomon Islands are that the construction sector contributed 3% to GDP at current market prices in 2014. For Tonga, the estimates are that the construction sector contributed 7% to GDP at current market prices in FY2019. Some aspects of infrastructure delivery, such as quarrying and professional services, are treated separately in these data. In dollar terms, value-added in the construction sector is greater in Solomon Islands than in Tonga, but not that much greater.

⁶⁵ Input-output tables show the relationships among sectors within an economy, with column entries normally representing inputs to a sector, while row entries represent outputs from the sector.

⁶⁶ A set of input-output tables was published for Solomon Islands for 1987, but these are too dated to be of use in the context of this study. M. Powell. 1992. Solomon Islands Input-Output Table 1987. Economics Division, Research School of Pacific Studies, Australian National University. <https://openresearch-repository.anu.edu.au/handle/1885/210332>

⁶⁷ See, for example: Government of Australia. Productivity Commission. 2013. On Input-output Tables Uses and Abuses. <https://www.pc.gov.au/research/supporting/input-output-tables>

Expenditure multipliers are derived from input-output tables and this paper gives examples of successes and pitfalls in their use. More credence is now placed on computable general equilibrium models, which build on input-output data but are more dynamic and are considered more reliable in estimating the economy-wide and distributional effects of economic change.

⁶⁸ As an example of the use of input-output tables to estimate multipliers for the construction sector (in this case, for Australia), see: Australian Bureau of Statistics. 2002. *The Construction Industry's Linkages with the Economy*. <https://www.abs.gov.au/Ausstats/abs@.nsf/94713ad445ff1425ca25682000192af2/ed6220072793785eca256b360003228f!OpenDoc> document. The multipliers estimated in this example are much higher than they would be for a small open economy (one indicator of this is that in this example some 88% of inputs to the construction sector were found to be sourced domestically).

4.1.6 More Effective Maintenance

The greater the involvement of local contractors, consultants, and suppliers in the implementation of infrastructure projects, the more familiar they will be with the maintenance requirements of the assets and the more committed they will be to effective maintenance. This will facilitate the development of more-effective maintenance regimes, at least on the technical side, and help in reducing the pattern of “build neglect rebuild”⁶⁹. On the financing side, promoting local content in implementation of projects should encourage more cost-effective maintenance that is better adapted to local conditions.

Infrastructure delivery with high local content fosters ownership and national pride in infrastructure assets, as exemplified by the Samoa Parliament House project (as shown on the front cover). This may be hard to quantify but may reveal itself in a more positive approach towards maintenance⁷⁰.

4.1.7 Technology Transfer (if applicable)

Some projects may involve the introduction of new technologies that improve the productivity and performance of the domestic economy. Local contractors, consultants, and suppliers involved in these projects can develop skills related to these new technologies, aiding in the transfer of these technologies to the domestic economy. As an example, local entities formed to develop onshore facilities for undersea telecommunications cables and operate the cables as a business develop expertise both in-house and among local contractors and suppliers involved in these activities. This strengthens the domestic economy and there may be potential to apply this expertise in other countries entering the market.

4.1.8 Lower Cost (if applicable)

The bidding process and contract completion will ultimately determine whether or not bids with a higher level of local content are lower cost. Although local content can reduce costs in terms of international transport and travel, accommodation for team members, and other factors associated with overseas supply, it suffers from a lack of economies of scale and the influence on costs of lower levels of competition.

Lower freight costs are a potential source of lower infrastructure delivery costs associated with local content, though it is unlikely that in smaller Pacific island countries higher local content will have much impact on the sourcing of goods (and import content will remain high).

However, feedback obtained for this study suggests that local content does not necessarily result in lower costs. In some instances, additional management and supervision costs were identified, although this could not be quantified and does not necessarily apply universally. Also, the traditional cost differential between international and local consultants appears to be reducing and certainly there is a push for equity of remuneration rates and the removal of the geographic distinction. Further research is needed and this general point does not preclude cases where local content does result in lower costs.

4.1.9 Time Savings (if applicable)

The bidding process and contract completion will ultimately determine whether bids with a higher level of local content involve time savings in implementation. Local content has the advantage of familiarity with local conditions and established relationships with other domestic contributors to infrastructure delivery, but can suffer in terms of depth of experience and the disadvantages of smaller scales of

⁶⁹ PRIF. 2013. *Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm*.

⁷⁰ For a more detailed discussion on the impact of maintenance on the service life of infrastructure assets, refer to: PRIF. 2021. *Pacific Infrastructure Maintenance Benchmarking Report*.

operation. There may also be a flexibility benefit, with local contractors being nimbler in responding to changing circumstances, resulting in consequent savings in project implementation time.

In the same way that local content does not necessarily result in lower costs, so factors such as additional requirements for management and supervision can result in delays in project implementation. Again, further research is needed and this general point does not preclude cases where local content does save time.

4.2 Costs

4.2.1 Impact on Quality

A higher level of local content may be associated with lower construction standards and less-effective contract supervision, unless regulatory systems such as building codes and conditions of planning and development approvals are enforced effectively. Use of local materials that may not be sustainably sourced may generate social and environmental problems in some cases, particularly if compromises are made in material specifications.

These issues can impact on the life expectancy and performance of infrastructure assets, lead to higher levels and cost of maintenance, or result in additional costs and delays due to the need to rectify defects.

4.2.2 Added Risk

If local contractors, consultants, and suppliers lack experience and/or capacity in the delivery of particular types of infrastructure, their involvement in implementation can add risk to project success through underperformance. Similarly, use of locally produced inputs may add risk if their specifications are uncertain. Local suppliers may not have the volume or specialist skills required for more complex projects⁷¹.

Risk is also associated with specific measures in tender processes to encourage local content. Such measures include relaxation of surety provisions for local contractors, splitting of projects into packages manageable for local contractors, or relaxing requirements in relation to prior experience or financial performance. In these cases, risk is transferred from contractors to those financing the project.

4.2.3 Safeguards – Local Resources

Higher levels of local content in infrastructure project procurement may place strain on local resources including aggregate, gravel, sand, and timber. These resources are scarce in many of Pacific island countries and overutilization can degrade the environment and increase vulnerability in the face of climate change and natural disasters. As an example, “borrow” pits excavated for materials for airport runway construction in an atoll environment in an earlier era have required major remediation works⁷². Unsustainable extraction of river gravel, sand, and rocks can contribute to environmental degradation and affect the health and welfare of communities living downstream, where these populations depend on the river for drinking water, the growing of food, and/or potential local tourism opportunities⁷³.

⁷¹ See, for example, the Kiribati Education Improvement Program (Case Study 3.4).

⁷² MFAT. Tuvalu Borrow Pits. YouTube. https://www.youtube.com/watch?v=ZUTKD8f_wEI

⁷³ Nature Fiji. 2010. Paper to the National Environment Council on the Continuing Destruction of Fiji's Rivers and Streams. <https://naturefiji.org/wp-content/uploads/2010/07/NFMV-Position-Paper-Unsustainable-Extraction-of-River-Gravel-Sand-and-Rocks.pdf>

4.2.4 Higher Cost (if applicable)

The bidding process and contract completion will ultimately determine whether bids with a higher level of local content are higher cost. Local content suffers from lack of economies of scale and the influence on costs created by lower levels of competition.

The longer-term benefits to the domestic economy associated with capacity building for local contractors and the workforce are likely to result in higher project costs, and it is important for this to be recognized in the procurement process, but not necessarily used as a reason for not incorporating local content into project design.

As indicated, feedback suggests that local content may incur additional costs (e.g., management and supervision fees) in some instances.

4.2.5 Time Delays (if applicable)

The length of the bidding process and actual time for contract completion will ultimately inform whether bids with a higher level of local content have incurred delays in implementation that are attributable to such content. Local content can suffer in terms of depth of experience and the disadvantages of small scales of operation, but it has the advantage of familiarity with local conditions and established relationships with other domestic contributors to infrastructure delivery.

In the same way that local content doesn't necessarily result in lower initial capital costs, so factors such as additional requirements for management and supervision can result in delays and additional costs.

Depending on the type of project, operations and maintenance costs may be significantly lower using local content, and likely delivered in a timely manner, particularly if appropriate training is provided in the scope of the capital project contract.

4.3 Sample Project Applications

This section considers five project applications that illustrate practical considerations in relation to the benefits and costs of local content as they emerge in real-world scenarios. The examples are based on experience with actual projects, though some are presented in a de-identified way because of confidentiality issues and to focus on issues relevant to local content.

4.3.1 Road Maintenance

Project Description. This application deals with a road maintenance project that emphasized local content in search of a sustainable solution to the perennial issue of ongoing maintenance of infrastructure. It draws on Case Study 3.8, which provides further details of the project.

Approach to Sustainability. The project took a holistic approach to developing a sustainable road maintenance regime, with key elements being to:

- (i) nurture local contractors and encourage private investment in the industry (including investment in new equipment) through measures to make available a regular flow of maintenance contracting opportunities and to build capacity;
- (ii) trial more-appropriate technology in routine and periodic road maintenance activity, utilizing local aggregate and relying on road plant available locally; and

- (iii) secure more reliability in the public funding available for road maintenance, as part of an overhaul of legislation and institutional arrangements governing the sector.

Some more major road rehabilitation works involving different road construction technologies were found to be beyond the current capacity of local contractors. The project met target levels for the contracting of periodic maintenance and introduced area-wide contracts for routine maintenance on a number of islands. Perhaps of greater significance in the long term, the activity laid the groundwork for a more sustainable system for road maintenance.

Alternative Implementation Strategies. An international contractor could have been mobilized to bring the road network up to the required standard. In relation to this objective alone, this approach may have been cheaper than the approach adopted for the project. However, this success would have been a one-off, with potentially less contribution made to the ongoing sustainability of the road maintenance system.



Appropriate road technology in Tonga. As covered in case study 3.7, a project supported by the DFAT and the WBG helped Tonga's Ministry of Infrastructure proactively develop technical standards based on the experiences of local contractors under the road maintenance program. Not only did this create an increase in capacity within the ministry but also an increased understanding of the new technologies introduced to Tonga.

4.3.2 Road Rehabilitation

Project Description. This application deals with a road rehabilitation project and focuses on contracting methods and an analysis of differences in the composition of bids from local and international contractors.

Results. In measures designed to encourage local content in the project, a period of routine maintenance after completion of construction was built into the project, and the project was designed to pilot performance-based contracting with community participation.

The major takeaway from the analysis of bids is that the local content component of a machine-intensive activity undertaken by an international contractor can be very low, possibly under 10% of the contract value. On the other hand, it is difficult for a local contractor to avoid many foreign costs, particularly for equipment, fuel, and oil. This can mean that the local content in a bid from a local contractor can be in the order of 40% of the contract value due to requirements for imported inputs.

4.3.3 Construction of a Government Building

Project Description. This application involves the design and construction of a government building at a cost of just under \$11 million and considers the optimal mix of international and local content in the project.

Cost Elements. The design and construction supervision were undertaken by an international consulting firm, at a cost of approximately \$2.1 million. There was minimal local content in this component. However, the expatriate supervisor did live in the country for the duration of the project, so there would be some secondary or retained benefit from this cost component (approximately \$600,000).

Construction work was undertaken by a local main contractor. The total estimated cost of construction was approximately \$8.5 million. The building is fully air-conditioned, with a reasonably complex design that required importation of most materials and some specialized international management and labor.

It is not known what proportion of this cost was imported, but a simple estimate would be in the 50%–70% range.

There was also approximately \$100,000 of furniture and fittings that were produced separately and locally, mostly using local materials. This was a deliberate strategy of the principal to provide local content input and visibility.

Alternative Implementation Strategies. Possible alternative approaches to the implementation of the project would have been:

- (i) Using a local consultant for the design and supervision of the project. This may have resulted in cost savings of the order of 20% to 40%. However, it is doubtful that a local consultant could have been found with the necessary experience in this type of building and this would have injected a considerable amount of risk into the project.
- (ii) Retaining an international consultant for the design of the project and a local consultant for construction supervision. This may have resulted in cost savings of approximately \$500,000, based on subsequent experience with local supervision costs and the lower travel expenses required. However, some additional oversight from overseas was likely to have been required, reducing the potential cost savings from this approach, notwithstanding the potential capacity building benefit.
- (iii) Using a hybrid contractor (i.e., locally based but with an international parent). Based on tender prices, this would have been approximately \$2.2 million more expensive. However, it is likely to have been quicker to build and consequently there are likely to have been savings of \$100,000 in supervision costs. Likely benefits of local content would have been similar.

Broader Economic Benefits of Local Content. The technology utilized in the project construction was at a high level and therefore created some technology transfer. Through providing an exemplar, the application of international health and safety standards raised the standards in the industry. The project demonstrated that quality can be achieved by local contractors—and within budget. The construction by a local contractor generated pride among the workforce and in the community. However, in completing the project, there were delays (and associated costs) to which the level of local content may have contributed. Importantly, the development partner involved was prepared to accept the achievement of cost and quality objectives and the non-achievement of the time objective.

The high proportion of local content in the project meant that a high proportion of project outlays were retained in the domestic economy, with multiplier effects in other sectors.

4.3.4 School Rehabilitation

Project Description. Assistance directed at the rehabilitation of schools following a natural disaster (in this case, a severe cyclone) funded two projects that demonstrated alternative approaches to procurement, with implications for local content. This example draws on Case Study 3.9.

There were some controls in this comparison as the principal, designer, supervisor, and location were the same for both projects. There were, however, differences in the physical infrastructure of the affected schools (one dealt with junior secondary schools and the other with primary schools) and the standard of construction sought.

Comparison of Procurement Models. One project employed a segregated approach to procurement, involving centralized procurement and supply of materials by the principal, local “labor only” contracts for construction, and some community input in the transport and supply of gravel and sand.

The second project utilized a traditional procurement model, involving a design and supervision consultant who was selected based on quality and cost. A single international contractor was appointed to carry out the rehabilitation work, on the basis of the lowest evaluated substantially responsive bid.

Local Benefits in Project Outcomes. While both projects were considered to have met their objectives in terms of the rehabilitation of the affected schools, and both projects provided local employment during the implementation phase, the first project procurement methodology had additional benefits beyond the implementation phase in terms of developing the capacity of local contractors and encouraging ownership by the community. These additional benefits augur well for the ongoing maintenance of the schools under this approach.

4.3.5 Bridge Construction

Project Description. This example deals with the application of discounted cashflow analysis to model the implications of changes in the proportion of project capital cost contributed by local content. The case considered is a bridge construction project. Scenarios run in this case are based on assumptions, but explore the potential of discounted cashflow analysis in modelling levels of local content.

Application of Discounted Cashflow Analysis. In the base case, the discounted cashflow for the bridge project generated an internal rate of return (IRR) of 9%. The cashflow included estimates and scheduling of capital costs, operation and maintenance costs, and benefits relating to reduced vehicle operating costs and time savings for vehicle users (both those using the bridge and those benefitting from reduced congestion on other roads).

The first scenario considered the implications of raising the level of local content in the project by an additional 10% of project inputs, with these implications assumed to be a reduction of 2% in the capital cost of the project. Project benefits were assumed to be unchanged. This had the effect of increasing the IRR of the project to 9.3%.

A second scenario considered the implications of raising the level of local content in the project by an additional 20% of project inputs, with these implications assumed to be a reduction of 4% in the capital cost of the project. Again, project benefits were assumed to be unchanged. This had the effect of increasing the IRR of the project to 9.5%.

A third scenario considered the implications of raising the level of local content in the project by an additional 30% of project inputs. In this instance, these implications were assumed to be a reduction of 5% in the capital cost of the project, together with a decline of 10% in project benefits (which could, for example, be associated with a reduction in the quality of construction, impacting the benefits over the life of the project). This had the effect of reducing the IRR of the project to 8.3% (below the base case).

The three scenarios, albeit based on arbitrary assumptions, illustrate a situation in which increased local content may improve the viability of a project, but beyond a certain point (corresponding to the optimal level of local content) may begin to make the project less viable.

Finally, a scenario was run to calculate the level of otherwise unquantified benefits for the domestic economy identified in the procurement model needed to compensate for a 5% increase in the capital cost of the project, assumed to be the result of an increased level of local content (as opposed to a decrease in scenarios 1-3 above). These unquantified benefits for the domestic economy may be considered important, but they may not be readily taken up individually in a discounted cashflow analysis of the project. Examples could include benefits such as additional employment in the construction sector, capacity building for contractors and the workforce, technology transfer, and economic multipliers.

The result under the fourth scenario was that the otherwise unquantified benefits to the domestic economy would need to contribute \$819,000 per annum over the operating life of the project (assumed to be 20 years) to compensate for an assumed 5% increase in the capital cost of the project due to local content, while achieving the same IRR as the base case. This is equivalent to an addition of 4.5% to total project benefits over the life of the project. This level of “compensation” could be broken down into contributions from benefits (such as number of new jobs, with a value to the economy of \$x each), if this approach was utilized in a particular project. Project analysts could apply this approach in the consideration of otherwise unquantified benefits to the domestic economy in project appraisal.

The discounted cashflow model for the bridge construction project, with the results for these scenarios, is shown in Table 5.

Table 5: Discounted Cashflow Analysis of a Bridge Project with Scenarios for Local Content

Cash Flow	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y12	Y15	Y17
	("000)	("000)	("000)	("000)	("000)	("000)	("000)	("000)	("000)	("000)
Project costs										
Capital costs	45,663	45,663	22,832							
Operating and maintenance costs				1,712	1,712	1,712	1,712	1,712	1,712	1,712
Total project costs	45,663	45,663	22,832	1,712	1,712	1,712	1,712	1,712	1,712	1,712
Project benefits										
Benefit 1 (saving in vehicle operating costs-- users of new Bridge)				9,125	9,353	9,587	9,827	11,118	11,973	12,579
Benefit 2 (time savings-- users of new Bridge)				1,667	1,725	1,786	1,849	2,199	2,440	2,615
Benefit 3 (saving in vehicle operating costs-- users of other roads)				2,099	2,151	2,205	2,260	2,557	2,754	2,893
Benefit 4 (time savings -users of other roads)				958	992	1,027	1,063	1,264	1,403	1,504
Benefit 5 (residual value after project period)										
Benefit 6 (non-price benefits of local content to the economy)										
Total project benefits	0	0	0	13,849	14,222	14,605	14,999	17,138	18,569	19,590
Net project benefits	-45,663	-45,663	-22,832	12,136	12,510	12,893	13,287	15,426	16,857	17,878

Scenarios (higher local content)	NPV @ 9%	IRR	"000
10% higher local content-- assume this lowers capital cost and O&M by 2%, benefits unchanged	2,161	9.3%	
20% higher local content-- assume this lowers capital cost and O&M by 4%, benefits unchanged	4,322	9.5%	
30% higher local content-- assume this lowers capital cost and O&M by 5%, benefits decline by 10%	-5,693	8.3%	
Local content results in 5% higher capital cost-- what annual non-price benefit to the domestic economy is needed to compensate?	0	9.0%	819

Key assumptions behind the economic analysis:	
	Assumptions/baselines
Assumptions re costs	
Capital cost	\$114,158,000
Periodic refurbishment (% of initial cost)	5%
O&M begins year 3 (% of capital cost)	1.5%
Other economic costs (if any)	
Assumptions re benefits	
Benefit 1 (saving in vehicle operating costs -- users of new Bridge)	
- traffic growth rate	2.5%
- traffic (vehicles per day baseline)	5,000
- av. distance saved per trip (km)	10
- av. saving in vehicle operating costs (\$/km)	\$0.50
Benefit 2 (time savings -- users of new Bridge)	
- traffic growth rate	2.5%
- traffic (vehicles per day baseline)	5,000
- time saving (minutes per trip)	20
- average vehicle occupancy (number)	4
- growth rate in GDP per capita (real)	1.0%
- GDP per capita (\$ per annum baseline)	\$12,000
- proportion of time saving valued	50%
Benefit 3 (saving in vehicle operating costs-- users of other roads)	
- traffic growth rate	2.5%
- traffic (vehicles per day baseline)	11,500
- saving in vehicle running time (minutes per trip)	5
- av. saving in vehicle operating costs (\$/minute)	\$0.10
Benefit 4 (time savings -users of other roads)	
- traffic growth rate	2.5%
- traffic (vehicles per day baseline)	11,500
- time saving (minutes per trip)	5
- average vehicle occupancy (number)	4
- growth rate in GDP per capita (real)	1.0%
- GDP per capita (\$ per annum baseline)	\$12,000
- proportion of time saving valued	50%
Benefit 5 (residual value after project period)	
- residual value (% of capital cost)	15%
Other economic benefits (if any)	

\$ = United States dollars, GDP = gross domestic product, km = kilometer, O&M = operation and maintenance.
Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

4.4 Analysis of Infrastructure Pipelines in Solomon Islands and Tonga

This section looks at the forward infrastructure investment pipelines of Solomon Islands and Tonga, considering the scope for local content in these priority projects and examining the potential benefits, costs, and net benefits of local content.

The sectoral classification used here has been standardized for ease of comparison and reference, and differs from that used in the respective national infrastructure investment plans of each country. Many projects considered here remain at the conceptual stage. Project profiles allow some general observations to be made in relation to procurement and local content, but do not contain sufficient information for a more detailed analysis.

An ability to better track local content through the project cycle would help build a greater understanding of its benefits and costs and assist in optimizing such content. There are a number of opportunities to support better tracking. Project concept notes could include consideration of the potential for local content. As discussed previously, prioritization of project concepts for further development could include potential for local content as a criterion. Project preparation, including detailed costing and preliminary design, could further specify local content, and project appraisal could include an assessment of the level of such content. At the project procurement and implementation stage, the level of local content would be specified in greater detail. Project evaluations could then comment on (or preferably measure, if possible) the level of local content achieved in a project and help identify missed opportunities. This information would eventually evolve to be a knowledge base to assist in the development of future projects.

4.4.1 Solomon Islands

The Solomon Islands Priority Infrastructure Investment Pipeline⁷⁴ includes a list of 28 priority projects with an estimated capital cost of just over SI\$5.2 billion. In that document, the projects are listed in priority order. Here, for ease of reference, the projects are sorted by sector and by project priority within sectors.

Table 6 identifies the type of project, comments on the scope for local content (based on the nature of the project and consideration of project implementation capacity in the local market⁷⁵), and provides a rating of the potential level of local content (high, medium, or low). The results of this assessment are: 25 projects (89% by number and 95% by value) have a high potential for local content and 3 projects (11% by number and 5% by value) have a medium potential for such content. No projects are considered to have a low potential for use of local content. When better information is available on current levels of local content (measured in terms of domestic value-added), it may be possible to specify ranges of local content for these ratings, e.g., projects with high potential could support $\geq 20\%$ local content; those with medium potential, $\geq 10\%$ and $< 20\%$ local content; and those with low potential, $< 10\%$ local content. These ranges are conservative estimates, considered reasonable pending further work on measuring domestic value-added associated with local content.

⁷⁴ Government of Solomon Islands, Ministry of National Planning and Development Coordination. Unpublished. Solomon Islands Priority Infrastructure Investment Pipeline, February 2021. This document remains in draft form and has yet to be formally adopted by the Government of Solomon Islands.

⁷⁵ Due to lack of data, no separate estimates are included in the table for project implementation capacity in the local market, though judgement is exercised on this implicitly in the estimates of scope for local content, which is a function of both the type of project and local implementation capacity.

It should be noted that the assessment of the potential for local content is at the level of the individual project. Taken in combination, additional constraints could arise in relation to the capacity of local consultants, contractors, and suppliers.

Table 6: Potential Level of Local Content in Solomon Islands Infrastructure Pipeline

Sector	Project Title	Cost (SI\$ m)	Type of Project	Scope for Local Content (Based on Type of Project and Local Implementation Capacity)	Potential Level of Local Content
Air transport	Control Tower	10	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	High
	Provincial Airport Upgrade	30	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers	High
Education	Kukum Library Expansion and Upgrades to School of Nursing and Applied Health Sciences	100	Buildings - rehabilitation	Opportunity for local building contractors and suppliers, possibly with international partner	High
Energy	Renewable Energy Investment	74	Machinery/ equipment – new	Imported equipment but opportunity for local suppliers and installers of solar PV systems	Medium
	Tina 66 Kilovolt Transmission Line	108	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	Medium
Health	National Referral Hospital Upgrade	512	Buildings - rehabilitation	Major project. Opportunity for local building contractors and suppliers, with international partner	High
	National Referral Hospital Relocation	1,807	Buildings - new, Machinery/ equipment – new	Major project. Opportunity for local building contractors and suppliers, with international partner.	High
Land transport	Upgrading of west Guadalcanal roads from White River to Lambi	192	Civil works – rehabilitation	Opportunity for local civil contractors and suppliers	High
	Resealing of Honiara Feeder Roads	30	Civil works – rehabilitation	Opportunity for local civil contractors and suppliers	High
	North and South Malaita Roads	272	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Upgrading of roads in Malaita, Auki Town, South Road, North Road, and East Road	120	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	West New Georgia Road (National Transport Core Initiative)	135	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Aola-Marau Road (National Transport Core Initiative)	179	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	South New Georgia Road – (National Transport Core Initiative)	232	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Honiara Highway Inner Bypass, East-West Link Bypass Road	88	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Bridge Improvement Program	234	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Rehabilitation of Rennell Road	212	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers	High
Production	Bina Fisheries Project	70	Buildings - new, Machinery/ equipment – new	Opportunity for local building contractors and suppliers, with international partner	High
	Agriculture Producers Packaging and Marketing Centre	35	Buildings – new	Opportunity for local building contractors and suppliers	High
	Livestock Development Programme	14	Buildings - new	Opportunity for local building contractors and suppliers	High
Sea transport	Noro Domestic Jetties	20	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Honiara Domestic Jetties	80	Civil works - new	Opportunity for local civil contractors and suppliers, possibly with international partner	High
	Seghe Port (National Transport Core Initiative Phase 1)	47	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	High

	Bina Harbor Port (National Transport Core Initiative)	64	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	High
	National Transport Core Initiative Phase 2	375	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	High
	New Wharves Improvement Program	70	Civil works - new	Opportunity for local civil contractors and suppliers, with international partner	High
Telecommunications	Rural Digital Service Infrastructure Hub	62	Machinery/equipment – new	Imported equipment but opportunity for local suppliers and IT consultants	Medium
Water and sanitation	Urban and Rural Water Supply Development and Rehabilitation Program	32	Civil works - rehabilitation	Opportunity for local civil contractors and suppliers	High

IT = information technology, PV = photovoltaic, SI\$ = Solomon Islands dollars.

Sources: Government of Solomon Islands, Ministry of National Planning and Development Coordination. Unpublished. Solomon Islands Priority Infrastructure Investment Pipeline, February 2021; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Table 7 estimates the type and strength of benefits and costs associated with the potential level of local content. No information is entered in relation to project cost and time considerations—which, depending on the outcome, could be benefits or costs of local content—as these would not become clear until project procurement went ahead. They remain important considerations in assessing the overall position in relation to local content and reinforce the need to develop a knowledge base of the cost and time implications of such content in particular project contexts (in the same way that initial estimates of project capital costs come from the evaluation stage of earlier projects of a similar type as the project cycle rotates).

Table 7: Potential Benefits and Costs of Local Content in Solomon Islands Infrastructure Pipeline

Sector	Project Title	Cost (S\$m)	Potential Benefits from Local Content					Potential Costs from Local Content				
			Capacity Building - Contractors	Employment	Capacity Building - Workforce	Economic Multipliers	Appropriate Technology	More Effective Maintenance	Technology Transfer	Impact on Quality	Added Risk	Safeguards - Local Resources
Air transport	Control Tower	10	✓	✓	✓	✓	✓	✓	✓			
	Provincial Airport Upgrade	30		✓✓	✓✓	✓	✓	✓✓				✗
Education	Kukum Library Expansion and Upgrades to School of Nursing and Applied Health Sciences	100	✓✓	✓✓	✓✓	✓	✓	✓				
Energy	Renewable Energy Investment	74		✓	✓	✓	✓	✓	✓			
	Tina 66 Kilovolt Transmission Line	108	✓	✓	✓	✓	✓	✓	✓	✗	✗	
Health	National Referral Hospital Upgrade	512	✓✓	✓✓	✓	✓	✓	✓				
	National Referral Hospital Relocation	1,807	✓✓	✓✓	✓✓	✓	✓	✓✓	✓	✗	✗	
Land transport	Upgrading of west Guadalcanal roads from White River to Lambi	192	✓	✓✓✓	✓✓	✓	✓	✓✓				✗✗
	Resealing of Honiara Feeder Roads	30	✓	✓✓	✓✓	✓	✓	✓✓				✗✗
	North and South Malaita Roads	272	✓	✓✓✓	✓✓	✓	✓	✓✓				✗✗
	Upgrading of roads in Malaita, Auki Town, South Road, North Road, and East Road	120	✓	✓✓✓	✓✓	✓	✓	✓✓				✗✗
	West New Georgia Road (National Transport Core Initiative)	135	✓✓	✓✓	✓✓	✓	✓	✓✓				✗✗
	Aola-Marau Road (National Transport Core Initiative)	179	✓	✓✓	✓✓	✓	✓	✓✓				✗✗
	South New Georgia Road – (National Transport Core Initiative)	232	✓✓	✓✓	✓✓	✓	✓	✓✓				✗✗
	Honiara Highway Inner Bypass, East-West Link Bypass Road	88	✓✓	✓✓	✓✓	✓	✓	✓✓				✗✗
	Bridge Improvement Program	234	✓	✓✓✓	✓✓	✓	✓	✓✓				✗
	Rehabilitation of Rennell Road	212		✓✓✓	✓✓	✓	✓	✓✓				✗✗
Production	Bina Fisheries Project	70	✓	✓	✓	✓	✓	✓	✓	✗	✗	✗
	Agriculture Producers Packaging and Marketing Centre	35		✓	✓	✓	✓	✓		✗	✗	
	Livestock Development Programme	14		✓✓	✓✓	✓	✓	✓		✗	✗	
Sea transport	Noro Domestic Jetties	20	✓	✓	✓	✓	✓	✓				✗
	Honiara Domestic Jetties	80	✓	✓	✓	✓	✓	✓				✗
	Seghe Port (National Transport Core Initiative Phase 1)	47	✓	✓	✓	✓	✓	✓	✓			✗
	Bina Harbor Port (National Transport Core Initiative)	64	✓✓	✓✓	✓✓	✓	✓	✓✓	✓			✗
	National Transport Core Initiative Phase 2	375	✓✓	✓✓	✓✓	✓	✓	✓✓	✓	✗	✗	✗
	New Wharves Improvement Program	70	✓✓	✓✓	✓✓	✓	✓	✓✓	✓			✗
Telecommunications	Rural Digital Service Infrastructure Hub	62	✓	✓		✓			✓			
Water and sanitation	Urban and Rural Water Supply Development and Rehabilitation Program	32		✓✓	✓✓	✓	✓	✓✓				✗

Note: For each project, the potential benefits and costs from local content are checked with ticks for benefits and crosses for costs, with the number of ticks and crosses indicating the strength of the potential benefit or cost for that project (on a scale of one to three ticks or crosses). Sources: Government of Solomon Islands, Ministry of National Planning and Development Coordination. Unpublished. Solomon Islands Priority Infrastructure Investment Pipeline, February 2021; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Table 8 provides a summary by sector of the potential level of local content. These results are based on a limited number of projects and may not be fully representative of the sectors. The results are also based on limited data and should be perceived as illustrative rather than precise.

Table 8: Solomon Islands Infrastructure Pipeline, Analysis by Sector

Sector	No. of Projects	Total Cost (SI\$ m)	Potential Level of Local Content*	Benefits Indicator**	Costs Indicator**
Air transport	2	40	High	7.5	0.5
Education	1	100	High	9.0	0.0
Energy	2	182	Medium	6.5	1.0
Health	2	2,319	High	9.5	1.0
Land transport	10	1,694	High	9.7	1.9
Production	3	119	High	6.3	2.3
Sea transport	6	656	High	8.7	1.3
Telecommunications	1	62	Medium	4.0	0.0
Water and sanitation	1	32	High	8.0	1.0
	28	5,204			

* average rating per project

** average ticks or crosses per project in each sector

SI\$ = Solomon Islands dollars.

Note: The benefits and costs indicators calculate the average number of ticks or crosses per project in each sector.

Sources: Government of Solomon Islands, Ministry of National Planning and Development Coordination. Unpublished. Solomon Islands Priority Infrastructure Investment Pipeline, February 2021; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

It can be seen that most sectors are rated as having the potential for a high level of local content, with only the energy and telecommunications sectors rated as having the potential for a medium level of local content. Looking at the benefits and costs indicators, which calculate the average number of ticks or crosses per project in each sector, it can be seen that the land transport, health, and education sectors are assessed as having the highest potential net benefits per project from local content. This correlates broadly with the local contract awards identified in section 2.5.

4.4.2 Tonga

The *Tonga National Infrastructure Investment Plan (NIIP) 3*⁷⁶ contains a list of 28 government priority projects with an estimated capital cost of T\$563.6 million. In that document, the projects are listed in priority order. Here, for ease of reference, the projects are sorted by sector and by project priority within sectors.

Table 9 identifies the type of project, comments on the scope for local content (based on the nature of the project and consideration of project implementation capacity in the local market), and gives a rating of the potential level of local content (high, medium, or low). Results of this assessment are that 16

⁷⁶ Government of Tonga, Prime Minister's Office, National Planning Division. 2021. *Tonga National Infrastructure Investment Plan: Tonga NIIP 3 Report* (Cabinet Approved 19 August 2021, No 799).



projects (57% by number and 41% by value) have a high potential level of local content, 8 projects (29% by number and 48% by value) have a medium potential level of local content, and 4 projects (14% by number and 11% by value) have a low potential level of local content. When better information is available on current levels of local content (measured in terms of domestic value-added), it may be possible to specify ranges of local content for these ratings, e.g., projects with high potential could support $\geq 20\%$ local content; those with medium potential, $\geq 10\%$ and $< 20\%$ local content; and those with low potential, $< 10\%$ local content. These ranges are conservative estimates, considered reasonable pending further work on measuring domestic value-added associated with local content.

It should be noted that the assessment of the potential for local content is at the level of the individual project. Taken in combination, additional constraints could arise in relation to the capacity of local consultants, contractors, and suppliers.

Table 9: Potential Level of Local Content in Tonga Infrastructure Pipeline

Sector	Project Title	Cost (T\$'000)	Type of Project	Scope for Local Content (Based on Type of Project and Local Implementation Capacity)	Potential Level of Local Content
Air transport	Upgrade/expand carpark, pedestrian access Fua'amotu Airports	1,000	Civil works – new	Opportunity for local civil contractors and suppliers	High
	New Fire Tender Fua'amotu	2,100	Machinery/equipment – new	Procurement of specialist vehicle, opportunity for ongoing local support	Low
Climate change / DRM / environment	Multi-Hazard Early Warning /Emergency Ops Centre (Niuas)	15,000	Buildings – new	Involves imported equipment, with scope for local content in buildings on remote islands	Medium
	Upgrade Touliki coastal protection structure	3,000	Civil works – rehabilitation	Local contractors participation in coastal protection works	High
	New Warehouses for NEMO (Vava'u, East District, Tongatapu)	2,000	Buildings – new	Opportunity for local building contractors and suppliers	High
Education	TIST & TMPI extension/upgrade building	6,000	Buildings – new	Opportunity for local building contractors and suppliers	High
	New Junior Campus for Tupou College	10,000	Buildings – new	Opportunity for local building contractors and suppliers	High
Energy	Nuku'alofa Power Network Upgrade Project Area 3, 4 and 5	34,160	Civil works – rehabilitation	A continuation of an ongoing rehabilitation project, with considerable local content including workforce and power poles	High
	Additional/Replacement Generators (Tongatapu, Vava'u, Ha'apai and 'Eua)	6,000	Machinery/equipment – new	Main cost is imported equipment, with some scope for local content in installation	Low
Governance	Upgrade Fire Station 1, Nuku'alofa	2,630	Buildings – new	Opportunity for local building contractors and suppliers	High
	New Law Court Complex (Supreme and Magistrate)	13,500	Buildings – new	Major building work, possibly requiring a mix of international and local contractors/suppliers	Medium
	New Fale Alea (Parliament House and Office Complex)	25,000	Buildings – new	Flagship project, possibly requiring a mix of international and local contractors/suppliers. Local content in design and fitting out.	Medium
Health	Upgrading of a new Public Health building (Tongatapu)	5,000	Buildings – new	Opportunity for local building contractors and suppliers	High
	Upgrading of Vava'u Hospital (Prince Ngu Hospital)	40,000	Buildings – new	Major building work, possibly requiring a mix of international and local contractors/suppliers	Medium
Land transport	Overlay of Asphalt Concrete on Primary Roads in Tongatapu	20,000	Civil works – rehabilitation	Rehab works of this nature may require international contractor, but opportunity for local participation	Medium
	Fanga'uta Evacuation Bridge and Roads	150,000	Civil works – new	Major civil works project, requiring a mix of international and local contractors/suppliers	Medium
Production	Talamahu and 'Utukalungalu Market Upgrades	5,000	Buildings – rehabilitation	Local contractors and suppliers for rehabilitation of market premises	High
	Improve existing & build new Packing Facilities	1,800	Buildings – new	Opportunity for local building contractors and suppliers	High
Sea transport	First New Tug boat	20,022	Machinery/equipment – new	Procurement of vessel, scope for local content limited to ongoing support	Low
	New Wharfs for Small Outer Islands	16,000	Civil works – new	Complex project in site selection and environmental safeguards, mix of international and local contractors and suppliers	High
Solid waste	Convert dump sites to new structured landfill, Ha'apai & 'Eua	8,000	Civil works – new	Local content in developing new landfill sites on two islands	High
	Close (Kalaka) and establishing new landfill(s) Vava'u	12,000	Civil works – new	Local content in developing new landfill sites	High
Telecommunications	New international secondary / redundancy internet cable	35,000	Civil works – new	Main cost is cable and cable laying vessel	Low
	Upgrade and Expansion 'Eua Mobile and Fixed Networks	2,960	Buildings - new, Machinery/equipment – new	Involves imported equipment, with scope for local content in premises	Medium
	Upgrade and Expansion Niuas Mobile Networks	2,627	Buildings - new, Machinery/equipment – new	Involves imported equipment, with scope for local content in premises in a remote location	Medium
Water and sanitation	Centralized Tonga Water Board and Village Water Supply Tongatapu	103,389	Civil works – new	Scope for participation of local contractors and suppliers, and capacity building for the utility	High
	Improved Water Supply System in Vava'u (Greater Neiafu)	14,748	Civil works – new	Scope for participation of local contractors and suppliers, and capacity building for the utility	High
	Improved 'Eua Water Supply System	6,705	Civil works – new	Scope for participation of local contractors and suppliers, and capacity building for the utility	High

DRM = disaster risk management, NEMO = National Emergency Management Office, T\$ = pa'anga, TIST = Tonga Institute of Science and Technology, TMPI = Tonga Maritime Polytechnic Institute.

Sources: Government of Tonga, Prime Minister's Office, National Planning Division. 2021. *Tonga National Infrastructure Investment Plan: Tonga NIIP 3 Report*; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.



Table 10 estimates the type and strength of benefits and costs associated with the potential level of local content. No information is entered in relation to project cost and time considerations—which, depending on the outcome, could be benefits or costs of local content—as these would not become clear until procurement went ahead. They remain important considerations in assessing the overall position in relation to local content, and there is a need to develop a knowledge base of the cost and time implications of such content in particular project contexts (in the same way that initial estimates of project capital costs come from the evaluation stage of earlier projects of a similar type as the project cycle rotates).

Table 10: Potential Benefits and Costs of Local Content in Tonga Infrastructure Pipeline

Sector	Project Title	Cost (T\$'000)	Potential Benefits from Local Content							Potential Costs from Local Content		
			Capacity Building - Contractors	Employment	Capacity Building - Workforce	Economic Multipliers	Appropriate Technology	More Effective Maintenance	Technology Transfer	Impact on Quality	Added Risk	Safeguards - Local Resources
Air transport	Upgrade/expand carpark, pedestrian access Fua'amotu Airports	1,000		✓	✓	✓			✓			
	New Fire Tender Fua'amotu	2,100							✓			
Climate change / DRM / environment	Multi-Hazard Early Warning /Emergency Ops Centre (Niuas)	15,000	✓	✓	✓	✓						
	Upgrade Touliki coastal protection structure	3,000	✓	✓	✓	✓	✓			✗	✗	✗✗
	New Warehouses for NEMO (Vava'u, East District, Tongatapu)	2,000		✓✓ ✓	✓✓	✓	✓		✓✓			
Education	TIST & TMPI extension/upgrade building	6,000		✓✓ ✓	✓✓	✓	✓		✓✓			
	New Junior Campus for Tupou College	10,000		✓✓ ✓	✓✓	✓	✓		✓✓			
Energy	Nuku'alofa Power Network Upgrade Project Area 3, 4 and 5	34,160		✓	✓✓	✓	✓✓		✓✓			
	Additional/Replacement Generators (Tongatapu, Vava'u, Ha'apai and 'Eua)	6,000			✓							
Governance	Upgrade Fire Station 1, Nuku'alofa	2,630		✓✓ ✓	✓✓	✓	✓		✓✓			
	New Law Court Complex (Supreme and Magistrate)	13,500	✓	✓✓	✓	✓	✓	✓	✓	✗	✗	
	New Fale Alea (Parliament House and Office Complex)	25,000	✓	✓✓	✓	✓	✓	✓	✓	✗	✗	
Health	Upgrading of a new Public Health building (Tongatapu)	5,000		✓✓ ✓	✓✓	✓	✓		✓✓			
	Upgrading of Vava'u Hospital (Prince Ngu Hospital)	40,000	✓✓	✓✓ ✓	✓✓	✓	✓		✓✓	✗	✗	
Land transport	Overlay of Asphalt Concrete on Primary Roads in Tongatapu	20,000	✓	✓✓	✓✓	✓			✓✓	✓	✗	✗
	Fanga'uta Evacuation Bridge and Roads	150,000	✓	✓	✓	✓	✓	✓	✓			✗✗
Production	Talamahu and 'Utukalungalu Market Upgrades	5,000		✓✓	✓✓	✓	✓		✓✓			
	Improve existing & build new Packing Facilities	1,800		✓✓	✓✓	✓	✓		✓✓			
Sea transport	First New Tug boat	20,022							✓			
	New Wharfs for Small Outer Islands	16,000	✓	✓✓	✓✓	✓	✓✓		✓✓	✓	✗	✗
Solid waste	Convert dump sites to new structured landfill, Ha'apai & 'Eua	8,000	✓	✓	✓	✓			✓✓	✓	✗	✗
	Close (Kalaka) and establishing new landfill(s) Vava'u	12,000	✓	✓	✓	✓	✓		✓✓	✓	✗	✗
Telecommunications	New international secondary / redundancy internet cable	35,000							✓			
	Upgrade and Expansion 'Eua Mobile and Fixed Networks	2,960	✓	✓	✓	✓						
	Upgrade and Expansion Niuas Mobile Networks	2,627	✓	✓	✓	✓						
Water and sanitation	Centralized Tonga Water Board and Village Water Supply Tongatapu	103,389	✓	✓✓	✓✓	✓	✓✓		✓✓			✗✗
	Improved Water Supply System in Vava'u (Greater Neiafu)	14,748	✓	✓✓	✓✓	✓	✓✓		✓✓			✗✗
	Improved 'Eua Water Supply System	6,705	✓	✓✓	✓✓	✓	✓✓		✓✓			✗✗

DRM = disaster risk management, NEMO = National Emergency Management Office, T\$ = pa'anga, TIST = Tonga Institute of Science and Technology, TMPI = Tonga Maritime Polytechnic Institute.

Note: For each project, the potential benefits and costs from local content are checked with ticks for benefits and crosses for costs, with the number of ticks or crosses indicating the strength of the potential benefit or cost for that project (on a scale of one to three ticks or crosses).

Sources: Government of Tonga, Prime Minister's Office, National Planning Division. 2021. *Tonga National Infrastructure Investment Plan: Tonga NIIP 3 Report*; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Table 11 provides a summary by sector of the potential level of local content. Nine rankings for this potential were used in the assessment process; low-, low, low+, medium-, medium, medium+, high-, high, high+. These results are based on a limited number of projects and may not be fully representative of the sectors. The results are also based on limited data and should be viewed as illustrative rather than precise.

Table 11: Tonga Infrastructure Pipeline, Analysis by Sector

Sector	No. of Projects	Total Cost (T\$'000)	Potential Level of Local Content*	Benefits Indicator**	Costs Indicator**
Air transport	2	3,100	Medium	2.5	0.0
Climate change / DRM / environment	3	20,000	High -	6.0	1.3
Education	2	16,000	High	9.0	0.0
Energy	2	40,160	Medium	4.5	0.0
Governance	3	41,130	Medium +	8.3	1.3
Health	2	45,000	Medium +	10.0	1.0
Land transport	2	170,000	Medium	8.0	2.5
Production	2	6,800	High	8.0	0.0
Sea transport	2	36,022	Medium	6.0	2.0
Solid waste	2	20,000	High	7.5	4.0
Telecommunications	3	40,587	Medium -	3.0	0.0
Water and sanitation	3	124,842	High	10.0	2.0
	28	563,641			

* average rating per project

** average ticks or crosses per project in each sector

DRM = disaster risk management, T\$ = pa'anga.

Notes: Nine rankings for the potential level of local content were used in the assessment process; low-, low, low+, medium-, medium, medium+, high-, high, high+.: The benefits and costs indicators calculate the average number of ticks or crosses per project in each sector.

Sources: Government of Tonga, Prime Minister's Office, National Planning Division. 2021. *Tonga National Infrastructure Investment Plan: Tonga NIIP 3 Report*; and analysis by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

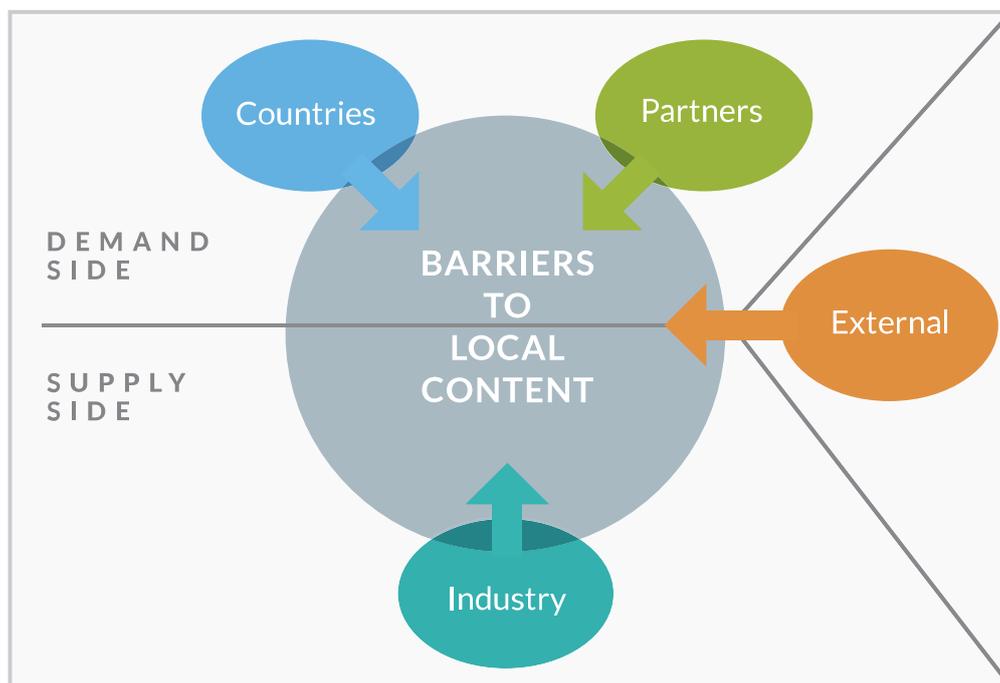
It can be seen that five sectors are rated as having the potential for a high or high- level of local content, while seven sectors are rated as having the potential for a medium+, or medium, or medium - level of local content. Looking at the benefits and costs indicators, which calculate the average number of ticks or crosses per project in each sector, it can be seen that the education, health, production, and water and sanitation sectors are assessed as having the highest potential net benefits per project from local content.

Estimates of the potential level of local content by sector are likely to vary across countries (and over time) as they represent averages for the specific projects included in the investment pipeline. The results are more project-specific than sector-specific and consider both the type of project and the capacity of local contractors to undertake that type of project. This explains, for example, why the land transport sector is rated as having a high potential level of local content in Solomon Islands, but only a medium potential level of local content in Tonga. The investment pipeline in this sector in Tonga is dominated by a large and technically sophisticated bridge project, suggesting that high levels of local content will be difficult to achieve, while the pipeline for the same sector in Solomon Islands focuses on traditional roadworks, which are more conducive to local content, correlating with evidence in other sections of the study.

5 Barriers to Local Content in Infrastructure Project Procurement

Barriers to local content in the procurement of infrastructure in Pacific island countries are presented in terms of demand-side, supply-side, and external factors. Demand-side barriers are separated into those of the host countries and their development partners. Supply-side barriers are those experienced by local industry (contractors, consultants, and suppliers). External barriers include those posed by the general operating environment in which infrastructure projects are delivered. This framework is shown diagrammatically in Figure 4. Not all barriers apply to all stakeholders, nor to the same extent.

Figure 4: Demand-Side, Supply-Side, and External Barriers to Local Content



Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

5.1 Demand-Side Barriers

5.1.1 Countries

Lack of Local Content Policy. There is a general lack of overarching local content policy in the infrastructure programs of Pacific island countries. This leads to missed opportunities for inclusion of local content in procurement plans and, hence, for generating demand for local content. The Solomon Islands Chamber of Commerce and Industry (SICCI) identified the lack of an appropriate policy framework as a key inhibitor to local content.

This contrasts with the oil and gas exploration sector where implementation of local content by governments has developed on the back of overt policies (either through incentivizing or mandatory provisioning of local content) and the creation and/or mandating of government bodies to administer

such policies, in turn requiring international development and aid organizations to incorporate local content as part of their project implementation⁷⁷.

It is reported that some Pacific island countries do not have a local content policy because they do not wish to favor one bidder, or one segment of bidders, over another—even if they did wish to promote local content. Yet, the World Trade Organization (WTO) General Procurement Agreement specifically recognizes the need for developing countries to promote the development of domestic industries, including small-scale and cottage industries, as well as other sectors of the economy. Special provisioning for this is available using “offsets”, which are otherwise explicitly forbidden under the WTO Government Procurement Agreement. Whilst it is understood that this agreement does not apply to procurements financed with aid, there is no impediment to applying the principles to locally funded projects⁷⁸.

“The best solution is to ensure that local content participation is factored in during the project concept design stage. This must be linked back to a policy that clearly encourages and specifies the involvement of locals”.
— Solomon Islands consultant.

The lack of local content policy manifests in other areas. For example, local content provisions in contract specifications may be vague about capacity development requirements and result in training in areas that do not deliver an employment outcome beyond the initial infrastructure project.

Conversely, relevant examples of local content policy provide evidence of the gains potentially achieved through introducing and implementing such a policy. A case in point is the policy developed by the Fiji Roads Authority (FRA), as outlined in Case Study 3.5, The FRA was established in 2012 and developed its own procurement procedures. Those procedures included explicit local content policy and strategy to promote Fijian capacity building through international contractors. At the time of writing this report, it appeared that this strategy of using international contractors to facilitate capacity development has been successful. Wholly owned local contractors are now involved as prime contractors and others provide a range of subcontracting services including production and supply of aggregates, not only for the FRA’s maintenance program but also for the capital works program.

Capacity Constraints. There are shortfalls in the procurement capacity (i.e., a lack of experienced and trained procurement personnel) of Pacific island countries, despite initiatives by some development partners.

As an example of efforts to build capacity, in 2017, the Pacific Aviation Investment Program supported public procurement training across the Pacific. This training focused on professional certification. The initiative was arranged in four phases that presented a pathway to a Strategic Diploma in Public Procurement, delivered by the United Nations Development Programme and the Chartered Institute of Procurement and Supply. As a result of this initiative, 40 Pacific islanders achieved professional procurement certification and 17 completed the diploma.

Such initiatives, however, seem to be the exception rather than the rule and shortfalls in capacity persist. This is more often the case when procurements are the responsibility of a line ministry, separate to the overall national procurement policy and administration functions typically housed in the Ministry of Finance⁷⁹. Often, responsibility for procurement may be an “add-on” to another function

⁷⁷ The differential between the oil and gas sector (whereby international players pay a fee to local governments in return for a license) and the development sector (whereby national governments borrow or are granted money on terms dictated by the lender) is acknowledged. Clearly, national governments have greater control over the former setting. Nevertheless, the role of policy is still valid, even if potentially more difficult to implement, in the latter.

⁷⁸ Offsets in government procurement are measures used to encourage local development or improve the balance-of-payments accounts by means of domestic content, licensing of technology, investment requirements, countertrade, or similar requirements. Source: United Nations Conference on Trade and Development. 2003. *Dispute Settlement*. pp. 20–22. https://unctad.org/system/files/official-document/edmmisc232add27_en.pdf.

⁷⁹ See, for example: Tonga Office of the Auditor General. 2020. *Performance Audit: Administration of Public Procurement*. https://www.audit.gov.to/Reports/PerformanceAudit/GovProcurement_ENG_June20.pdf

(e.g., Finance Manager) as opposed to a dedicated procurement position, notwithstanding that these do exist in some countries.

Some development partners routinely assess the capacity of a country to conduct the procurement processes needed for a given project. Often, local procurement capacity is found to be lacking and is considered a risk to successful project implementation.

Infrastructure procurement in particular is noted as demanding intensive and skilled supervision that stretches the procurement capacity of Pacific island countries. For example, capacity challenges may result in delays to procurement processes. Indeed, WBG data found that higher-value procurements (greater than \$2 million) take on average 3-5 times longer—and approximately half of those procurements at least 5 times longer—to process than lower-value procurements.

As a result of such delays, original cost estimates (a highly skilled function in itself) can be outdated (or simply incorrect) by the time of bid evaluation. This can result in bid cancellation and rebidding and, ultimately, project implementation delays.

To mitigate that risk, partners typically require procurement personnel to be trained in the development organization's specific procurement modalities. Alternatively, the partner may require a project implementation unit to be established, typically containing a procurement specialist who is not a national resident.

This project-by-project, partner-by-partner approach over many years has failed to develop strong local procurement capacity and has not necessarily expanded knowledge of infrastructure procurement practice generally. Moreover, the host government side is typically lacking the policy framework and knowledge to contribute to or convey the country's views and aspirations, which could include arguments for facilitating local content in infrastructure project delivery.

Cultural Complexities. These can range from deliberate corruption and/or nepotism that influences contract awards to a more nuanced (often political) interference in procurement processes (possibly for honorable reasons).

In Solomon Islands, for example, there was a reported a lack of confidence in the “biased” government procurement system, to the point where some respondents said they “hardly submitted” tenders.

Some of these practices may remain unchallenged due to the general unquestioning acceptance of authority evident in many Pacific island cultures. However, the impact of such constraints can be to distort procurement processes and erode confidence in them by development partners and the private sector. This, in turn, leads to lack of investment by local firms and undermines the promotion of local content in infrastructure projects.

Lengthy Award Timelines. Slow award of bids creates uncertainty and inefficiencies for the private sector. In Tonga, for example, government procurement and payments processes are perceived to be very long. Slow procurement award decisions prevent proper planning for subsequent tenders (i.e., uncertainty over whether and when a contract will be awarded, meaning that providers cannot be sure about resources if a second project is won). This creates pricing risk and additional overhead costs that have to be carried by local organizations while bids are decided, all of which is contrary to provision of a conducive environment for enabling local content.

Lack of Pipeline Visibility. The lack of a clear pipeline of infrastructure project precludes planning by the private sector, including an inability and/or unwillingness to invest in new equipment with long lead times. A level of certainty of infrastructure investment and potential future workflow is required to stimulate longer-term investment, both in training and equipment, and to develop a strategic growth mindset among local industry. Without this, longer-term capacity building efforts are unlikely to receive strategic buy-in from the private sector and or result in sustainable outcomes.

Visible pipelines have the opposite effect, particularly when coupled with work in progress. For example, in 2019, the Tonga Central Services Unit, with WBG support, delivered the country's first business opportunities seminar, which attracted participation by 50 companies from the Pacific region.

Building Contractor Capacity in Tonga

"Our current contract is funded by World Bank under the contract name - Rehabilitation of Road Sections and Maintenance Services of Roads in Vava'u

We understand that World Bank are tendering out a few more projects and roll out of contracts under IDA 19. In readiness for this, they have conducted pre-bid training for us contractors.

We also understand that the contract size has been aligned to the capacity of local contractors - to enable higher participation- i.e., contract have been cut down to smaller packages.

Local procurement has helped us as follows:

- *less competition from multi-national international companies which we cannot compete with in terms of financial standing, experience, resources etc.*
- *building company profile (this is our largest contract so far - \$7m) and will put us in a better position to bid for larger contracts as a head contractor.*
- *provide us with the experience of working with larger contracts and also build up our local capacity. So far has been a huge learning curve for all stakeholders.*
- *to renew and invest in new equipment that is important in executing this project.*
- *to enrol in an online study program provided by EIT - Engineering Institute of Technology - based out of Australia. This is a 3-month course on The Fundamental of Road Construction.*
- *The construction and road industry are mainly dominated by males. Whilst two thirds of our workforce are male we have seven female workers employed. They are not employed as the traditional office worker, but work out on the roads and involved with actual road works. We intend to build their capacity to also drive heavy machinery and work on pavement jobs involving bitumen. Our target is to reach a 50/50 male-female ratio in 12 months"*

Delayed Payments. Delayed payments affect local and international contractors alike, but not in equal measure. Local contractors generally have considerably less liquidity to financially carry costs of work phases already completed.

In Solomon Islands, for example, contractors cited delays in government payment approvals creating cashflow problems. However, government-appointed local consultants also identified problems with contractor invoicing as contributing to, or creating, these delays. Experience would suggest there is room for capacity improvement on both sides.

In some cases, however, lack of liquidity to pay subcontractors and suppliers can unavoidably bring a contract to a halt. Development partners generally expect contractors to be able to finance 3 months worth of expenditures. More attention to processing payments expeditiously, if maintained, could improve contractors' cash on hand to help meet financial qualification requirements at the bidding stage and provide more opportunity for local bidders to qualify.

An example of easing financial qualifications for local contractors during the bidding process can be found in Case Study 3.9.

5.1.2 Partners

Organization Risk Appetite. There is a variance in the risk appetite of development partners when it comes to local content. Whilst some partners acknowledge, accept, and even overtly encourage measured risk-taking as part of their procurement principles and framework, others seem less keen to embrace it. This reticence is driven by economy and/or efficiency as the primary consideration in project procurement. This is exacerbated by the lack of a clear policy and accompanying guidelines that would allow the benefits of local content to be captured and risks to be mitigated. Case Study 3.9 illustrates this point.

In this case study of two school rehabilitation projects following Tropical Cyclone Pam in Vanuatu, the development partner of the first project had an explicit and measured risk-embracing culture, whereas the partner in the second project did not. This led to two distinctly different procurement approaches. Both projects facilitated local content, although clearly it was more extensive in the first project, with greater chance of sustainable contracting capacity and maintenance culture gains beyond the immediate project. The two projects outlined were both successful. Nevertheless, they highlight the varying degree of risk tolerance that exists within partners in terms of implementing local content.

Low levels of risk tolerance, coupled with the lack of government policy on local content, create a state of inertia whereby governments do not seek to promote local content (because partners seem reluctant to embrace it) and partners do not feel confident or compelled to embrace local content (because governments seem reluctant to promote it). Hence, the status quo is maintained.

Competing Priorities. There can be a misalignment between a development partner's desire to use local content and other objectives of the project. Competing priorities of a partner can create confusion and ultimately be contrary to the development and implementation of local content objectives. Some partners seek local content, but place the risk for doing so on international

Box 2: Competing Priorities and Procurement Methods

The procurement model for project X highlighted shortcomings in the procurement process and provided a contradiction that undermined local content.

The development partner's tender documents specifically required local content and had a nonprice weighted criteria allocated to it in an assessment of value for money. However, it was up to the contractor to specify how they would achieve the local content requirements and these were only minor components of the overall bid assessment weighting. The main weightings of the value-for-money components were skewed toward delivery methodology and asset quality.

Specifically, and working against the local content requirement, were the overriding methodology and quality requirements that:

- i. the tender be a fixed price lump sum figure;*
- ii. maximization of donor country content be included;*
- iii. construction to be to developed country standards;*
- iv. the Defects Liability Period be extended from standard 12 months out to 24 months; and*
- v. extended plant and equipment warranties be provided (e.g., from 10 years out to 20 years).*

Under this scenario, it proved difficult for the bidder to reconcile the local content requirement with the asset performance and/or quality requirements that were also required to be delivered on a lump-sum basis (i.e., higher risk for contractor). The requirement to meet developed country standards required developed country subcontractors. Ultimately, the local content requirement had to give way to the quality risks outlined.

Source: International contractor interviewed by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

contractors, expecting them to develop a solution that also satisfies all other project requirements (i.e., time, cost, quality). This may be challenging, as the example in Box 2 demonstrates.

In the Box 2 example, the local content risk was not decoupled from the main project delivery and quality risks for the contractor. A solution would be for the principal to identify and specify local content requirements and include these in the bidding documents, and adjust the procurement mechanism to achieve a more tolerable risk allocation from the contractor's perspective. In a competitive fixed-price lump-sum contracting mechanism, as was the case in the example, this could be done by including specific items for local content in the pricing schedule and/or bills of quantities, and by allowing the contractor to explicitly price for any risk as they see appropriate, in conjunction with achieving the other objectives of the project.

"In a commercially competitive RFT environment, a tenderer is going to focus on risk and the VfM equation in the first instance if that is how the evaluation is weighted. De-coupling the two (i.e., any risk of local content considered contrary to project objectives) is the only way to ensure that the local content requirements are given a fair chance of being a priority".

- International contractor.

Lack of Consideration in Concept and Design Phases. As with other infrastructure project parameters, it is at the concept and design stages where the greatest impacts can be made on the use of local content. It was, however, reported at the SICCI symposium on local content in publicly financed infrastructure projects that such content is not explicitly considered in the earlier stages of project development and there is no requirement to do so. This can result in specification of technologies that are not necessarily appropriate for the local environment or industry capacity (for both construction and maintenance) and ignore the benefits of local content.

Instances were reported at the symposium where project specifications gave no consideration to locally available materials and spare parts, or to how the host country would maintain the asset. As one stakeholder from the Cook Islands put it:

Any projects that are designed and specified in such a way that ONLY foreign companies can bid, are inherently inappropriate for the local environment in terms of support, maintenance, and ultimate replacement. We have certainly seen some disastrous and costly project outcomes delivered by foreign companies, who have no long-term accountability. Local companies have to stay and face the music for any issues.

Lack of Monitoring & Evaluation and Post-Project Reviews. There is generally a lack of a robust monitoring and evaluation (M&E) processes for local content in Pacific island infrastructure projects. Such processes would hold project stakeholders accountable for delivering local content under each project as planned. Conversely, the local content approach in the minerals exploration industry is characterized by strong M&E and accountability requirements.

Although development partners do undertake in-house project completion reports and/or independent project evaluations, these will not consider local content unless it is an overt indicator identified in the M&E framework. Again, this is reflective of a lack of local content policy and project development guidelines, which would ensure appropriate monitoring and evaluation of local content was facilitated.

Budgeting and Funding Deadlines. It was reported at the SICCI symposium that the budget cycling processes of (at least one) development partner is not conducive to local content mechanisms (e.g., contract splitting) because, if a project is not completed (i.e., spent) by a given date, it could adversely impact on funding for the next cycle of projects. In this situation at least, achieving project budget cycles assumes greater importance than facilitating local content. The same partner also noted the impact of accelerated project preparation times (driven by funding deadlines) resulting in some countries preparing procurement plans lacking sufficient market analysis to inform local content procurement arrangements. This compounds the existing situation of countries lacking the resources

and capacity to undertake substantive relevant research into the potential for local content in their projects.

5.2 Supply-Side Barriers

Lack of Visibility and Analysis of Local Capacity. In many Pacific island countries, there is no identifiable database of local contractors, consultants, and/or suppliers; or at least no databases that are maintained and regularly updated. This prevents gaining an understanding of local capacity for consideration when preparing a project.

Determination of local capacity and consideration of project procurement and/or design methods that can be tailored to leverage local content appear to be only practiced when specifically pursued by the development partners at project level. This is most likely discouraged by demand-side barriers (including lack of government policy on local content policy and /or partners' organizational risk tolerance).

However, the lack of such analysis hinders promotion of local content procurement or the development of technical designs and specifications that encourage local content. It can also undermine local content by allowing an unregulated market of providers to bid for projects, perhaps undercutting proven quality providers. This can result in poor quality outcomes and disillusionment from both within and without the local industry, thus further eroding support for local content.

In Solomon Islands, there was a noted lack of discipline and professionalism in the infrastructure sector. There is seen to be a need to rebuild an industry that can be "corruption free" and is based on professional standards of conduct. It is important that professionalism is strengthened to continuously build and improve capacity, knowledge, and experience in country. This of course takes time and effort.

Shortfalls in Professional Representation. Various professional organizations associated with infrastructure delivery in the Pacific generally fail to effectively advocate in matters that should be of concern, e.g., professional and educational standards, licensing, accreditation, etc.

For example, at the time of writing, the Solomon Islands Built Environment Professional Association and the South Pacific Engineers Association were not active. The Pacific Association of Quantity Surveyors had 12 full-member national quantity surveying organizations, none of whom are from the Pacific island countries. The Fiji Institute of Quantity Surveyors was listed as an associate member of the Pacific Association of Quantity Surveyors, but there appeared to have been little activity since 2014.

Examples of functioning professional associations and chambers of commerce were rare. The Fiji Institution of Engineers had a register of members⁸⁰, although it did not indicate specialization. The FSM Chamber of Commerce had compiled a list of contractors for internal use, but this was not publicly available. The Institute of Professional Engineers Samoa, on the other hand, was active and had a functioning website and registry of members⁸¹, including allied professions such as architects and engineers. International consultants use the institute's website to identify local consultants for potential partnerships, thus highlighting the value that functioning local professional organizations can provide for local content.

⁸⁰The Fiji Institution of Engineers. Membership. <https://engineersfiji.org.fj/membership/>

⁸¹Institute of Professional Engineers Samoa. Registry. <https://ipes.ws/registry/>.

Nevertheless, there was a lack of presence and activity by professional organizations in most Pacific island countries and this has flow-on effects in terms of lack of advocacy and lack of visible, accepted, and enforced professional standards. This results in low industry reputation generally, which reflects how local content is perceived by many stakeholders. It has, however, been demonstrated that capacity within such organizations can have demonstrable positive impacts, as exemplified by SICCI (Box 3).

Box 3: Professional Representation for Local Content in Solomon Islands

The Solomon Islands Chamber of Commerce (SICCI) received funding from Australia's Department of Foreign Affairs and Trade over a number of years, with the overall objective of developing private enterprise in the country. Funding provided for full-time staff, including a chief executive officer.

The 2018 mid-term report of the initiative noted: "Australia's funding has enabled SICCI to become an effective organisation by allowing greater organisational stability and providing resources that have been invested in undertaking advocacy to government providing services to members".

SICCI has signed a memorandum of understanding for cooperation with the Government of Solomon Islands. In 2019, SICCI received an A\$900,000 grant for strengthening economic advocacy and dialogue. Part of that funding has been used to develop a local content policy and advocate for the use of such content on infrastructure projects on behalf of their members.

*SICCI also has a professional website that provides a registry of its members by sector:
<https://www.solomonchamber.com.sb/>*

This situation contrasts clearly with some chambers of commerce in other Pacific island countries, which appear to be hardly active.

A\$ = Australian dollars.

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Specific Financial and Technical Capacity Requirements. Financial and technical capacity requirements are often the first hurdle for bidders to overcome in tendering for infrastructure projects. These requirements are generally assessed on a pass-or-fail basis and failure on any of the requirements will result in removal of the bidder from further consideration.

Financial requirements typically include predetermined metrics relating to net worth (i.e., assets to liabilities should be positive), liquidity (e.g., 2-3 months of project cashflow cashable assets on hand), and annual turnover (e.g., annual turnover of the bidder should be at least two times the annualized project value for which they are bidding).

Technical requirements relate to experience on similar projects (e.g., two successfully and substantially completed projects within the last x years that are similar to the proposed works, in terms of size, nature, and role). There may also be requirements in terms of experience in key activities, personnel, and equipment.

Both financial and technical capacity requirements can be difficult for local Pacific island companies to meet, primarily due to lack of access to capital and low volumes of project workflow (which is needed to build financial strength). Indeed, some markets in Pacific island countries are so small that it is questionable as to whether there is sufficient demand to sustain and grow local content providers, both overall and in terms of maintaining enough potential bidders to create a competitive environment. An example of onerous financial requirements is outlined in Box 4.

Box 4: Inequitable Cashflow Arrangements in Construction Contracts

On one construction contract, the local contractor received a 10% advance payment upon commencement, for which they provided a security of equivalent value. They also provided a 10% performance security in the form of a bank guarantee. The advance payment was repaid to the project principal (deducted from the initial progress payments until fully repaid).

In addition, 10% retention was deducted from all progress payments. This retention was not contractually due for release until the completion of the 12-month defects liability period and rectification of all defects. This created a mismatch between retention release for the main contractor and the subcontractors. Further delays in retention release (due to slow rectification of defects) created delays in payments to subcontractors.

Finally, all progress payments were subject (unbeknownst to the contractor) to a 10% withholding tax deduction, effectively as a prepayment against company tax liabilities.

This cashflow system almost sent the contractor “to the wall” and created lost capacity in the Pacific through subcontracting companies not getting paid in a timely manner.

This example points to barriers on both the demand and supply sides. Whilst the demand side (country) created an inequitable cashflow arrangement, the supply side contractually accepted the arrangement without dispute, notwithstanding the withholding tax requirement that had not been specifically declared in the project procurement documents.

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

In the interviews conducted for this study, a number of stakeholders also raised concerns that bidding documents overemphasized academic qualification requirements for key personnel and this prevented otherwise suitably experienced and capable people from being put forward as team members. This issue applied for both consulting teams and contractor’s own personnel.

In Solomon Islands, small and medium-sized building and construction businesses identified the following key issues as impacting on their ability to apply and win tenders: (i) working capital and/or cash flow struggles, (ii) tendering preparedness and confidence, (iii) construction management skills, and (iv) lack of opportunities within larger infrastructure works. Some businesses found it hard to access experienced professionals with certain expertise in the local market. There was a perceived lack of training opportunities and professional development for some professions in Solomon Islands. Larger building and construction businesses identified natural small-market barriers, such as tender turnover thresholds and relevant experience requirements as well as access to expertise and finance. Similar issues were reported in Tonga.

Capacity Constraints. Capacity constraints include lack of skills for estimating, tendering, and financial management, particularly where more complex international forms of bid documents and contracts are used. Preparing and submitting a tender requires a range of skills that local bidders typically struggle with. In Tonga, for example, it was reported that documentation requires bidders to spend substantial time with bid preparation. Moreover, minor errors often lead to immediate disqualification, with no room for correction and resubmission.

This contrasts with international bidders, who are well versed and well trained in this highly specialized and crucial aspect of their operations. They have resources dedicated specifically to these functions. By comparison, local consultants, contractors, and suppliers typically don't have work volumes that allow such capacity to be developed in-house and carried as an overhead cost.

Financial management constraints may specifically include cashflow management (e.g., paying suppliers and subcontractors in a timely manner), access to capital, and developing reliable supply chains that facilitate project execution. This places local entities at a disadvantage when bidding for work and potentially reinforces the stereotypical risks (e.g., financial risks) of engaging local providers.

More generally, there is a limitation of skills within local organizations, both at trade and professional level. Workers in the Pacific are sometimes considered as laborers and not as skilled tradespeople. The practical impact of this is greater management time and overhead cost is incurred by (international) main contractors to achieve required standards of quality.

Employers typically report that the skill levels of newly recruited and certificate-qualified tradespeople are below their expectations and that there is a continuing need to recruit skilled workers on a project-by-project basis from overseas. Effectiveness of consultations on technical and vocational education and training (TVET) course content between the accreditation authorities, the course providers, and industry appears to be mixed. There is evidence of consultations in published reports, but there is a need for industry stakeholders to advocate more strongly for change or improvements that are desired.

Further, there is a hesitancy from the private sector to engage in skills development due to "leakage" of workers, particularly to competitors but also through emigration. The Australia Pacific Training Coalition reported that of 8,000 graduates since 2007 in all TVET disciplines, 5% did in fact emigrate. This needs to be considered in light of the importance of remittances to Pacific island economies, but potentially also a benefit of reverse flow of diaspora that have been able to take their skills to a higher level in a developed-country situation.

Nonetheless, leakage of trained personnel is an issue in the Pacific, particularly where people (e.g., those living in countries that have a Compact of Free Association with the United States) have automatic right of abode in more developed countries where better-paying employment is available. As noted above, uncertainty of future workflows is also an impediment to skills enhancement.

Securities. Provision of financial securities for advance payments and performance guarantees can be difficult to obtain for local entities⁸² The structural impediment of customary land ownership in the Pacific is considered unsuitable as a form of collateral security and prevents the use of one of the otherwise most common forms of security provision⁸³. Thus, financial institutions require other forms of security, which they may consider to be higher risk, and pass that risk burden on to local providers in the form of higher fees. The inability to obtain securities may also create cashflow pressures (in the case of advance payment) or disqualify a contractor (in the case of a performance guarantee). In the Compact country of Federated States of Micronesia, 100% performance securities were reported as being a significant barrier for local providers. This is a specific requirement of the procurement regulations governing projects under the Compact agreement⁸⁴. Similarly, retentions can adversely affect cashflows, as noted in Box 4.

⁸² While performance securities of 10% is commonplace, North Pacific Compact countries are reporting a 100% requirement. It was clarified that this is a requirement of projects funded by the United States under the Compact of Free Association Agreement, as opposed to funding under USAID, which has no such requirement.

⁸³ P. Holden, M. Bale, and S. Holden. 2004. *Swimming Against the Tide? An Assessment of the Private Sector in the Pacific*.

⁸⁴ Agreement concerning procedures for the implementation of United States Economic Assistance Provide in the Compact of Free Association, as amended, Between the Government of the United States of America, and the Government of the Federated States of Micronesia (Undated). Although not established conclusively, it is assumed that a similar situation exists with respect to the Marshall Islands and Palau.

Cultural Complexities. A more subtle barrier emanates from the smallness of Pacific island countries themselves and the cultural strengths of their peoples. This context creates complex relationships that can make management of infrastructure projects difficult and comparatively inefficient by foreign standards. For example, it may be culturally challenging for a local supervisor to advise workers that they are not required to work the next day or week. This situation may create inefficiencies of project delivery and means that local supervision itself requires a greater time commitment to oversee.

Similar constraints have proven to be barriers for locally based international organizations. They have experienced difficulty in embedding locals to run their operations, notwithstanding that this is a stated objective of their projects. The personal and/or work divisions seem to be less clear in a Pacific context and family matters may often be a higher priority than attending for work. This is not a criticism, but a potential barrier to local content insofar as it represents risk to international organizations wishing to engaging local providers. In interviews for this study, similar sentiments were echoed by training providers with respect to student attendance at training courses and “spillover” to allied work ethic challenges.

5.3 External Barriers

Business Environment. The general business environment in Pacific island countries is comparatively difficult, with multiple and persistent constraints on private sector development. These constraints include geographical dispersion of countries, distance from major markets, relatively limited economic capacity, reliance on imports, complex legislation, weak policy, human and institutional capacity constraints, and limited access to financial services to meet cash flow needs or expand operations⁸⁵.

The Pacific lags behind other regions in terms of the ease of starting a business, getting credit, enforcing contracts, and resolving insolvency⁸⁶. The general lack of engagement from chambers of commerce with this study exemplifies the general capacity constraints of the private sector.

In Solomon Islands, SICCI reported that the business environment constrains competitiveness in the local market and imposes barriers to local businesses competing against foreign enterprises. Key impediments noted by business were the uncompetitive tax system and the generally high costs of doing business (high costs of utilities and business services, time-consuming business processes, and delays due to poor infrastructure). The lack of supporting policies and settings, such as a competition framework or local content policy, also impact on the competitiveness of local businesses.

It was also identified that a general lack of confidence in government enforcement of broader government regulation results in an uneven playing field within Solomon Islands local content providers themselves, e. g., some contractors are allegedly not paying all their taxes and can therefore afford to submit lower bid prices. More broadly, the pay-as-you-earn income tax threshold is too low at SI\$30,000. Salaries are too high because of the tax requirements and this makes local wages uncompetitive. Increasing the tax threshold would reduce salary costs (and studies supposedly show that this will not affect the government’s tax base). However, this could not be verified.

⁸⁵ ADB. 2019. Pacific Private Sector Development Initiative, Phase IV. Manila.

⁸⁶ WBG. 2019. *Doing Business 2019: Training for Reform*.

<https://www.doingbusiness.org/content/dam/doingBusiness/media/Profiles/Regional/DB2019/EAP.pdf>

Insurances. Specific infrastructure-related insurances can be difficult to obtain and premiums are rising. A 2020 study found that insurers are now considering coverage restrictions on all new insurance placements in the construction sector. The Pacific market has seen an overall reduction in market capacity and increase in insurance pricing. The contract works insurance market saw a 30%–35% increase in 2020 on the back of an exodus from the Pacific market by insurers. Premiums for construction third-party liability increased by 15% in 2020 and professional indemnity premium increases have been substantial⁸⁷.

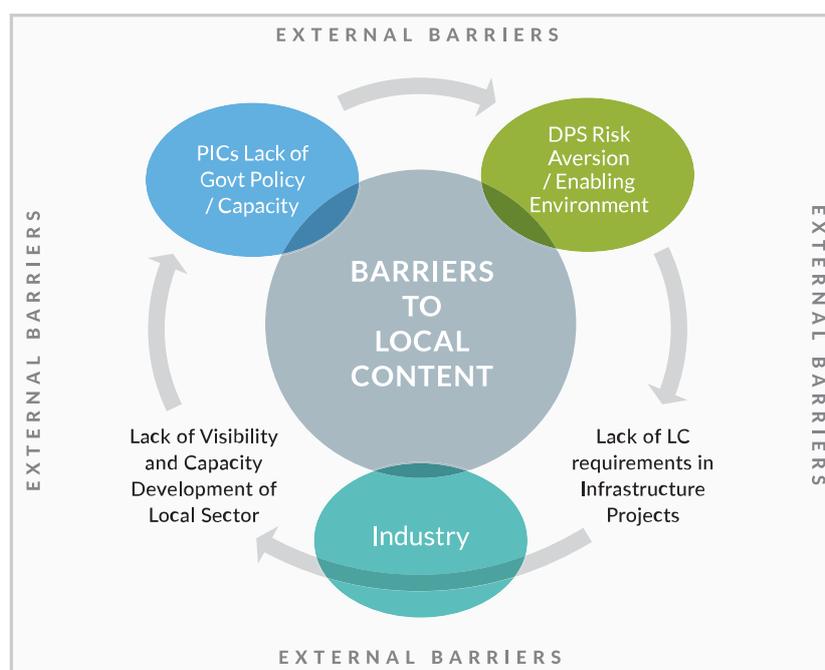
In some countries (e.g., Fiji, the FSM, Solomon Islands, and Vanuatu), it is understood to be a legal requirement to use local insurance companies only. This has the effect of limiting providers and driving up prices. While local suppliers and contractors tend to insure on a project-by-project basis, larger international contractors have an advantage in that they are able to use the global policies that are held continuously.

5.4 Interplay of Barriers

The siloed nature of the presentation of the barriers to local content belies the complex interplay between them that conspires to constrain the mainstreaming of local content in infrastructure projects.

For example, the lack of government local content policy is not conducive to most (but not all) partners reconsidering their risk profile and creating an enabling environment that actively seeks the integration of local content into the delivery on infrastructure projects. In turn, this results in local content not necessarily being considered at the forefront of project design and implementation. This results in lack of development of local industry capacity, which perpetuates the lack of both visibility and analysis of local capacity (both of which are fundamentally required if local content is to be harnessed). In turn, there is little advocacy from professional groups to national government and little inclination for change, resulting in continued capacity constraints in procurement processes and the private sector. External barriers perpetuate the cycle. This is depicted in Figure 5.

Figure 5: Cycle of Barriers to Local Content in Procurement of Infrastructure Projects



DPs = development partners, LC = local content, PICs = Pacific island countries.
 Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

⁸⁷ Marsh JLT Speciality. 2021. Construction Insurance Market. 2020 Pacific Insurance Market Recap.

6 Report Summary and Key Findings

6.1 Summary

The findings of the study are summarized below:

6.1.1 Procurement Procedures of Pacific Island Countries

- (i) Most countries have legislation and accompanying regulations that are fit for purpose, but an overarching local content policy is lacking. Such a policy would enable the existing regulations to be better used to promote opportunity for local entities to participate.
- (ii) There is little explicit opportunity provided in the regulations to promote local content, such as local-only bidding under certain thresholds (see Solomon Islands in Appendix 1 for an exception).
- (iii) Thresholds for competitive bidding are generally very low, restricting the opportunity to use processes, such as requests for quotations, that would provide opportunity for local entities.
- (iv) Staff administering procurement are often not specialized or professionally qualified. Only a few countries have procurement qualifications competency frameworks for their personnel and these may not be rigorously applied.
- (v) Many regulations assign responsibility to the procurement agencies for maintaining lists of potential suppliers along with information on their past performance. Few actually do this, therefore making it difficult to assess local industry capacity.
- (vi) Many regulations assign responsibility to the procuring agencies for developing annual procurement plans and making these plans available. Few actually do this, denying bidders early knowledge of the forward pipelines and opportunities to bid.
- (vii) Most regulations foresee, and provide for, use of electronic procurement, but many countries have not implemented it.
- (viii) Most regulations mimic those of the development partners with regard to the required amounts of bid and performance security.
- (ix) Procurement is ad hoc and not strategic, particularly with regard to using local capacity.

6.1.2 Procurement Procedures of Development Partners

- (xi) There is variance amongst development partners to both the appetite for, and implementation of, local content as reflected in the various procurement frameworks and mechanisms that have been identified.
- (xii) Development partners generally recognize value for money as a procurement principle, including the use of non-price criteria. However, assigning value to local content is not common. Rigorous methodologies for valuing local content do not exist.
- (xiii) Development partners place high priority on ensuring the economy, efficiency and quality of the delivered infrastructure, and there are varying degrees of acceptance of the perceived risks associated with local content.

- (xiv) All development partners have at least some procurement mechanisms that could be used to facilitate local content to some extent.
- (xv) There are exemplars of different local content methodologies implemented by development partners that can form the basis of knowledge sharing (as identified above and Appendix 4).

6.1.3 Potential Benefits and Costs of Local Content in Infrastructure Projects

This study has considered a range of potential benefits and costs associated with local content in infrastructure project procurement, discussing their significance to the domestic economies of the Countries. Potential benefits identified include capacity building of local contractors and the workforce, employment, economic multipliers, appropriate technology, more effective maintenance, and technology transfer. Potential costs identified include an impact on project quality, added risk, and safeguards in relation to local resources.

Given that local content brings with it both potential benefits and potential costs, the aim should be to optimize rather than to maximize local content.

A constraint faced in quantifying the benefits and costs associated with local content is that it is not defined in terms suitable for economic analysis. While local content could be defined in terms of domestic value-added, it tends to be thought of more in terms of the domicile of entities securing contracts. The inability to track local content through the project cycle also makes analysis difficult.

Sample project applications were presented which illustrate considerations in relation to the benefits and costs of local content as they emerge in practice.

Finally, an analysis was undertaken of the forward infrastructure investment pipelines of Solomon Islands and Tonga, considering the scope for local content in these priority projects and examining potential benefits, costs and net benefits of local content. Results were tabulated by project, and summary results presented by sector. Land transport (particularly roadworks that are labor-intensive and involve appropriate technology), health and education emerge as sectors with high potential for local content.

6.1.4 Barriers to Local Content in Infrastructure Project Procurement

Barriers to local content in the procurement of infrastructure projects have been identified in terms of demand side (governments and development partners), supply side (local consultants, contractors, and suppliers), and external constraints. Not all barriers apply to all stakeholders, nor to the same extent.

For countries, barriers identified are as follows:

- (i) absence of national policies on local content,
- (ii) procurement capacity constraints,
- (iii) cultural complexities,
- (iv) lengthy award time lines, and
- (v) slow or delayed payments.

For development partners, the study team identified:

- (i) a lack of consideration of local content at the project concept and design phase, and

- (ii) a lack of local content monitoring and evaluation baseline indicators for project performance reviews.

For both countries and partners, the study team identified areas of improvement in giving prominence or opportunities to bid for infrastructure projects through readily accessible advance information to enable them to better prepare for bids.

For consultants, contractors, and suppliers, barriers identified included:

- (i) a lack of visibility and analysis of local capacity that restricts the tailoring of projects to available local content;
- (ii) not fully understand the challenges of meeting the specified financial and technical capacity requirements to bid and not possessing appropriate skill sets, including estimating, tendering, and contract management.;
- (iii) a lack of access to capital to support both bidding (bid security, performance security, cashflow financing) and investment (in equipment and facilities); and
- (iv) limited trade and professional skills at the local level.

External barriers arise when comparing the business-enabling environments of Pacific island countries to those in other regions of the world. Constraints on private sector development in the Pacific include:

- (i) wide geographic dispersion,
- (ii) distance from major markets,
- (iii) limited economic capacity,
- (iv) complex legislation,
- (v) weak policy and human and institutional capacity constraints, and
- (vi) limited access to financial services.

These constraints are compounded by exposure to natural disasters that frequently result in significant economic disruption.

The complex interplay between these barriers conspires to constrain the mainstreaming of local content in infrastructure projects. While lack of policy is identified as a contributing factor for suboptimal levels of local content, the study identified solid initiatives implemented by some partners explicitly designed to lift local content levels. This is despite there being no country-level local content policy requiring them to do so.

Nevertheless, the responsibility for change rests largely with those who create the demand, i.e., the Pacific island countries and their development partners. They are best placed to drive change and strengthen procurement processes to enhance local content. The private sector can support this process through various capacity development measures to create a robust industry that can respond to these requirements. Ultimately, the countries, their partners, and the private sector need to collaborate to achieve the overall objective of optimizing local content in infrastructure projects.

6.2 Key Findings

Subject to the limitations noted, the study has produced relevant findings as follows:

- (i) The potential benefits and costs to the domestic economy associated with local content vary depending on the nature of the infrastructure project and the capacity of the local market to meet the various requirements of project implementation. Among the potential benefits are employment, capacity building for contractors and the workforce, economic multipliers, appropriate technology and technology transfer, and more-effective maintenance. Among the potential costs are an adverse impact on project quality, added risk, and environmental damage associated with greater use of local resources. As there can be costs as well as benefits associated with local content, it is considered appropriate to aim to optimize local content (as distinct from maximizing it). However, the optimum level of local content is difficult to identify because it is not defined in terms suitable for quantifiable economic analysis (e.g., in terms of domestic value-added). Further, the inability to track local content through the project cycle makes analysis difficult, particularly at the stages prior to detailed project preparation.
- (ii) For Pacific island countries, there is a lack of an overarching local content policy. This results in missed opportunity for including local content in procurement plans, in the design of infrastructure projects generally, in project procurement plans specifically, and in ultimately generating demand for local content. In addition, countries suffer from varying procurement capacity constraints, cultural complexities, and lack of clear infrastructure pipeline visibility. All of these factors inhibit local content.
- (iii) For development partners, there is varying risk appetite for the use of local content. Some organizations embrace the concept, while for others it seems contrary to the procurement principles of efficiency and economy or simply contrary to organizational procurement policy. In addition, the study identified competing priorities and procurement methods, lack of consideration of local content in the project design phase, and a lack of local content monitoring and evaluation indicators in post-project reviews.
- (iv) For local content providers, i.e., consultants, contractors, and suppliers, there is a lack of visibility and understanding of local capacity; challenges around meeting the specific financial and technical capacity requirements to bid for infrastructure projects; internal capacity challenges around industry-specific requirements, including estimating, tendering, and contract management; and lack of access to capital to support both bidding and investment. There is also a general limitation of skills within local organizations, at both trade and professional level, and a cultural complexity coupled with the smallness of Pacific island countries that inhibits local content.
- (v) External barriers to local content emanate from the general business environment in Pacific island countries being comparatively more challenging than in other regions. These countries are hamstrung by multiple and persistent constraints on private sector development, including geographical dispersion, distance from major markets, limited economic capacity, complex legislation, weak policy, human and institutional capacity constraints, and limited access to financial services.

7 Recommendations to Optimize Local Content in Infrastructure Project Procurement

Recommendations to enhance the use of local content in infrastructure projects have been developed for consideration by the stakeholders, i.e., the Pacific island countries, their development partners, and the private sector. The recommendations are categorized into policy, planning, mechanisms, and capacity development for each stakeholder.

Whilst presented linearly, there is significant overlap, even repetition, in the recommendations. This is because some recommendations require inputs beyond a single stakeholder to implement. Nevertheless, the recommendations are posited with those groups felt best-positioned to drive their implementation.

A preliminary implementation plan for the recommendations has been developed. This includes an initial stage whereby the recommendations of the study are adopted or adapted by the stakeholders. Thereafter, shorter-term and longer-term actions are identified to implement the recommendations of the study.

Adoption and implementation of these recommendations will ultimately fulfill the purpose of this report.

7.1 For Countries

In formulating recommendations for consideration, it is acknowledged that Pacific island countries have various policies, regulations, and operating environments that govern their procurement processes. The recommendations provided are given in that context, noting that some recommendations may not be feasible nor applicable for some countries. It is also recognized that some countries may already be implementing some of the recommendations.

7.1.1 Policy

(i) Develop and implement a local content policy

The lack of local content policy (LCP) is identified as a barrier to the optimization of local content. The benefit of defining and implementing an LCP is exemplified by the Fiji Roads Authority (Case Study 3.7). There may be benefit in having a single LCP policy developed at the regional level (e.g., by the Pacific Islands Forum)⁸⁸, which is then implemented at the national level, as opposed to separate national policies⁸⁹. Taking this into consideration, and consistent with the Framework for Pacific Regionalism⁹⁰ and the 2050 Strategy for the Blue Pacific Continent⁹¹, an LCP could include the following attributes:

⁸⁸ Pacific Islands Forum. <https://www.forumsec.org>

⁸⁹ As has been demonstrated in other forums. e.g., the quality infrastructure for Pacific Kava as an export commodity. For details, see M. Kovocevic. 2020. Pacific Island Countries Band Together to Increase Export Quality. *Trade for Development News*. 26 August. <https://trade4devnews.enhancedif.org/en/news/pacific-island-countries-band-together-increase-export-quality>.

⁹⁰ Pacific Islands Forum Secretariat. 2014. *The Framework for Pacific Regionalism*. <https://www.forumsec.org/wp-content/uploads/2017/09/Framework-for-Pacific-Regionalism.pdf>. Page 9 notes commercial procurement is to be used as a vehicle for capacity building support initiatives, and that the delivery of development funding should explicitly seek to reverse the reliance on parallel systems that perpetuate institutional capacity constraints (e.g., procurement).

⁹¹ Pacific Islands Forum. The 2050 Strategy for the Blue Pacific Continent. <https://www.forumsec.org/2050strategy/>

- (a) **Defining what is local content and how it is measured, recorded, and reported.** Local content in its simplest form may be simply “home grown”. However, evidence suggests that there are subtle distinctions, even within national boundaries. For example, what is local in one province may not be considered local in another, although both provinces are in the same country. Conversely, in the context of Pacific island countries, “regional” may be considered “local” for the purposes of creating trade synergies and greater opportunities for local content. In other industries and regions, countries have used LCPs to support the development of regional trade synergies, with the objective to provide the economy of scale necessary to create and sustain local comparative advantage⁹².
- (b) **Creating “shared value”.** This emphasizes the process of bringing together the public and private sectors, including civil society organizations (CSOs), to pursue a more integrated approach to local content development⁹³. In the context of infrastructure, development partners can be added to these stakeholder groups.
- (c) **Being flexible and incentive-based, rather than dogmatic.** There are, by necessity, infrastructure projects in Pacific island countries that are largely beyond local capacity to deliver, either due to size and/or technical complexity. This does not mean that local content opportunities cannot be identified within them. Equally, these projects should not be placed at risk by application of rigid policy that may create supply bottlenecks, employment distortions, and possibly corruption. Clearly, this would not be supported by the partners. Such projects will continue to rely on international expertise. Further, partners’ regulations may limit the extent to which local content can be incorporated. (e.g., a requirement for open competitive bidding requirements). Rather than prescribe unrealistic or unachievable goals, the thrust of the LCP should be to optimize local content to the extent practicable under any given infrastructure project.
- (d) **Mainstreaming local content as a legitimate cross-cutting and/or safeguards issue.** This would entail associated compliance requirements, where appropriate. It could also include local content as an overt criterion in multicriteria analysis for prioritizing projects within national infrastructure plans, the mandatory use of local industry participation plans (LIPPs) that detail how local content will be leveraged and its expected economic impact, the adoption and promotion of social procurement principles⁹⁴, and the mandatory monitoring and reporting of project-level local content requirements.
- (e) **Requiring the two-way transfer of technology and knowledge.** Every infrastructure project should demonstrate how this is to be achieved, including capacity development and knowledge transfer requirements, both in contracts and consultant terms of reference, wherever practicable.
- (f) **Developing a longer-term strategy for sustainable provisioning of local content.** This should occur through clearly identified training and capacity building pathway programs. Infrastructure projects present opportunities for workforce skills development, but there needs to be a defined pathway that allows local workers to move from one project to the next and have their skills base recognized and developed, both nationally and regionally (Case Study 3.6).
- (g) **Implementing a major project local skills guarantee.** Under this option, all projects over a certain threshold value would require that a minimum number of hours (as a percentage of the total)

⁹² World Bank. 2013. Local content Policies in the Oil and Gas Sector.

⁹³ International Petroleum Industry Environmental Conservation Association. 2016. Local Content: A Guidance Document for the Oil and Gas Industry. p. 45.

⁹⁴ Reflecting international trends and the development of ISO 20400 (<https://www.iso20400.org/iso-20400-overview/>), this is aimed at purchasing from indigenous and social based enterprises. See, for example: New Zealand Government Procurement. Broader Outcomes. <https://www.procurement.govt.nz/broader-outcomes/>

must be completed by local apprentices or other applicable groups. The objective is to grow the level of local capacity for longer-term needs⁹⁵. Similarly, unskilled labor should be encouraged to be locally sourced wherever feasible.

- (h) **Creating a Pacific regional infrastructure procurement forum.** This would target public sector procurement practitioners. The intention of the forum is to function as a knowledge transfer hub for practitioners to generate ideas and build professional networks. Public procurement is at varying stages of development in Pacific island countries and the opportunity to gain knowledge and experience from each other should be grasped.

7.1.2 Planning

(ii) Incorporate local content as early as possible into projects

This would preferably occur during concept formulation stage. Ensure that government has interest in local content and is willing to advocate for it. This could include incorporation of local content into project concept notes and preliminary project procurement plans, use of LIPPs for larger projects, specification of monitoring and evaluation indicators for local content, a requirement for terms of reference for detailed project design to ensure consideration of local content, use of innovative procurement methodologies such as early contractor involvement, and a stipulation that the managing contractor get local contactors involved as early as possible.

"The best solution is to ensure that local content participation is factored in during the project concept design stage. This must be linked back to a policy that clearly encourages and specifies the involvement of locals".

- Solomon Islands interview respondent.

(iii) Strengthen advertising of infrastructure pipelines

Provide the private sector in general, and local industry in particular, with regular and complete information on current and upcoming tender opportunities. This would include promotion of projects under national infrastructure investment plans (funded and unfunded projects) and ministry procurement plans as well as those included in business opportunities seminars by development partners – ideally all presented on the same website or in the same forum. Knowledge of the infrastructure pipeline will enable local suppliers of goods, works, and services to assess demand, address how they are placed to cater for such demand, and plan with greater confidence for longer-term investment in human resources, plant, and equipment. See, for example, the Fiji Procurement Office exemplar (subsection 2.3.6) and interest in joint government and development partner business opportunities in Tonga (subsection 5.1.1).

7.1.3 Practices

(iv) Review and update, or include, best practice local content procurement mechanisms

This could include joint venturing, use of nonprice criteria (subsection 2.3.1; Box 1), flexible qualification criteria, tender-securing declarations, risk-based tender and performance security requirements (subsection 2.3.8), contract splitting, framework contracts, domestic preference, set

⁹⁵ See, for example in Australia: Local Jobs First. Major Projects Skills Guarantee. <https://localjobsfirst.vic.gov.au/agency-guidance/major-project-skills-guarantee>

asides, local only provisioning, etc., which correlate with identified local capacities and appropriate procurement thresholds (Case Study 3.9).

(v) Utilize local competitive bidding based on procurement thresholds and contract splitting

This can be done both by size and by labor and materials as appropriate to develop local content through specific targeting of local industry (Case Study 3.4). Importantly, this must be commensurate with established, understood, maintained, and applied local capacity registers (as noted elsewhere). The study has identified that low technology, repetitive (and particularly rural) projects (e.g., road maintenance and school classroom construction) lend themselves to this approach, particularly when combined with targeted capacity assessment and bid training (Case Study 3.7 and Case Study 3.8).

(vi) Include security of payment clauses in contracts

This aims to protect payments to subcontractors, subconsultants, and suppliers and bar “pay when paid” provisions in subcontracts and supply agreements⁹⁶. This will create greater confidence in procurement and contract management systems.

(vii) Use simplified tendering and contract documents in plain language

This should be applied wherever possible. Examples of user-friendly documents are the International Federation of Consulting Engineers’ FIDIC Green Book for low-value contracts and the WBG’s specific bid documents for the Pacific⁹⁷. Use of simplified documents will help overcome bid disqualification due to minor errors, as previously identified in Tonga (subsection 4.3 iii).

(viii) Allow sufficient time for tender submissions

A minimum of 6 weeks is suggested to enable proper bid preparation by local bidders, who generally have limited bid preparation capacity, and to allow time for international bidders to identify potential local content partnerships. This will enhance bid quality and reduce project risk through more thoroughly researched and prepared bids. This option may also include reducing the time allowed for tender evaluation and award. The Vanuatu procurement guidelines, for example, include performance targets of 40 business days for the primary evaluation and 5 days for reviewing and accepting the recommendation by the approving authorities.

(ix) Encourage tender briefings and debriefs

Tender briefings should encompass provision of guidance on the key bidder qualification requirements and ways to achieve them. For example, cashflow capacity can be enhanced by obtaining a line of credit. They are also opportunities for potential matching of international and local bidders. Debriefings should be available to advise local bidders on possible areas of improvement to their bid submissions and reasons for bid rejection if applicable.

(x) Include a generic “lessons for industry” section in bid evaluation reports

⁹⁶ See, for example: Australian Building and Construction Commission. Security of Payment. <https://www.abcc.gov.au/building-code/contractors/construction-phase/security-payment>

⁹⁷ WBG. 2017. Making Procurement Work for Fragile and Small States in the Pacific under World Bank Investment Project Financing following the Procurement Regulations for IPF Borrowers; and WBG. 2018. Procurement Implementation Guidance.

This should identify systemic issues with bid rejection and other pertinent issues. The information should be made available via the e-procurement system or otherwise drawn on to identify areas where industry procurement training is needed.

(xi) **Develop and maintain a visible registry of accredited domestic suppliers of works, goods, and services**

The registry could be managed by relevant professional associations, CSOs and/or government agencies. It is imperative that such a registry identifies both capacity and performance evaluations. Only genuine firms that are appropriately registered should be entitled to participate in bidding processes. Registered entities should provide evidence of continuing compliance with all taxation, provident fund, and similar levies. The registry should be publicly available so local suppliers can promote products and services they can provide and thus allow external providers to identify potential joint venture and subcontract opportunities.

(xii) **Develop, use, and maintain use e-procurement systems.**

Such systems have been shown in other sectors to increase transparency of (and hence confidence in) tendering processes as well as making access to bidding documents easier and increasing participation by local suppliers⁹⁸. Some countries (e.g., Fiji and Samoa) are well advanced and could share their knowledge through the regional procurement forum proposed here. E-procurement systems can also be used strategically to support market analysis through capturing which companies are bidding for and winning projects. The use of such systems can also ensure information on contract awards is publicly available through searchable functions, including country, source of funding, sector, date, value, awardee, and awardee's nationality. The Pacific Islands Forum Secretariat regional tender portal⁹⁹ can also be used in parallel with national e-procurement systems.

(xiii) **Integrate the use of integrity pacts in public procurement**

Such pacts have been developed by Transparency International, where integrity is identified as a particular issue¹⁰⁰. An integrity pact is an agreement between a procuring agency and bidders to avoid corruption. Importantly, it is monitored independently to ensure compliance and thus provide greater public trust in the procurement system. Monitoring is done by a CSO (recommended by Transparency International) and thus promotes CSOs as key partners¹⁰¹ in infrastructure delivery, which is identified as good practice. The United Nations Pacific Regional Anti-Corruption Project could also be engaged to harness the support of relevant regional CSOs (e.g., Pacific Islands Private Sector Organisation) and local CSOs (e.g., SICCI is understood to have an agreement with Transparency international Solomon Islands).

⁹⁸ International Petroleum Industry Environmental Conservation Association. 2016. Local Content: A guidance Document for the Oil and Gas Industry. p.32; and WBG. 2103. Local Content Policies in the Oil and Gas Sector. p. 126.

⁹⁹ Pacific Islands Forum Secretariat. Tenders. <https://regionaltenders.forumsec.org/tenders/>

¹⁰⁰ It should be emphasized that integrity in procurement was not identified as a common issue.

¹⁰¹ Morgan et al. 2020. Building Together. Seven Principles for Engaging Civil Society to Deliver Resilient, Inclusive and Sustainable Infrastructure in the Pacific Islands. p. 5.

Utilize a “cashflow friendly” cash flow model

This might take the form of the retained advance payment model as per the example in Table 12 coupled with prompt payments, to overcome cash flow challenges to local entities (subsection 5.1.1).

Table 12: Retained Advance Payment Cashflow Model

Stage	Stage Value	Cumulative Value	Total Net Value Certified upon Stage Completion	Cumulative total Value Payment made	Comment
Commencement	20%		20%	20%	20% Advance payment and 10% Performance guarantee. 50% of APG is underwritten by Government as retained risk, or issued as insurance bond funded from the ILCDF (see below).
Substructure	20%	20%	30%	50%	Contractor has received payment to value of next stage. Client holding securities of 30%, deficit of work completed v paid is 30%.
Superstructure	30%	50%	30%	80%	Contractor has received payment to value of next stage. Client holding securities of 30%, deficit of work completed v paid is 30%.
Finishes and Fitout	30%	80%	20%	100%	Contractor has received payment to value of next stage. Client holding securities of 30%. deficit of work completed v paid is 20%.
Practical Completion	20%	100%	0%	0%	Contractor has previously received 100%. Advance payment guarantee released. Performance security released to 5%. Client holding securities of 5%.
TOTAL	100%		100%		

ILCDF = Infrastructure Local Content Development Fund

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Essentially this cashflow model retains the advance payment throughout the contract by paying for milestones in advance. There is no advance payment repayment (it is simply a contract payment) and retention is replaced by a performance security. The project principal may accept extra risk by foregoing security on part (or all) of the advance payment, or preferably it is sourced from elsewhere. In this example, the Infrastructure Local Content Development Fund (considered as part of this study’s recommendations) could underwrite the risk for half of the advance payment guarantee (i.e., 10% of the contract sum) through an insurance bond. The contractor would still be expected to source securities for the other half of the advance payment (i.e., 10%), and for the (10%) performance security. These would be the first securities forfeited in the event of nonperformance, thus incentivizing the contractor to complete the project. At the same time, the principal’s risk is covered and the contractor’s cashflow obstacles are reduced. Note, the model does not safeguard against poor financial management. Rather, it is intended to reduce cashflow obstacles for local contractors, suppliers, etc., while also reducing the principal’s risk. Other options to facilitate cashflow, such as payment for materials received and securely stored on site, should also be considered.

7.1.4 Capacity Development

(xiv) Develop a procurement competency framework

This would help ensure that procurement staff are knowledgeable and qualified. The framework should include staff position descriptions, responsibilities, and required qualifications. This has been done in Fiji and is currently being done in (at least) Samoa. Those exemplars are a readily available baseline that can be evaluated, adopted, and adapted as necessary.

(xv) Instigate procurement training

The head of all government procurement units (and the head of infrastructure procurement, where applicable) should be trained to a minimum standard, such as the Certificate IV in Procurement from the University of the South Pacific or equivalent. Longer term, corporate membership of the Chartered Institute of Procurement and Supply should be the goal of all procurement practice leaders. This could build upon the procurement training instigated by the WBG under the Pacific Aviation Investment Program (subsection 5.1.1).

A comprehensive procurement training plan should be developed by the central procurement unit. This can be rolled out to the various ministries and state-owned enterprises that have procurement responsibilities, and to the private sector as well through chambers of commerce and/or professional associations as appropriate. Such training has already been undertaken (to varying extents) in some Pacific island countries (e.g., Fiji, Samoa). Training should be conducted regularly to maintain currency of information and build the relationship between the government and the private sector. Such training could be coupled with information sessions on infrastructure pipelines and supported by development partners as part of their business awareness programs.

(xvi) Assess existing private sector gaps in skills and capacity

This will help identify entry barriers to local content and provide the basis for capacity building planning and funding for training providers. It would require training providers, in conjunction with the private sector, to report industry skills gap analysis and their response thereto, to justify government licensing and financial support for skills development for the infrastructure sector.

(xvii) Create a monitoring organization to report on the implementation of local content policy

This should be done on a project-by-project basis using a consistent regional methodology. This could be done by a government ministry, but history shows this is unlikely to be successful. A more efficient approach would be to utilize a CSO (e.g., a chamber of commerce) to undertake such monitoring. This could be done in conjunction with a government ministry if required¹⁰².

(xviii) Incentivize diaspora to partner with local firms

This can be achieved through the provision of networking, mentoring, training, investment, and venture capital, etc. Diaspora firms in developed countries are well positioned to provide capacity support and skills transfer.

¹⁰² Exemplars exist. In disaster response, monitoring is done by a partner organization to government. For example, monitoring of the shelter sector performance is done by the International Federation of Red Cross and Red Crescent Societies (as shelter cluster lead) or sometimes the host national Red Cross Society, in their specific role as auxiliary to government. Essentially, this is a partnership approach that could be replicated in the context of local content.

7.2 For Partners

In formulating recommendations for consideration, it is acknowledged that development partners have various policies, regulations, and operating environments that govern their procurement processes. The recommendations provided are given in that context, noting that some recommendations may not be feasible for some partners. It is also recognized that some partners are already implementing some of the recommendations.

7.2.1 Policy

(i) Develop an organizational enabling environment for local content

This could range from developing and/or strengthening a local content policy and practice notes to creating, implementing, and adopting specific procurement regulations, as has been done by the WBG (subsection 2.4.6; Appendix 2.8) and (to a lesser extent) ADB, or to implementing an explicit organization risk management policy that supports measured risk-taking.

(ii) Mainstream local content as a legitimate cross-cutting and/or safeguards issue

This would entail associated compliance requirements, where appropriate. It could include the mandatory specification of a LIPP (subsection 2.4.2), that details how local content will be leveraged, its expected economic impact, the adoption and promotion of social procurement principles, and the mandatory monitoring and reporting of local content. In line with this, partners could require safeguards positions to be filled by nationals wherever possible, either as standalone roles or as part of a broader bidding consortium.

(iii) Decouple budgetary cycles and funding deadlines from project completions

This is applicable where such cycles and deadlines are not conducive to procurement processes and mechanisms that facilitate local content (e.g., preparation of strategic procurement plans then incorporate the required market analysis for local content, contract splitting). Alternatively, apply specific set asides that are outside of such cycles.

7.2.2 Planning

(iv) Incorporate local content as early as possible into projects

This would preferably occur during concept formulation stage. It could include incorporation of local content into project concept notes and preliminary project procurement plans, use of LIPPs for larger projects (subsection 2.4.2), specification of monitoring and evaluation indicators for local content, a requirement for terms of reference for detailed project design to ensure consideration of local content, use of innovative procurement methodologies such as early contractor involvement, and a stipulation that the managing contractor get local contractors involved as early as possible (Case Study 3.2).

by adequately specifying requirements and including specific price items in pricing schedules (Case Study 3.1). Where local content is included in nonprice criteria, ensure it is given adequate weighting, is not contrary or inconsistent with other project objectives (Box 2, subsection 5.1.2), and requires a mandatory pass assessment.

(xvii) Strengthen advertising of procurement pipelines¹⁰³

ADB and WBG business opportunities need to be regular, consolidated with other development partners and Pacific island countries, and presented (preferably biannually, but annually as a minimum) in each country. This would also present opportunities for networking among international and local providers¹⁰⁴.

(v) Include a 1-2 year costed maintenance period in the works contract

This should be over and beyond the defects liability period and to be done by a local contractor, as a joint venture or subcontractor where appropriate. Preferably, this local contractor is involved with the project from the early design stage and certainly during the construction phase.

7.2.3 Mechanisms

(vi) Include provision for identified best practice procurement mechanisms that facilitate local content

This could include nonprice criteria; flexible qualification criteria, including for joint ventures; tender-securing declarations (or omission of bid security altogether where appropriate); contract splitting; framework contracts; domestic preference; set asides; local only provisioning, etc., which correlate with identified local capacities and appropriate procurement thresholds.

(vii) Utilize local competitive bidding based upon procurement thresholds and contract splitting

This can be done both by size and by labor and materials as appropriate to develop local content through specific targeting of local industry (Case Study 3.4). Importantly, this must be commensurate with established, understood, maintained, and applied local capacity registers (Case Study 3.9). The study has identified that low technology, repetitive (and particularly rural) projects (e.g., school classrooms and road maintenance) lend themselves to this approach, particularly when combined with targeted capacity assessment and bid training. Alternative procurement options such as results-based lending (Case Study 3.3) can also be utilized to achieve this recommendation.

(viii) Include security of payment clauses in contracts

This aims to protect payments to subcontractors, subconsultants, and suppliers and bar “pay when paid” provisions in subcontracts and supply agreements⁸⁵.

(ix) Use simplified tendering and contract documents in plain language

This should be applied wherever possible. Examples of user-friendly documents are the International Federation of Consulting Engineers’ FIDIC Green Book for low-value contracts and the WBG’s specific bid documents for the Pacific (footnote 116).

(x) Allow sufficient time for tender submissions

A minimum of 6 weeks is suggested to enable proper bid preparation by local bidders, who generally have limited bid preparation capacity, and to allow time for international bidders to identify potential

¹⁰³ Item number was omitted in original publication and is included here out of sequence to minimize changes to subsequent items.

¹⁰⁴ PRIF note closer coordination with trade promotion agencies may also assist support partnering opportunities for international and local providers; Pacific Trade Invest New Zealand and Austrade are key examples: <https://www.pacifictradeinvest.co.nz/investment-webinars/> and <https://www.austrade.gov.au/events/events>

local content partnerships. This will enhance bid quality and reduce project risk through more thoroughly researched and prepared bids. This option may also include reducing the time allowed for tender evaluation and award. The Vanuatu procurement guidelines, for example, include performance targets of 40 business days for the primary evaluation and 5 days for reviewing and accepting the recommendation by the approving authorities.

(xi) **Adopt or strengthen value for money bid evaluation criteria and the use of nonprice criteria**

This can help give appropriate value to local content. It should include mandatory satisfactory responses (pass or fail) irrespective of weighting given. An example is included in subsection A4.3.1.

7.2.4 Capacity Development

(xii) **Provide targeted procurement capacity building of private firms**

This should be done in terms of tendering, estimating, contract management, and risk management. It should complement the private sector training provided by some countries, which focuses on the actual procurement process itself, but less so on the “how to” of preparing and submitting tenders and managing contracts. See, for example, specific barriers identified to smaller and medium-sized firms in Solomon Islands and Tonga (section 5.2).

(xiii) **Harmonize procurement mechanisms that facilitate local content**

This should include, but not be limited to, joint venturing, advance payments, contract splitting, set asides, and domestic preference. Consistency of their application across development partners will facilitate ease of implementation.

(xiv) **Create pathways for skills development and recognition**

This can be done by integrating opportunities for development of local skills with the delivery of overall country infrastructure investment plans. This could extend from entry-level laborer positions, through skilled and qualified trades, and progression to worksite supervisor and/or project manager. Recognized certificates of competence could be obtained from registered training organizations and coordinated with on-the-job training. This would be particularly suited to longer-term programs (e.g., in Solomon Islands, where DFAT has announced the 10-year Solomon Islands Infrastructure Program). This option could include incorporation of “recognition of prior learning” approaches for workers at the end of a project to facilitate re-engagement and progression on subsequent projects. This could also be done potentially through the Pacific Community¹⁰⁵, given their work in this space.

(xv) **Research the domestic value-added of local content**

This involves identifying how value-added is generated to gain a better understanding of its economic benefits and costs. Current definitions of local content focus on the domicile of entities securing contracts. This is not conducive to economic analysis. Local and foreign contractors will contribute to domestic value-added, but not equally. There is a presumption that greater participation by local contractors will create greater value-added in the domestic economy, both in a static (immediate) and dynamic (forward-looking) sense. This needs to be tested and greater quantitative evidence of the costs and benefits obtained and used, as appropriate, to enable decisions regarding promotion of local content to be evidence-based and quantifiable.

¹⁰⁵ The Pacific Community. <https://www.spc.int/>

(xvi) Consider mechanisms for co-financing and administering an Infrastructure Local Content Development Fund

Such a fund might be established by applying, for example, a 0.5% surcharge (interest free) to the cost of all infrastructure projects. The intention is to fund the implementation of the recommendations included in this study, as well as related future research, on a sustainable basis¹⁰⁶. Based upon 2019 funding by partners, this would be approximately \$5 million per annum.

7.3 For the Private Sector

The private sector is the engine room of local content at the center of this study. It is the contractors, consultants, and suppliers who provide services that contribute to local content. CSOs, such as national and regional chambers of commerce and professional organizations, also contribute. These organizations all have a particularly important role in terms of facilitating many of the recommendations of this study.

7.3.1 Capacity Development

(i) Strengthen the capacity of professional organizations

This will help provide advocacy, training, standards, practice notes, accreditation, skills gap analysis, etc. Professional organizations are well placed to be a conduit between industry, governmental authorities, and development partners. Despite this, many professional organizations in Pacific island countries are fledgling because they are poorly resourced. Full-time, paid chief executive officers should be appointed and encouraged to establish links with sister organizations in neighboring developed countries. Active and healthy professional organizations will contribute significantly to lifting the profile and performance of local industry, thereby supporting local content and overcoming associated barriers, as identified in the Solomon Islands (Box 3, subsection 5.2).

(ii) Strengthen the capacity of chambers of commerce

These organizations have memberships that cut across professional disciplines (i.e., beyond those of professional organizations) and are well placed to provide industry-wide visibility and advocacy to government (such as developing domestic local content policy as done in Solomon Islands) and partners. Chambers of commerce, if supported, can facilitate training to their members as well as advocate for measures to reduce the cost of doing business (e.g., by reducing government red tape). The business and regulatory environment determines the ease with which firms can operate in an economy. Making it easier to work in an economy increases the chances that firms will invest and grow, leading to greater employment and higher levels of local production. The report has previously identified the positive impact that external funding can have on an organization and its members in the case of SICCI (Box 3), in turn addressing some of the external barriers to local content previously identified (subsection 5.3).

¹⁰⁶ For example, in Brazil, operators in the oil and gas sector must invest 1% of each field's gross revenues on oil- and gas-related research and development. In Malaysia, in addition to the provision of training programs, every production-sharing contractor is subject to an annual research contribution equivalent to 0.5% of the sum of cost oil and the contractor's share of profit oil. The aim of both contribution mechanisms is to increase local content through the generation and transfer of knowledge and technology. World Bank. 2013. *Local Content Policies in the Oil and Gas Sector*. P. 100 and p. 134.

(iii) Enhance industry visibility

This can be achieved via professional organizations and/or chambers of commerce creating, strengthening, and/or maintaining databases of members, including measures of capacity and skills offerings. This should complement the work of Engineers Without Borders New Zealand (in collaboration with the South Pacific Engineers Association) in Vanuatu and Kiribati, expanding it to other countries. Professional organizations and chambers of commerce can also conduct industry showcases, hosted in conjunction with country and/or partners business roadshows.

(iv) Conduct an industry skills analysis

This will help identify specific barriers to market entry and provide the basis for capacity building training initiatives. It includes working with training providers to ensure skills gaps are identified and incorporated into recognized training programs. It also encourages working with training providers to link infrastructure projects to recognized training programs through the skills guarantee included in the local content policy and other identified pathways.

(v) Develop mentoring programs for local businesses to grow

This includes expanding access to finance. It could be achieved through framework contracts for paid professionals to work with small and medium-sized enterprises, or through established vehicles like Business Link Pacific¹⁰⁷, which could be expanded to cater for infrastructure and/or construction sector companies. In addition, the work of ADB's Pacific Private Sector Development Initiative should be leveraged to increase business access to finance through the use of movable assets as collateral, and government-owned central banks as a source of credit¹⁰⁸. An interesting mentoring example is the post-conflict Peace Dividend Trust: Marketplace and Factor Finance for Procurement (3FP) model that operates in Afghanistan, Haiti, Liberia, and Timor-Leste¹⁰⁹. This program assists local small and medium-sized enterprises to secure donor-financed contracts and provide lines of credit to enable local bidding on larger contracts.

(vi) Develop programs to help potential diaspora investors assess and support local content business opportunities.

This might include, for example, utilizing diaspora to mentor local businesses in developing, implementing and gaining accreditation for health, safety, environment, and quality management plans, which will assist local entities bidding for infrastructure works. Diaspora may also be well placed to assist in addressing cultural challenges to local content.

The recommendations set out here are aggregated into groupings of policy, planning, implementation, and capacity development in Table 13.

From Table 13 a simplified checklist for incorporation of local content into infrastructure projects has been developed for Pacific island countries and their development partners. This checklist is included in Appendix 5.

¹⁰⁷ Business Link Pacific. <https://businesslinkpacific.com/>

¹⁰⁸ ADB. Undated. *Opportunities for Intervention under Pacific Private Sector Development Initiative, Phase IV*. <https://www.adb.org/sites/default/files/linked-documents/reg-53072-001-sd06.pdf>. In Tonga, it was reported that the government has provided security to financial institutions to support a select group of contractors and businesses to get their performance and advance securities, but this could not be verified.

¹⁰⁹ Changemakers. <https://www.changemakers.com/SME-Finance/entries/peace-dividend-trust-factor-finance-procurement-3fp>

Table 13: Summary of Recommendations to Enhance Local Content in Procurement of Infrastructure Projects

	Countries	Partners	Private Sector
Policy	<ul style="list-style-type: none"> Develop Local Content policy. 	<ul style="list-style-type: none"> Develop local content policy and/or enabling environment. Mainstream local content. Decouple budgetary cycles from project completions where contrary to local content objectives. 	<ul style="list-style-type: none"> Support development of local content policy.
Planning	<ul style="list-style-type: none"> Incorporate local content as early as possible into projects. 	<ul style="list-style-type: none"> Incorporate local content as early as possible into projects. Decouple local content risk from project delivery requirements. Include 1-2 year costed maintenance period in works contracts, beyond the DLP. 	<ul style="list-style-type: none"> Support development of early integration by providing relevant inputs into local capacity and skills gap analysis.
	<ul style="list-style-type: none"> Strengthen advertising of infrastructure pipelines. Embed local content indicators into infrastructure project M&E requirements and post-project reviews. 		
Practices	<ul style="list-style-type: none"> Use procurement mechanisms that facilitate local content, including: <ul style="list-style-type: none"> Local content nonprice and capacity criteria in bid evaluation. Incentivizing joint venturing and subcontracting, both international-local and local-local. Domestic preference. Tendering-securing declarations. Advance payments and flexible security options. Framework contracts. Set asides. Parent guarantees, subject to due diligence. Local competitive bidding based upon procurement thresholds commensurate with local capacity and contract splitting (both by size and/or labor and materials). Security of payments clauses in contracts. Use of simple tender documents and contracts. Sufficient time for bid submissions and reduced time for evaluations. Industry briefing and debriefings. Lessons for industry in bid evaluation reports. Registry of accredited domestic suppliers. E-procurement for notifications and awards. Use of integrity pacts where applicable. Cashflow friendly payment mechanisms and prompt payments. 		
Capacity Development	<ul style="list-style-type: none"> Procurement competency framework Procurement training. Supplier skills gap analysis (in conjunction with private sector). Create local content monitoring organization (in conjunction with private sector). Incentivize diaspora (in conjunction with private sector). 	<ul style="list-style-type: none"> Harmonize procurement mechanisms for integration of local content. Create pathways for skills development and recognition for local workers within infrastructure programs. Research the quantifiable costs and benefits of local content to facilitate objective project decision-making. Establish an Infrastructure Local Content Development Fund. 	<ul style="list-style-type: none"> Strengthen professional associations. Strengthen chambers of commerce. Establish and maintain registers of member suppliers. Enhance industry visibility through industry showcases. Conduct skills gap analysis and consequent training courses (in conjunction with training providers). Develop mentoring programs for local business. Develop programs to assist potential diaspora partners.

LP = Defects Liability Period, M&E = monitoring and evaluation.

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

7.4 Summary Implementation Plan

To implement the recommendations outlined here, a summary implementation plan has been developed as per Figure 6.

It includes a preliminary stage intended to confirm, modify, or reject each recommendation, so the final settings are applicable to each country and/or partner.

The subsequent detailed implementation actions will need to be reviewed and adjusted as necessary upon completion of the preliminary stage.

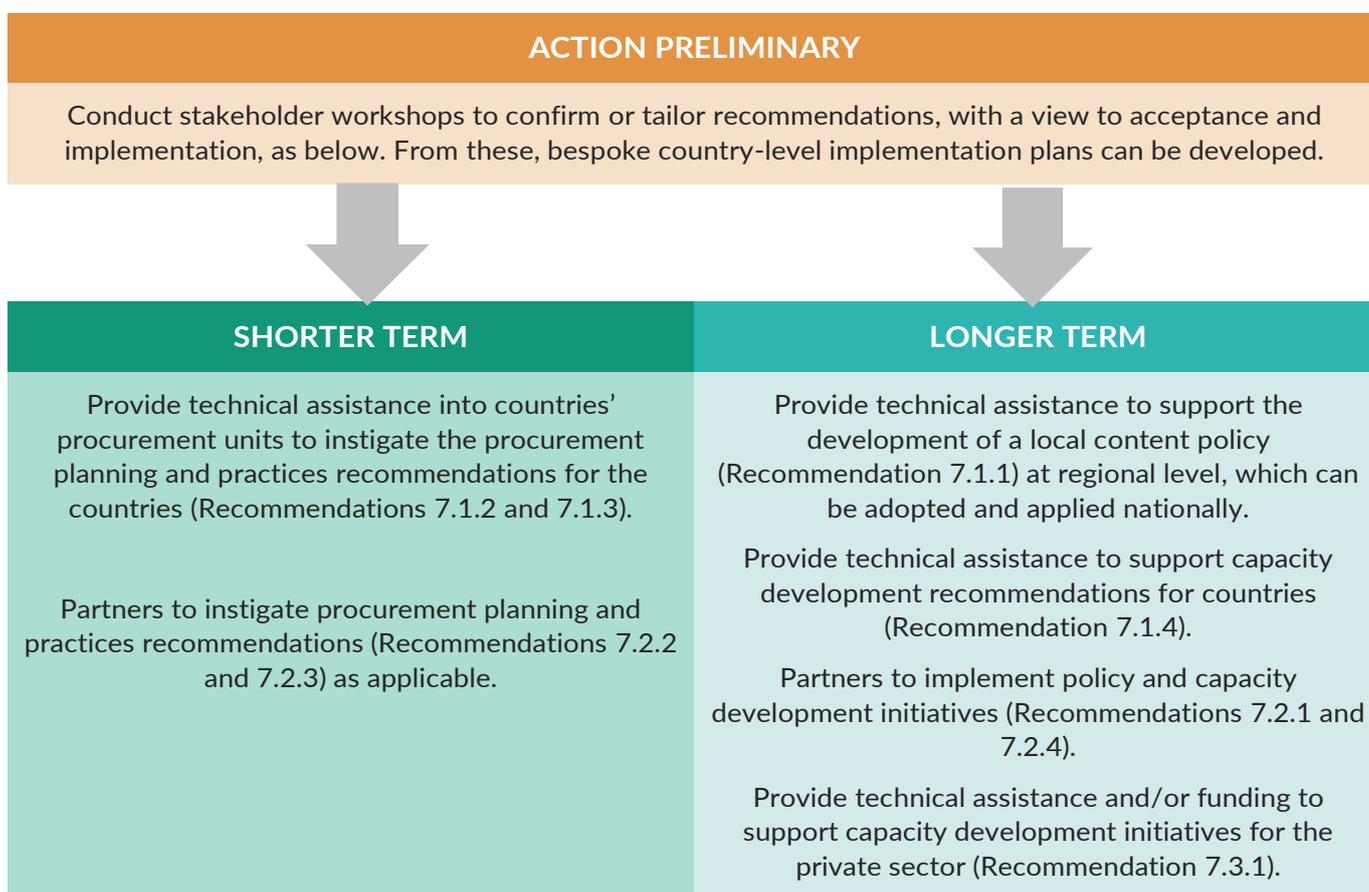
Implementation stages have been classified as either shorter-term or longer-term actions.

Shorter-term actions are those that generally can be instigated within existing policy frameworks. This typically includes the implementation of procurement planning and practices recommendations. (e.g., the use of nonprice criteria, thresholds, security of payment clauses, etc.) Generally, there are not considered to be any major impediments to the implementation of such actions. Hence, they are capable of implementation in a comparatively short time frame and with relative ease.

Longer-term actions are those that generally require development and adoption of policy and/or initiatives that, due to their nature, will take a longer time frame to develop. This typically includes the policy and capacity development recommendations identified in the study.

Implementation actions are not sequential. There is no reason why shorter- and longer-term actions cannot be implemented in parallel.

Figure 6: Summary Plan to Implement the Report Recommendations



Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

8 Concluding Remarks

Local content matters.

It matters because it is a mechanism for enhancing the lives of Pacific island peoples.

It does this by providing economic stimulus, social benefits, and individual purpose. It can also support Pacific island countries to achieve their development goals and actively contribute to, and benefit from, the process of achieving those goals.

At the project level, local content can localize design and construction technologies and thereby contribute to the longer-term sustainability and affordability of infrastructure assets for the benefit of future generations.

This is a win-win-win for Pacific island countries, their development partners, and the private sector.

In an age of global pandemic, local content matters even more. The Pacific region has suffered significantly from Covid-19—most notably through the devastating impacts on tourism caused by restrictions on international travel—and the adverse consequences are predicted to linger for longer than in the rest of the world.

The benefits of local content cannot be ignored.

Procurement of public infrastructure assets in Pacific island countries can be enhanced to ensure their quality, manage the costs, and leverage the benefits of local content, as has and is being done in other parts of the world.

This study is a step toward that goal.

The next steps are to adopt and implement the recommendations contained in this report. Doing so will be neither straightforward nor swift.

Experience teaches that change takes time.

But time alone is not enough. Change requires effort. It requires champions who have the will, the desire, and the persistence for change—who, in turn, inspire others to pursue and instigate change.

We hope this study will encourage such champions, from both within Pacific island countries and beyond, to bring the will and strive for the enhancement of local content in infrastructure projects in the region, for the betterment of all their peoples.



Appendix 1: Procurement Legislation and Rules in Pacific Island Countries

Table A1.1: Summary of Procurement Legislation and Rules in Member Countries of the Pacific Region Infrastructure Facility

Country	Laws, Regulations, and Guidelines	Synopsis
Cook Islands	<p>Ministry of Finance and Economic Management Act 1995–96. Purchase and Sale of Goods and Services Policy (Procurement Policy). Procurement Portal, Government of the Cook Islands.</p>	<p>Procurement is managed by the Ministry of Finance and Economic Management (MFEM), Major Project and Procurement Support division. Procurement oversight is provided by a number of ministries and units, including the MFEM, the Development Coordination Division, the Treasury Division, Infrastructure Cook Islands, the Infrastructure Committee, the Public Expenditure Review Committee, and the Tenders Committee.</p> <p>Requests for quotations (minimum three quotes) may be solicited for procurement values up to NZ\$60,000. For values of more than NZ\$30,000, specific Head of Agency and Tenders Board approval is required. Open tendering is required for procurement above NZ\$60,000.</p> <p>The Tender Committee consists of the Financial Secretary (or nominee), the Solicitor-General (or nominee), and other technical advisors as required, provided that these advisors are not members of the Tender Committee but act in an advisory capacity only. The Head of Agency must endorse the evaluation recommendation prior to it being sent for Tender Committee review.</p> <p>The request for tender should be advertised by way of at least three (3) different sources of public media services, e.g., local newspapers, local television, ministry noticeboards, e-tender subscribers, website, or distribution of flyers, etc. Consideration for outer islands and overseas recipients should be taken into account and the appropriate media service should be chosen to cater for their needs.</p> <p>Uniquely, Cook Islands uses invitations for expressions of interest (EOIs) to explore market availability as a precursor to a full tender process. The tender specifications documents can be revised to include any changes resulting from the receipt of an EOI. Any proposed tenderers who submit an EOI must be provided the opportunity to tender.</p> <p>Use of bid security and performance security is not specified in the regulations.</p> <p>If a contract is able to be carried out by a locally established company, or if the request for tender has the ability to use local labor and/or resources, part of the evaluation criteria must include a weighted</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>scoring for locally established companies (mandatory 5%). A restricted tender may be used when a list of reputable suppliers, who have established working relationships with government, exists (updated as required) and has been lodged with the Tender Committee.</p> <p>The electronic tendering platform is used to register locally established companies.</p> <p>State-owned enterprises (SOEs) may adapt the policy due to the structure and the commercial nature of their businesses, but are expected to comply with the policy unless otherwise authorized by the Financial Secretary or gazetted under the MFEM Act.</p> <p>Tenderers are entitled to the release of their tender evaluation report on request. Request for evaluation report of other tenderers must be processed under the Official Information Act 2009.</p> <p>A complaints procedure is specified in the Procurement Policy.</p>
Fiji	<p>Procurement Regulations 2010 (as amended in 2020). Finance Instructions (2010) issued under the Financial Management Act 2004.</p> <p>Guidelines include: Procurement Guidelines. The Procurement Policy Framework (August 2010). Guide to the Tender and Evaluation Process (December 2010). Guide to Overseas Procurement and Logistics Determination of Performance Bonds policy Advance payment policy (2013). Guide to Procurement Process (for purchases below F\$50,000). Expression of Interest Guide. Overview of the Tender and Evaluation Process. Procurement Competency Framework, Ministry of Economy.</p>	<p>Fiji has 25 SOEs that are empowered to make their own procurement regulations and/or operating procedures. However, relevant ministries that are covered include the Ministry of Health and Medical Services and the Ministry of Education.</p> <p>The Fiji Procurement Office (FPO), under the Ministry of Finance, administers procurement valued above F\$50,000. (approximately \$25,000).</p> <p>The FPO advertises tender opportunities on its website, which uses Tenderlink as the tendering platform.</p> <p>The FPO aggregates requirements for goods from various ministries, for greater leverage over suppliers.</p> <p>Performance bonds required for selected contracts above F\$50,000.</p> <p>Local bidders are required to demonstrate compliance and up-to-date payments in respect of taxation and provident fund contributions. The latter in particular strengthens Fiji's social protection and pension policies.</p> <p>For contracts less than F\$50,000, the FPO and public sector procurement professionals may use lowest-price, simple-score, or weighted-attribute methodologies. Bid evaluation report templates, provided on the FPO website, are mandated to ensure a consistent approach to evaluation.</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>The FPO website provides a Procurement Competency Framework and links to online procurement training entities.</p>
<p>Federated States of Micronesia (FSM)</p>	<p>FSM Code 2014, Chapter 4, Government Contracts. Financial Management Regulations 2021 (applicable to any funds appropriated by the Congress of the FSM, United States federal grants, or foreign aid channeled through the Government of the FSM).</p> <p>However, each State has their own set of procurement regulations, which are set autonomously and are not harmonized.</p>	<p>The FSM Department of Finance (Procurement Division) is responsible for administration.</p> <p>For works less than \$50,000, three quotes are to be obtained. For works greater than \$50,000, open bidding is used. Sole-source procurement may be used for procurement of unlimited value, subject to justification. For services less than \$100,000, three quotes may be obtained, subject to justification. For services greater than \$100,000, open bidding is used.</p> <p>A call for sealed bids (for contracts greater than \$50,000) shall be advertised for at least ten (10) working days: (i) by posting such call for sealed bids in the Immigration Office and one other prominent public place in each State in the FSM; (ii) by posting on the internet via approved recruitment sites or approved government websites; and (iii) by use of radio and newspaper media and any other means considered feasible.</p> <p>Electronic procurement, apart from advertising, was not used at the time of this assessment.</p> <p>The Contracts Review Committee has oversight of major procurements. A dedicated Project Management Unit is set up for Compact-funded projects reporting to the Secretary DTC&I. A separate Project Management Office is set up for special projects (e.g., projects financed by other development partners) and reports through the Division of Infrastructure's Assistant Secretary.</p> <p>There is no specific mention of use of evaluation criteria in the country's procurement manual, but the procedures do lend themselves towards using local resources where ever possible. For example, direct contracting may be used in preference to seeking international bids where there is a capable local bidder.</p> <p>Domestic preference (citizen bidder eligibility) on price is used, but is limited to contracts below \$10,000,000 and ranging from 5%-15%.</p> <p>There is no independent complaints review mechanism outside of recourse through litigation. The regulations state specifically that remedy for procurement-related complaints should be sought directly from the Supreme Court of the FSM.</p>
<p>Kiribati</p>	<p>Public Procurement Act 2019. Procurement (amendment) Act 2021. Manual for Public Procurement in the Republic of Kiribati.</p>	<p>A Central Procurement Unit is established within the Ministry responsible for Finance as the center for public procurement in Kiribati. It is responsible for providing operational advice and support to</p>

Country	Laws, Regulations, and Guidelines	Synopsis
	<p>Not applicable to projects financed by international donors, where money and financial assets are not part of Kiribati public funds; plus other exceptions as specified in the guidelines.</p>	<p>procuring entities in the execution of public procurement. The Chief Procurement Officer is the official appointed by the President as Head of the Central Procurement Unit.</p> <p>Procurement thresholds are defined as very low value (less than A\$1,000), low value (less than A\$10,000), medium value (less than A\$50,000), and high value (greater than A\$50,000).</p> <p>The Central Contract Award Board is the awarding authority for high-value contracts or framework agreements. The Contract Award Committee is the awarding authority for contracts or framework agreements for medium-value contracts.</p> <p>The procurement manual advises that the use of tender securities should be restricted to, and subject to, an analysis. Tender securities are used "if it is deemed that (i) there is a significant risk, based on previous experience or frequent behavior in the relevant market segment; and/or (ii) the consequences would be severe to the Procuring Entity, in particular if the Public Procurement procedure would have to be reopened, not having a qualified or valid, due to the Tender validity time having expired, second-best Tender." Similarly, performance security is specified after a risk analysis.</p> <p>Evaluation criteria and weightings are described in detail at 7.4.13 of the manual and include employment opportunities, decent work, compliance with social and labor rights, social inclusion (including people with disabilities), equal opportunities, accessibility design for all, taking account of sustainability criteria, including ethical trade issues, and wider voluntary compliance with corporate social responsibility. The manual also advances sustainable development and the achievement of the Government of Kiribati's social objectives. An excellent framework for domestic preference is at 7.4.13.9 of the manual.</p> <p>The Procurement Complaints Board is the permanent authority responsible for appeals on medium- and high-value procurement and contract or framework agreement award decisions. Procedures for complaints are set out in detail at 7.11 of the manual.</p>
Marshall Islands	<p>Procurement Code (Act) 1988 [44 MIRC Ch.1]. Procurement Code (Amendment) Act 2016. The Republic of the Marshall Islands Procurement Regulations Pursuant to the Procurement Code Act 1988 (revised 2020).</p>	<p>The office responsible for procurement policy is in the Office of the Chief Secretary. The Chief Procurement Officer is the Chief of the Office of Procurement and Supply.</p> <p>A Bid Committee is responsible for evaluation bids of less than \$25,000. Its constitution is not defined in the regulations. The Bid Committee shall be directly involved in source selection of competitive sealed</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>bidding over \$25,000, but three quotes may be solicited for small works less than \$25,000.</p> <p>Bidders lists compiled and maintained in accordance with the regulations may serve as a basis for soliciting competitive sealed proposals.</p> <p>The contract is to be awarded "to the lowest responsible and responsive bidder whose bid meets the requirements and criteria set forth in the Invitation for Bids." The regulations describe the evaluation methodology in detail.</p> <p>There is no specific mention of bid security or performance security in the regulations.</p> <p>The regulations require that "specifications shall seek to promote the overall economy for the purpose intended and encourage fair competition in satisfying the Government's needs and shall not be too restrictive".</p> <p>There is no specific mention of using nonprice evaluation criteria. However, the regulations state that "only objectively measurable criteria which are set forth in the Invitation for Bids shall be applied in determining the lowest bidder", which suggests that nonprice criteria may not be used.</p> <p>Architectural and engineering services are procured through negotiation with at least three registered suppliers after public solicitation of EOIs.</p> <p>Processes for pre-litigation complaints management are provided in the regulations, including an Appeals Board process.</p>
Nauru	<p>Public Finance Act 1997. Public Finance Regulations 2013 Procurement - Department of Finance - Nauru (naurufinance.info).</p>	<p>An assessment by Australia's Department of Foreign Affairs and Trade in 2018 found the following:</p> <p>"Procurement, as it stands, is considered high-risk as it does not follow a governance structure and mechanisms which ensure that procurement decisions are based on principles of transparency, value for money, economy, fairness and accountability. Currently there is no way of verifying whether procurement decisions are in compliance with its regulations. The procurement regime in its current form, with 4 separate avenues of uncoordinated tender processes, with no overarching oversight and compliance mechanism, can be exposed to discretionary decisions which can go largely unchecked."</p> <p>Current arrangements provide for procurement agents who should be independent of the government and to be appointed competitively. However, Nauru's Department of Finance website</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>says that these agents are (i) Brisbane Procurement (Nauru Consulate in Brisbane), (ii) Eigigu Procurement, and (iii) the Nauru Post Office. No regulations regarding the processes and procedures of the procurement agents are available.</p>
Niue	<p>Appropriations (Annual) Act 2005. Niue Treasury Instructions 2002 issued under the Niue Public Revenues Ordinance 1959. Niue Treasury Instructions 2002, revised and updated, 1999 and 2002. Niue Treasury Rules 1961. Niue Public Revenues Ordinance 1959. Public Service Regulations 2004.</p>	<p>Various instructions and ordinances have been issued, but all are outdated and lack detail to regulate procurement. Consequently, new and updated procurement regulations are currently being developed.</p> <p>A draft was provided to the Technical Assistance Team for the Analysis of Procurement Practice and Local Content for information on a confidential basis.</p> <p>The draft demonstrates that Niue is actively pursuing elements of procurement practice that are likely to be identified as “best practice”, e.g., market analysis, use of nonprice criteria, and electronic tendering.</p>
Palau	National Procurement Law 1991.	<p>The Ministry of Finance is responsible for procurement policy and regulations.</p> <p>The Director of Public Works is responsible for procurement of construction services (including design, engineering, and architectural services); The Director of Public Service Systems is responsible for procurement of professional services; and the Chief of Property and Supply is responsible for all other procurements.</p> <p>Competitive processes are required for procurement values above \$10,000.</p> <p>The use of nonprice evaluation criteria is permitted.</p> <p>Domestic preference is used. National Procurement Law Section 24 provides that “if a responsible bid in an amount less than \$100,000 is submitted by an entity wholly owned by a person or persons of Palauan citizenship is no more than 25 percent higher than the lowest responsible bid submitted by an entity not of by wholly Palauan ownership, then the bid by wholly Palauan entity shall be accepted.”</p> <p>The National Procurement Law has a built-in mechanism for filing complaints, with appeals at the administrative level. The injured party can also take the matter to the judicial level if the party is dissatisfied with the actions taken at the administrative level.</p> <p>An Asian Development Bank internal review of procurement practice in Palau (2017) reported that there exists a cadre of strong procurement professionals. There is some opportunity for a public civil servant to engage and improve skills in</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		procurement. This contrasts with the majority of other contemporary reports, which found skills and professionalism lacking in varying degrees in other countries.
Samoa	Public Finance Management Act 2001. Ministry of Finance, Procurement, Operating Manual (April 2020). Treasury Instructions Section 6 Procurement and Contracting (June 2016). Tenders Board B4 Schedule Procurement Division website.	<p>The Ministry of Finance, through its Procurement Division, administers all government procurement processes including those of SOEs. The Procurement Division is effectively a secretariat for the Tenders Board.</p> <p>The Tenders Board of the Government of Samoa consists of the following members: (i) Minister of Finance (Chairman); (ii) Minister of Works, Transport & Infrastructure (Deputy Chairman); (iii) Chief Executive Officer, Ministry of Finance; (iv) Chief Executive Officer, Ministry of Works Transport & Infrastructure; and (v) the Attorney General.</p> <p>Schedule B4 tabulates procurement method and approval thresholds. Generally, Cabinet approval is required for any procurement exceeding ST500,000 (approximately \$200,000). Tenders Board approval is required for all procurements above ST50,000, where authority is not given elsewhere. Boards of Directors may approve procurements in the range ST50,000 to ST150,000 and chief executive officers may approve procurements of up to ST50,000.</p> <p>It is a requirement that annual procurement plans are prepared by government entities and these are published by the Procurement Division. Market analysis prior to tendering is recommended.</p> <p>The Tenderlink electronic procurement platform has been used by the Procurement Division to respond to difficulties with delivery of hard-copy bids. The Samoa Ports Authority successfully piloted use of Tenderlink from 2019.</p> <p>Bid security is required for all procurements more than ST500,000. Bid-securing declarations may be used for procurement below ST500,000. A 5%-10% performance security is required and is aligned with delay damages.</p> <p>Nonprice evaluation criteria may be used. In particular, guidance suggest that capacity building or transfer of knowledge will often form an important aspect of the assignment. For consultancy assignments involving international consultants, a maximum of 10 points must be allocated to participation by Samoan staff. A maximum of 10 points must be allocated to transfer of knowledge.</p> <p>A procuring entity may apply a domestic margin of preference of 5%-10% in accordance with any schemes or instructions published by the Ministry of Finance, and considering requirements set out under</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>Treasury Instruction K.5. The Procurement Division advised that domestic preference provisions are not used.</p>
Solomon Islands	<p>Public Financial Management Act 2013, part 9, Interim Financial Instructions 2014, Chapter 7. Procurement and Contract Administration Manual 2013. Public Financial Management (Procurement) Regulations (2021).</p>	<p>Procurement regulations for the Public Financial Management Act were gazetted on 14 October 2021. The regulations supersede the guidance given in the 2013 Procurement and Administration Manual.</p> <p>The Ministry of Finance and Treasury (MOFT) is responsible for procurement regulations.</p> <p>The Treasury Procurement Unit (TPU), in the MOFT and under the Accountant General, is the lead procurement agency.</p> <p>The Accountant General is responsible for ensuring TPU staff have expertise in internationally accepted best practices in procurement and for training.</p> <p>Ministries are required to prepare annual procurement plans, but the regulation does not specify whether the plans are to be published.</p> <p>Competitive bidding is required for procurement values exceeding SI\$100,000 (about \$12,000).</p> <p>The Central Tenders Board (CTB), awards procurement with value greater than SI\$500,000. The Ministerial Tender Board awards tenders that have values of more than SI\$100,000 but less than SI\$500,000, but only if the TPU has approved the tender documents and the Accountant-General has issued an Endorsement to Tender for the tenders.</p> <p>The CTB is responsible for compilation and maintenance of a list of individuals, companies, charitable trusts, and firms who are ineligible to tender for, or be awarded, procurement (i.e., a blacklist). Article 29 provides for a Vendors Assessment Panel (further described at Article 41). It meets when requested to do so by the Permanent Secretary of the MOFT.</p> <p>The CTB must compile an annual report on its activities.</p> <p>A procurement contract with a value of more than SI\$100,000 and less than SI\$500,000 must be signed by the accountable officer of the responsible ministry and countersigned by the Accountant General.</p> <p>A procurement contract with a value of more than SI\$500,000 must be signed by the accountable officer of the responsible ministry and countersigned by the Permanent Secretary of the MOFT. No delegation of the authority of the Accountant</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>General nor the Permanent Secretary of the MOFT is permitted.</p> <p>Written requests for quotations are required for contracts with value exceeding SI\$10,000 but less than SI\$100,000.</p> <p>The tender board responsible for the procurement will appoint a tender evaluation committee. This committee is normally a small team of officers from the agency making the purchase, who have specialist knowledge of the goods and/or services and/or works being procured.</p> <p>The government operates a tender portal at Solomon Islands Government Portal (solomons.gov.sb). This appears to be for advertising opportunities only.</p> <p>Article 10(f) provides “the principle of equity, which is the principle that procurement should (i) support equality of opportunity in general; and (ii) advance community equality by providing economic opportunities for all Solomon Islanders, including women, youth and people with disabilities”.</p> <p>Article 14.1(b) requires that packaging takes into account the capacity of the local market and that local content should be maximized.</p> <p>National competitive tendering must be used for the procurement of goods, services, or works with a tender value exceeding SI\$100,000 and less than SI\$5,000,000, subject to there being adequate capacity nationally. Otherwise, international competitive bidding will be used. (The difference seems to be only in advertising procedures, which require at least 45 days for international bidding and at least 14 days for national bidding)</p> <p>Bid security and performance security are mandatory for procurements valued above SI\$5,000,000. Bid security must be not less than 2% of the estimated contract value. A tender securing declaration may be used for contracts valued at less than SI\$5,000,000.</p> <p>The complaints mechanism is not well specified, but appears to provide for an initial hearing by the Ministerial Tenders Board and, if the complainant is not satisfied, it is elevated to the CTB and thereafter to the Ombudsman</p> <p>The Solomon Islands Port Authority, the Solomon Island Water Authority (Solomon Water), and the Solomon Islands Electricity Authority (Solomon Power) have their own procurement procedures.</p>

Country	Laws, Regulations, and Guidelines	Synopsis
Tonga	Public Procurement Regulations 2015. Public Procurement Regulations (Amendment) 2019 (mainly concerned with amending thresholds).	<p>The Government Procurement Committee is responsible for administration. The Procurement Division is the secretariat. Procurement units are established in each contracting entity.</p> <p>Open bidding is required above T\$100,000 (about \$44,000) for works and above T\$50,000 for goods. Requests for quotations may be used above T\$20,000 and below T\$50,000</p> <p>Contracts greater than T\$5 million for works and T\$150,000 for goods must be advertised internationally.</p> <p>Annual procurement plans are to be prepared by contracting entities. The Procurement Division is responsible for publishing them.</p> <p>The Government Procurement Committee approves tenders valued at more than T\$100,000 and a Central Procurement Unit oversees procurement for more than T\$20,000. Evaluation committees are set up by head of contracting entities for procurements of more than T\$20,000.</p> <p>Requirement for bid security is at contracting entity discretion. Similarly, performance security is not mandated but cannot be more than 10%.</p> <p>Margin for domestic preference of up to 15% is allowed.</p> <p>Evaluation criteria may be based on a combination of price together with various award criteria linked to the subject-matter of the contract in question. Some acceptable criteria are listed at para. 56 of the regulations.</p> <p>Post award debrief in writing is allowed by the regulations. Complaints are dealt with in accordance with para. 73 of the regulations.</p>
Tuvalu	Public Procurement Regulations 2014. Government of Tuvalu-MEFD-Central Procurement Unit-Public Procurement Manual.	<p>The Central Procurement Unit is responsible for managing government tenders.</p> <p>It conducts “open shopping” (requests for quotations) for procurements above A\$25,000 and below A\$100,000 (approximately \$18,000 to \$73,000) and open bidding for procurements of A\$100,000 (approximately \$70,000) and above.</p> <p>A major procurement is any procurement exceeding A\$5,000. Approval of contract award by the Procurement Review Committee is required.</p> <p>The procurement officer of each ministry is required to provide an annual procurement plan to the Central Procurement Unit, which is required to publish all</p>

Country	Laws, Regulations, and Guidelines	Synopsis
		<p>annual procurement plans for the forthcoming fiscal year.</p> <p>Tuvalu did not use electronic procurement at the time of this assessment.</p> <p>Tuvalu is unable to implement bid security or performance security due to the absence of a correspondent bank on the island. Tuvalu therefore uses bid-securing declarations.</p> <p>The regulations permit the use of 5%-10% margin for domestic preference. The regulations permit use of nonprice criteria to obtain value for money in limited circumstances.</p>
Vanuatu	<p>Government Contracts and Tenders Act No. 10 of 1998, and Regulations CAP 244, as amended by the Government Contracts and Tenders Act No. 11 of 2001 and Regulations CAP 245.</p> <p>Chapter 245 Government Contracts and Tenders Act 44 of 2019.</p> <p>Guidelines for the Procurement of Goods and Services (2005).</p> <p>Government Contracts and Tender Regulation Order No.96 of 2021.</p>	<p>The Central Tenders Board is responsible for the administration of procurement.</p> <p>Open tender is required for high-value procurements, which are defined as those exceeding Vt10 million (approximately \$90,000)</p> <p>The Central Tenders Board may approve high-value contracts, but those exceeding Vt100 million must be approved by the Council of Ministers.</p> <p>Limited bidding may apply in remote locations for reasons of practicality, with preference given to suppliers within Vanuatu.</p> <p>Advertising is via a website or newspaper approved by the Board, with a 30-day submission period.</p> <p>Bids may be submitted by e-mail or via an approved portal.</p> <p>There is some provision for weighted nonprice criteria.</p> <p>The ministry must keep an up-to-date registry of suppliers.</p> <p>Debriefing of bidders is allowed.</p> <p>The regulations provide a complaints process.</p>

\$ = United States dollars; A\$ = Australian dollars; F\$ = Fiji dollars; NZ\$ = New Zealand dollars; SI\$ = Solomon Islands dollars; St = tala; T\$ = pa'anga; Vt = vatu

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.



Appendix 2: Review of the Procurement Processes of Development Partners

A2.1 Asian Development Bank

A2.1.1 Framework

In 2017, the Asian Development Bank (ADB) approved a revised procurement framework. The revised framework is designed to deliver enhanced benefits and flexibility through a renewed focus on quality, value for money, and fitness for purpose.

The ADB procurement framework comprises:

- (i) ADB Procurement Policy Goods, Works, Nonconsulting and Consulting Services (2017); and
- (ii) Procurement Regulations for ADB Borrowers Goods, Works, Nonconsulting and Consulting Services (2017).

The framework is supported by 24 guidance notes on specific topics within the procurement framework.

A2.1.2 Policy

The core principles of ADB procurement are:

- (i) economy,
- (ii) efficiency,
- (iii) fairness,
- (iv) transparency,
- (v) quality, and
- (vi) value for money.

Value for money (VfM) enables borrowers to obtain benefits beyond price including, among other things, socioeconomic objectives of the borrower, through the incorporation of nonprice bid evaluation criteria as appropriate. Hence, if local content is an objective of the borrower, the principles of ADB procurement (and the VfM principle in particular) would prima facie enable that objective “by designing the procurement process in a way that expresses how the purchaser will spend allocated funding to achieve the most value”^{1,2}.

Related to this, the development of domestic contracting, consulting, and manufacturing industries in the country of the borrower is a stated objective of ADB³. Further, the ADB “fitness for purpose” requirement allows for a customized procurement approach including in capacity-constrained environments (e.g., as in Pacific island countries).

¹ ADB. 2017. *Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services*. p.22.

² Refer also to the guidance note on value for money at: ADB Business Center. *Value for Money*. <https://www.adb.org/documents/procurement-value-money>

³ ADB. 2017. *Procurement Policy Goods, Works, Nonconsulting and Consulting Services* (2017). p.3.

A procurement plan is a requirement for those implementing ADB-financed projects and is potentially an opportunity for the country to specify local content requirements. The responsibility for doing so rests with the country and there is no requirement from ADB for local content to be specifically considered in the development of the procurement plan.

In turn, it is not clear if countries have the capacity, interest, or political will to develop local content within their procurement plans. Thus, the potential for incorporation of local content appears to be generally not availed of nor explicitly promoted.

A2.1.3 Mechanisms

There are a number of procurement mechanisms that can be used to facilitate local content. These include:

- (i) **Joint ventures** with local firms (not mandatory and all partners must meet all specific financial capacity criteria).
- (ii) **Domestic preference**, both in terms of price (goods and works) and use of national experts for nominated key positions⁴ (consultants). In practice, domestic preference is not applied in Pacific island countries for works contracts. This is dependent on the per capita gross national income of the relevant country being below a certain threshold. At the time of this report, none of the 13 countries assessed met this criterion.
- (iii) **Limited competitive bidding** allowing the bidding of packages in a way that aligns with local capacity and /or specifying national competitive bidding.
- (iv) **Provision of a tender-securing declaration** in lieu of a bank guarantee, so as to reduce costs.
- (v) **Advance payments** that facilitate cashflow for contractors or suppliers. (Note; advance payments require collateral in the form of a bank guarantee as security, which places a financial impost on contractors and suppliers).
- (vi) **Force account** that enables construction by the use of the borrower's own personnel and equipment and, in turn, only requires contracting of labor, inevitably at local level.

In addition to the overarching procurement framework, guidance note 24—Fragile, Conflict- Affected, and Emergency Situations (FCAS) Guidance Note on Procurement (2018)—is particularly relevant to Pacific island countries and local content. Pacific islands countries designated by ADB as FCAS are the Federated States of Micronesia, Kiribati, the Marshall Islands, Nauru, Papua New Guinea, Solomon Islands, and Tuvalu.

Note 24 provides guidance on flexible procurement options in stressed contexts noting that “the nature and capacity of local industries, the capacity of local public administrations, and the usual stringent requirements imposed on contractors, suppliers, and service providers, all require careful adjustments for procurement to be efficient”.

The guidance note provides practical measures to adapt procurement process to those environments. Without being prescriptive, it allows for:

- (i) increased flexibility in the use of open competitive bidding,
- (ii) using borrower's rules,

⁴ This may either be prescribed as *only* nationals for key positions, or encourage the use of national experts for key positions as an evaluation criterion that can be allocated up to 10% score weighting.

- (iii) national advertising,
- (iv) direct appointments,
- (v) framework contracts,
- (vi) lower minimum qualification requirements,
- (vii) lower or alternative performance security or advance payment security requirements,
- (viii) increased allowance for advance payments, and
- (ix) contract splitting to target smaller operators to bid.

More generally, it encourages “borrowers to work with ADB project teams to discuss flexibilities and options”. However, it does not apply to all of the Pacific island countries, as only six of the 13 countries are classified as fragile (and none is classified as conflict-affected).

A2.2 Department of Foreign Affairs and Trade (Australia)

The Australian Infrastructure Financing Facility for the Pacific (AIFFP)⁵ is an A\$2 billion (approximately \$1.4 billion) economic infrastructure facility providing loans and grants to the countries assessed in this report as well as Timor-Leste. The AIFFP has been operational since 2019. It is part of Australia’s Pacific “step up” program⁶ and aspires to position Australia as a “partner of choice” with Pacific island countries.

A2.2.1 Framework

The procurement policy and process of AIFFP procurement⁷ comes under the Department of Foreign Affairs and Trade (DFAT) procurement framework. The DFAT procurement framework comprises:

- (i) the Public Governance, Performance and Accountability Act (2013); and
- (ii) the Commonwealth Procurement Rules (2020).

The AIFFP has developed a social procurement policy.

A2.2.2 Policy

The core requirement of the Commonwealth procurement rules is achieving VFM in procurement. DFAT has developed eight VfM principles to guide decision-making and maximize the impact of its investments. These include:

- (i) Cost consciousness (but not necessarily lowest cost).
- (ii) Encouraging competition to select the option that offers an optimal mix of costs and benefits.

⁵ As instructed by the Pacific Region Infrastructure Facility, the review of DFAT procurement processes is confined to the AIFFP. No review of procurement processes of DFAT’s bilateral or regional programs has been undertaken.

⁶ DFAT. Pacific Step-Up: Stepping Up Australia’s Engagement with Our Pacific Family. <https://www.dfat.gov.au/geo/pacific#:~:text=%20Stepping%20up%20Australia%27s%20engagement%20with%20our%20Pacific,com mon%20vision%20for%20prosperity%2C%20including%20through...%20More%20>

⁷ Not applicable to borrowers undertaking procurement.

- (iii) Evidence-based decision-making framed around logical arguments informed by accurate analysis.
- (iv) Proportionality whereby (procurement) processes, policies, and systems should be designed with a clear understanding of the transaction costs, measured against the potential benefits.
- (v) Performance and risk management recognizing that effective investments require decision-makers to engage with risk in order to maximize results.
- (vi) Results focus. Decision-makers need to balance anticipated outcomes and benefits with the potential for increased risk, and manage these accordingly. Flexibility is necessary to ensure approaches can be adapted to achieve results in volatile environments with changing priorities.
- (vii) Experimentation and innovation. To maximize impact, creative and flexible approaches to the design and delivery of contracts, investments, and programs are required
- (viii) Accountability and transparency. Effectiveness requires that DFAT is held accountable both by taxpayers and by intended targets and beneficiaries for delivering results.

Within the overall DFAT procurement policy, the AIFFP has a number of core principles that guide its work. One of these is local content: is the project maximizing the use and skilling of local labor and the private sector? This requires an overt consideration of each project, including an analysis of the local labor market and private sector. This analysis results in a project-specific local industry participation plan (LIPP), which is mandatory for all AIFFP procurements.

In turn, the LIPP forms part of the bidding documents. The LIPP enables the AIFFP to drive what is required in terms of local content and dictate that to market, thereby ensuring local content in infrastructure projects. For instance, this may include raising of standards for materials and skills etc., to get to a level that would enable a certain technology to be used that may otherwise may not have been able to be used. As an example of this, precast concrete construction technology may not exist in a country, but the AIFFP may see an opportunity to develop that capacity through a project and hence would include that as a requirement in tender documents. Further, the AIFFP can also support private sector projects that will have a positive development impact and promote private sector growth.

More broadly, the LIPP may also target safeguards using a local content approach, e.g., though the employment of local consultants to fulfill roles including gender, environment, access, etc.

Bidders are required to respond to the LIPP. The LIPP is given a weighting in the evaluation criteria and bidders need to achieve minimum scores on each criterion, rather than just overall. So, even if the local content requirement is only 5% on nonprice criteria, it must be met⁸. This has the effect of broadening the emphasis from the function to be delivered, to also include the broader (e.g., socioeconomic) outcomes the AIFFP and/or the host country are seeking to achieve.

To facilitate project implementation, the AIFFP has a Capital Infrastructure Service Panel⁹ with two categories: Head Contractor and Client-Side Project Manager. These preapproved contractors and consultants, although not mandatory for use on AIFFP projects, are cognizant of the AIFFP local content requirements and LIPP in particular (use and upskilling of local labor and the private sector were overt selection criteria for inclusion on the panel itself). This ensures the local content objectives of the AIFFP are achieved, even if they are not given the same level of emphasis by countries. Further, countries can utilize these panels for projects if they wish, using limited bidding methods and hence

⁸ Consistent with the Commonwealth procurement rules and the emphasis on value for money, AIFFP works contracts are more focused on quality-cost-based type evaluation, similar to the long-standing approach taken to consultant procurement.

⁹ AIFFP. 2020. AIFFP Establishes DFAT's Capital Infrastructure Service Panel. 11 November. <https://www.aiffp.gov.au/news/aiffp-establishes-dfats-capital-infrastructure-service-panel>

providing direct access to prequalified consultants and contractors who will embrace a collaboration mindset, cognizant of the fact that it is a specific requirement of the AIFFP. This process removes the need to assess financial and technical capacities in which local bidders are often deficient.

However, it does reinforce that nonlocal entities will, in the main, lead projects (when utilized), albeit with the explicit requirement to meet minimum local content requirements. In a sense, this provides a balanced risk management mechanism whereby greater certainty of quality and delivery is retained, but local content is also factored into that delivery. Importantly, the local content is factored in by head contractors and client-side project managers who are best-placed to manage that risk.

The panel members consulted for this study were all supportive of the LIPP, with one suggesting that such an instrument should be mandatory on all projects as a VfM nonprice evaluation criteria.

Alternatively, borrowers need not necessarily utilize the AIFFP Capital Infrastructure Service Panel. They can, with agreement from the AIFFP, utilize their own procurement systems through international competitive bidding or national competitive bidding. In this situation, it is understood that the AIFFP would consider using or approving a similar or expanded approach and mechanisms to facilitate local content as provided for in the World Bank Group procurement guidance for the Pacific. See the World Bank Group section (A2.8) for a detailed explanation of the mechanisms available to facilitate local content under this document.

A2.3 European Investment Bank

A2.3.1 Framework

The procurement framework of the European Investment Bank (EIB) is the: Guide to Procurement for Projects Financed by the EIB (2018).

A2.3.2 Principles

The EIB's key requirements for the procurement of works, goods, and services are:

- (i) economy,
- (ii) efficiency,
- (iii) nondiscrimination, and
- (iv) transparency.

A2.3.3 Mechanisms

- (i) **Procurement documents.** Promoters (borrowers) are fully responsible for implementing projects financed by the EIB. This includes all aspects of the procurement, including procurement plans, drafting the tender documents, and awarding contracts, subject to EIB approvals as required. Tender documents must be drafted in such a way as to permit wide international competition.
- (ii) **Environmental and social safeguards policy.** The EIB has an environmental and social safeguards policy with which all projects must comply. The social safeguards component of this policy refers to cultural heritage, involuntary resettlement, rights and interests of vulnerable groups, labor standards, occupational health and safety, and stakeholder engagement. It does not include local content beyond public participation in projects.

- (iii) **National competitive bidding.** While international competitive bidding is the preferred method of bidding, national competitive bidding (with advertising only in the local press) is allowable for smaller contracts that are unlikely to attract foreign competition, particularly those that are scattered geographically or over time, labor intensive, or where the advantages of international competitive bidding are outweighed by the administrative or financial burden involved. The threshold below which national procedures can be used will vary according to the nature of the project, the experience of the borrower, and local conditions. The threshold will be agreed for each type of works, goods, or services between the borrower and the EIB on a project-by-project basis. Except for consultancy services, this threshold should not exceed: €5,000,000 (about \$5,500,000) for works and €200,000 for goods and services.
- (iv) **Shopping** and direct contracting for smaller contracts allows borrowers to negotiate prices and other conditions with one or more local contractors or suppliers.
- (v) **Force account** can be used for smaller contracts whereby the borrower's own labor force and equipment is used to undertake works¹⁰.
- (vi) **Contract splitting** into several smaller contracts with the purpose of favoring domestic contractors is not acceptable, unless the borrower can demonstrate that this would be more advantageous for the objectives of economy and efficiency on project implementation.
- (vii) **Local preference for goods.** Borrowers may grant a 15% net price preference for goods manufactured or produced in the domestic economy of the borrower. No preference is allowed in the case of works or services contracts.

A2.4 European Union

A2.4.1 Framework

The European Union (EU) procurement practice framework is the:

Contract Procedures for European External Action: A Practical Guide (Version 2020.0, 1 August 2020).

This framework applies to both procurement and grant award procedures applying to EU external actions financed from the general budget of the EU, and the European Development Fund.

A2.4.2 Principles

The following principles apply to EU procurement:

- (i) transparency;
- (ii) equal treatment and nondiscrimination;
- (iii) competition;
- (iv) proportionality; and
- (v) sound financial management to achieve economy, efficiency, and effectiveness (although note there is no definition of these terms).

¹⁰ For example, in Tuvalu, where buildings are often constructed by the Ministry of Works. Although not necessarily EIB funded, the model is similar.

The EU can implement projects directly (whereby it takes decisions on behalf of a host economy), or indirectly (whereby it entrusts implementation to the host economy and other approved implementing agencies). The latter can either be done in advance (with prior approval of the EU required) or afterwards (with EU approval after the fact). The EU's main role in indirect project delivery is to ensure the correct procedures have been followed by the host economy.

A host economy must submit the "tender dossier" to the EU for approval. This includes the tender evaluation plan. No prior procurement plan is required.

The basic means of awarding contracts is competitive tendering. One of the purposes of this method is to obtain the quality of services, supplies, or works required at the best possible (i.e., lowest) price.

A2.4.3 Mechanisms

- (i) **Framework contracts** can be used for procurements less than €300,000. This could be a way of increasing local content for repetitive type tasks (e.g., topographical surveying, geotechnical investigation services).
- (ii) **Domestic preference.** The EU has a comprehensive domestic preference policy, noting that "measures must be taken to encourage widest participation of the natural and legal persons of ACP (African, Caribbean and Pacific) States in the performance of contracts financed by the EDF in order to permit the optimisation of the physical and human resources from those States".¹¹
 - a. For works contracts of less than €500,000, a domestic preference of 10% applies. Note the definition of local is "at least one quarter of the capital stock and management staff originates from one or more ACP States" (footnote 12). It should be noted that "regional" within the Pacific would potentially qualify as "local" under this definition (e.g., a bidder based in Samoa and bidding for a project in Kiribati would be considered local). This may encourage local content through host economy firms joint venturing with other economy firms or operating beyond their own economy, and also firms from one economy bidding for work in another economy.
 - b. For supply contracts of a value of less than €300,000, tenders of the African, Caribbean, and Pacific (ACP) States, either individually or as a consortium with European partners, are accorded a 15% price preference.
 - c. For service contracts where tenders of equivalent economic and technical quality are compared, preference must be given to (i) experts, institutions, or consultancy companies or firms from ACP States, with the required competence; (ii) offers submitted by ACP firms, either individually or in consortium with European partners; and (iii) offers presented by European tenderers with ACP subcontractors or experts.
 - d. For subcontracting, preference must be given by the successful tenderer to natural persons, companies, and firms of ACP States capable of performing the contract required on similar terms; and
 - e. the ACP State may, in the invitation to tender, propose to the prospective tenderers the assistance of other ACP States' companies or firms or national experts or consultants selected by mutual agreement. This cooperation may take the form either of a joint venture or of a subcontract or of on-the-job training of trainees. Again, the regional emphasis on "local" is noted.

¹¹ EU. 2020. Contract Procedures for European External Action: A Practical Guide (Version 2020.0, 1 August 2020). pp.46.

Furthermore, where two tenders for works, supplies, or service contracts are acknowledged to be equivalent, preference must be given:

- (xvi) to the tenderer of an ACP State; or
- (xvii) if no such tender is forthcoming, to the tenderer who (i) allows for the best possible use of the physical and human resources of the ACP States; (ii) offers the greatest subcontracting possibilities for ACP companies, firms, or natural persons; or (iii) is a consortium of natural persons, companies, and firms from ACP States and the EU.
- (iii) **Parent guarantees** are acceptable as a form of capacity substantiation. This could assist to achieve local content through leveraging resources of larger companies and may be a useful form of expansion for some host economy firms. (e.g., linking with diaspora).
- (iv) **Best price-quality ratio.** Contracts (for services only) can be awarded under the best price-quality ratio, in which case the contracting authority takes into account the price and other quality criteria linked to the subject matter of the contract, then applies a weighting formula. This can include “social, environmental and innovative characteristics” (e.g., local content). Note that this criterion specifically mentions the optimum use of the technical and professional resources available in the host economy. Also, personnel may be awarded points for geographical experience, language, skills, etc.
- (v) The EU does not permit contract splitting or tender-securing declarations.
- (vi) There is provision for a specific **framework contract** for “infrastructure, sustainable growth and jobs” to support the delivery of infrastructure. However, details of this mechanism could not be established.

A2.5 Japan International Cooperation Agency

A2.5.1 Framework

The relevant procurement framework under the Japan International Cooperation Agency (JICA) varies depending on the form of assistance, be it official development assistance (ODA) loans or ODA grants.

The procurement framework for Japanese ODA loans comprises:

Handbook for Procurement Under Japanese ODA Loans: Chapters 1 & 2 (2012).

Chapter 1 considers procurement of consultants, while Chapter 2 considers works and goods.

Most JICA-supported infrastructure projects in Pacific island countries are grant aid, with the exception of a few major projects in Fiji, Papua New Guinea, and Vanuatu¹².

The procurement framework for Japanese ODA grants comprises:

- (i) The Procurement Guidelines for the Japanese Grant Aid: Type III (July 2019);
- (ii) Procurement Guidelines for the Japanese Grants: Type I (January 2016);
- (iii) Procurement Guidelines for the Japanese Grants: for Japanese Consultants and Local Contractors (February 2016);

¹² JICA email correspondence. 28 September 2021.

- (iv) Procurement Guidelines for the Japanese Grants: Type II (tentative) (February 2016);
- (v) Procurement Guidelines for the Japanese Grant Aid: Type I (April 2015); and
- (vi) The Procurement Guidelines for the Japanese Grant Aid: Type I-G (October 2012)¹³.

Under the guidelines, the project consultant is engaged directly by JICA in the first instance to undertake the initial outline design. After execution of the grant agreement, the consultant is “recommended” to the recipient for separate engagement¹⁴ for completion of the project design and any supervision that is required.

A2.5.2 Principles

The principles of both JICA ODA loans and grants are:

- (i) economy,
- (ii) efficiency,
- (iii) transparency, and
- (iv) nondiscrimination.

A2.5.3 Loan Mechanisms

- (i) **Association.** Consultants are permitted to undertake works in association with other consultants, which potentially enables opportunities for local consultants to partner with each other or with international consultants. However, there is no obligation to associate.
- (ii) **Advertising.** Expressions of interest must be advertised in the host country.
- (iii) **Local familiarity** with the language and conditions of the country in which the work is to be performed or experience in similar conditions is a criteria of consultant selection under a standard quality-cost-based selection methodology that potentially favors the use of local consultants.
- (iv) **Preferential margins and/or domestic preferences** are specifically not permitted, in the interests of nondiscrimination.
- (v) Obligation to use **local goods** produced in the host country where available.
- (vi) **Local competitive bidding.** There is scope for domestic procurement (in contrast to the preferred international competitive bidding) in the case of goods and services which are, by nature or scope, unlikely to attract foreign forms.
- (vii) **Financial capacity.** Using a financial ratio as a pass or fail criterion is discouraged due to recognition that such a ratio will vary from country to country. Rather, borrowers are encouraged to give applicants flexibility with respect to the information and documents required to demonstrate financial capacity. Such a provision provides for context-specific analysis of risk as opposed to hard and fast application of quantitative metrics. This flexibility may be to facilitate more local content in infrastructure projects.

¹³ Under these final two guidelines, grants are tied to the use of Japanese consultants and contractors.

¹⁴ Akin to a novation arrangement, although the contract is solely between the grant recipient and the consultant.

- (viii) **Bid bonds and guarantees** are required but shall not be set at levels that discourage suitable bidders. Such flexibility allows for bonds, etc., to be set commensurate with local markets and to avoid them being a barrier to local content.
- (ix) **Advance payments** are permitted. A security is not mandatory. Rather, the bidding documents shall specify the arrangements for any security required. Again, this requirement is local content friendly.

A2.5.4 Grant Mechanisms

- (i) **Local competitive bidding.** There is scope for domestic procurement (in contrast to the preferred open competitive bidding) in the case of goods and services which, by nature or scope, are limited.
- (ii) **Joint ventures** are accepted in any type of bidding.
- (iii) **Bid bonds or guarantees** are not required, unless they are a legislative requirement in the host country.
- (iv) **Performance securities** are not prescriptive in terms of amount, but rather are sufficient to protect the client in the case of default by the contractor.
- (v) Contract packaging is permitted.
- (vi) **Nonprice evaluation criteria.** The default contract award criterion is the lowest price that substantially conforms to the technical specifications and other stipulations. However, there is general provision for including any factors, in addition to price, to be included in the evaluation process. This potentially could be used for inclusion of local content through a VfM bid evaluation process.

A2.6 Ministry of Foreign Affairs and Trade (New Zealand)

A2.6.1 Framework

The Ministry of Foreign Affairs and Trade (MFAT) procurement framework comprises:

The New Zealand Government Procurement Rules: Fourth Edition (2019).

A2.6.2 Policy

The principles of Government of New Zealand procurement are:

- (i) plan and manage for great results,
- (ii) be fair to all suppliers,
- (iii) get the right supplier,
- (iv) get the best deal for everyone, and
- (v) play by the rules.

A key tenet in the procurement approach is the concept of public value. Public value means achieving the best possible result from any given procurement. For instance, procurement offers the opportunity

to support New Zealand businesses, including Maori businesses and Pasifika²⁰ businesses. It is similar to a VfM approach insofar as it can include nonfinancial considerations such as social, environmental, economic, and cultural benefits, which are defined by the procuring entity (in this case MFAT). Procurement decisions **must** be based on the best public value over the whole of the life of goods, services, or works.

The Government of New Zealand recognizes that its procurement activities offer a unique opportunity to achieve broader cultural, economic, environmental, and social outcomes for New Zealand.

These broader outcomes include the following specific initiatives:

- (i) Increasing access for new New Zealand business, which includes Pasifika¹⁵ businesses and businesses in the regions.
- (ii) Construction skills and training. Increase the size and skill of the domestic sector workforce in the host country and provide employment opportunities to targeted groups. This must include evaluation criteria to assess the skills development and training practices of the supplier and their subcontractors, including what they will do over the course of the contract to improve or build skills. This is mandatory for construction works valued at over NZ\$9 million, but is encouraged for all construction works. It can also encourage suppliers to create employment opportunities (or opportunities to upskill) for targeted groups, such as Maori, Pasifika, and women, to increase the diversity of the construction industry.

MFAT is incorporating these broader outcomes within its procurement strategies¹⁶. The concept of public value, coupled with the specific broader outcomes, is the key policy that enables MFAT to positively target local content in the procurement of its infrastructure works in Pacific island countries. Agencies such as MFAT are encouraged to seek additional outcomes voluntarily and embrace measured risk, good procurement “being risk aware, not risk averse” (this is similar to the AIFFP principles where measured risk-taking is supported: take calculated risks and reward new ideas).

In addition to prescribing that consultants in New Zealand take on local content by specifically including this as an assessable criterion for bid evaluation, MFAT is embracing the “early contractor involvement” procurement model. This is an established procurement mechanism in the New Zealand and Australian domestic construction markets, whereby a contractor is engaged in a limited capacity to provide cost, time, and buildability advice during the design phase of a project. In the case of MFAT, that contractor may go on to construct the works based on a negotiated form of contract. The benefit of this model is that the contractor is usually locally based, understands local contexts, and can incorporate locally appropriate construction and maintenance technologies early into the project design phase, where they will have the greatest impact. This mechanism is potentially powerful for enhancing local content in infrastructure projects.

Similar to other partners, MFAT develops project-level procurement plans. These determine how MFAT will engage with the market and specify local content parameters that form part of the project-specific bidding documents.

Beyond encouraging contract splitting, there is little evidence of specific mechanisms that can be used to encourage local content. However, the MFAT approach is flexible and prescriptive levers are not an overt feature of its approach to procurement.

¹⁵ Broadly defined as Pacific islander people. More than 8% of the New Zealand population identify as being of Pacific origin. More information at: MFAT. Pasifika New Zealand. <https://www.mfat.govt.nz/fr/trade/free-trade-agreements/free-trade-agreements-in-force/pacer-plus/pasifika-new-zealand/>

¹⁶ <https://www.mfat.govt.nz/en/about-us/work-with-us/procurement/>

Note. MFAT subsequently advised during review of the study that they allow for advance payments, contract splitting, framework contracts, and parent guarantees. However, they do not allow for limited national competitive bidding.

A2.7 United States Department of State

The implementing agency for the United States (US) Department of State is the United States Agency for International Development (USAID).

A2.7.1 Framework

The USAID procurement framework comprises:

- (i) United States Federal Acquisition Regulation System (2021)¹⁷,
- (ii) USAID Acquisition Regulation (2021)¹⁸, and
- (iii) 27 No. Automated Directive System Guidance notes¹⁹ that relate directly to procurement.

A2.7.2 Principles

The vision for the Federal Acquisition System is to deliver, on a timely basis, the best-value product or service to the customer, while maintaining the public's trust and fulfilling public policy objectives.

To achieve this vision, the Federal Acquisition System will:

- (i) satisfy the customer in terms of cost, quality, and timeliness of the delivered product or service by, for example, (a) maximizing the use of commercial products and services; (b) using contractors who have a track record of successful past performance or who demonstrate a current superior ability to perform; and (c) promoting competition;
- (ii) minimize administrative operating costs;
- (iii) conduct business with integrity, fairness, and openness; and
- (iv) fulfill public policy objectives.

Within this overarching framework, USAID may assign procurement responsibility (either retain or use host country contracting arrangements) "in a manner that best fits the particular circumstances and will result in the most effective implementation of USAID financed activities"²⁰.

This may, in turn, be guided by activity design and objectives, which could include local content objectives. In terms of construction services, use of host country contracts is usually considered more appropriate. However, contracting directly by USAID enables greater control over the activities and incorporation of local content if desired.

A2.7.2 Mechanisms

- (i) **Procurement planning** is required to promote and provide full and open competition to the extent practicable, and for selection of the appropriate contract type. The procurement planning

¹⁷ Government of the United States. Access the Federal Acquisition Regulation. <https://www.acquisition.gov/>

¹⁸ USAID. *USAID Acquisition Regulation*. <https://www.usaid.gov/sites/default/files/documents/aidar.pdf>

¹⁹ USAID. ADS Series 300. Acquisition & Assistance. <https://www.usaid.gov/who-we-are/agency-policy/series-300>

²⁰ USAID. ADS Chapter 301: Responsibility for Procurement. <https://www.usaid.gov/ads/policy/300/301>

includes market research and could be used as a vehicle for identifying local content opportunities.

- (ii) **Tying procurement** to the US and least developed countries. For procurements under an approximate value of \$1.1 million (for capital works, supplies, and services), USAID is to tie contracts to least developed countries (plus the US). Specifically, USAID funds must not be used for the procurement of construction or engineering contracts from advanced developing countries²¹ “which have attained a competitive capability in international markets for construction or engineering services”, unless a waiver is approved or the project is located within the geographic boundaries of the advanced developing country. Thus, USAID discriminates positively against advanced developing countries, with the exception of those receiving USAID assistance (footnote 22 of section 1.4).
- (iii) **Local procurement.** Procurement may be limited to local entities as long as market research indicates that at least three local entities are capable of performing the work. Prior to limiting competition to local entities, the supporting market research and assessment of local capacity must be included in the project appraisal document or the procurement planning document (as above).

USAID’s 2012 Appropriations Act provided authority for a pilot program that allows procurement to be limited to local entities²² if certain conditions are met²³. The objective of the program was to limit competition to local entities when doing so will result in cost savings, develop local capacity, or enable USAID to initiate an activity in appreciably less time than if competition were not limited. This authority was extended to 2014 and applied to new contracts not exceeding \$5 million. However, it is understood that this program is no longer active.

- (iv) **Framework contracts** can incorporate small business “set-asides”, which may reserve one or more framework contracts or task orders for small businesses. A “small business” is defined by dollar thresholds (presumably turnover), which are established from the market research conducted as part of the procurement plan. The threshold amounts must be identified in the bidding documents.
- (v) **Contract slicing** to facilitate small business capacities is also permitted, including set-asides.
- (vi) **Micropurchase procedures** may be used when the estimated cost of the procurement does not exceed \$250,000 (simplified acquisition threshold). This can be used for minor construction projects such as repair or small-scale rehabilitation.
- (vii) **Advance Payments** are not used for fixed-price construction (works) contracts. Payments are made by completed works progress only.
- (viii) **Performance security** retention can be used in lieu and is typically 10% of the contract sum. Note, however, that projects funded under the Compact of Free Association between the US and the North Pacific countries of the Federated States of Micronesia, the Marshall Islands, and Palau may require performance securities of up to 100%.

²¹ Advanced developing countries mean those categorized by the World Bank as upper middle-income countries according to their gross national income per capita. CFR-2012-title22-vol1-part228.pdf

²² Local entity is defined as (i) legally organized under the laws of; (ii) has as its principal place of business or operations in; (iii) is majority owned by individuals who are citizens or lawful permanent residents of; and (iv) is managed by a governing body the majority of who are citizens or lawful permanent residents of the country receiving assistance.

²³ Local entities must be both owned and managed by a majority of citizens or lawful permanent residents of the country in which procurement is to be limited to.

A2.8 World Bank Group

A2.8.1 Framework

The World Bank Group (WBG) procurement framework comprises:

- (i) Bank Policy: Procurement in IPF and Other Operational Procurement Matters (2017);
- (ii) The World Bank Procurement Regulations for IPF Borrowers Goods, Works, Non-Consulting and Consulting Services (2016, Revised 2017); and (specifically related to the Pacific)
- (iii) Making Procurement Work for Fragile and Small States in the Pacific under World Bank Investment Project Financing following the Procurement Regulations for IPF Borrowers (July 2016, revised in November 2017). Procurement Implementation Guidance, April 2018.

A2.8.2 Policy and Principles

The overarching vision of WBG procurement “is to support borrowers achieve value for money with integrity in achieving sustainable development”.

The core procurement principles are:

- (i) Value for money, i.e., procurement decisions are not necessarily based on price alone. Nonprice items can be included in bidding and bid evaluation criteria. In particular, sustainability and innovation criteria can be incorporated into the evaluation criteria to achieve VfM. Innovation criteria could potentially include local content requirements, although it is not specifically mentioned.
- (ii) Economy, considering price and nonprice attributes and/or life cycle costing as appropriate. This allows for integration into the procurement process of economic, environmental, and social considerations as agreed (i.e., there is room for local content).
- (iii) Integrity.
- (iv) Efficiency, with the procurement process to be proportional to the value and risks of the underlying project activities.
- (v) Transparency.
- (vi) Fairness (open competitive procurement is the WBG’s preferred procurement approach).

The WBG requires the borrower to develop a Project Procurement Strategy for Development (PPSD) and a procurement plan for each project. The procurement plan is based on the PPSD and sets out the selection methods to be followed by the borrower during project implementation in the procurement of goods, works, and services financed by the bank.

Within the PPSD, national procurement procedures can be utilized when approaching the national market, if this is deemed appropriate. In particular, there is flexibility for adaption of procurement arrangements when in the interest of project sustainability, or to achieve certain specific social objectives of the project, it is desirable to (i) increase the use of local know-how, goods, or materials; and/or (ii) employ labor-intensive and other appropriate technologies.

So, there is flexibility within the WBG procurement regulations to facilitate local content.

A2.8.3 General Mechanisms

There are a number of WBG procurement mechanisms that can be used to facilitate local content. These include:

- (i) **Joint ventures** with local firms (not mandatory and all partners must meet all specific financial capacity criteria);
- (ii) **Domestic preference.** Allows for domestic preference to be applied in WBG member countries. This is usually 7.5% in the case of works (in countries below a specified threshold of per capita gross national income as defined by the WBG), and 15% in the case of goods (with no gross national income threshold applying).
- (iii) **Limited competitive bidding and contract splitting**, allowing the bidding of packages in a way that aligns with local capacity and/or specifying national competitive bidding.
- (iv) **Tender-securing declarations** in lieu of bid security, so as to remove the costs associated with the latter.
- (v) **Advance payment** that facilitates cashflow for contractors and/or suppliers. However, a bank guarantee is required as security, which places a financial impost on contractors and suppliers.

A2.8.4 Country-Specific Mechanisms

The WBG has developed a separate guidance note for Pacific island countries (as per the third framework document listed in A2.8.1).

The guidance note provides a flexible and simplified approach to implementing procurement activities, within the broad 2017 Procurement Framework, taking into account unique regional and local circumstances of the Pacific island country.

The guidance is based on the recognition that traditional international or national competitive processes may not be the most appropriate methods to achieve the vision of WBG-financed procurement, and may require a closer partnership between the WBG and its clients in place of the traditional “arm’s length” approach adopted in more mature economies.

It also calls for a more proactive role not only in helping clients stimulate wider local content but also in encouraging participation from reliable international companies and consultants in the procurement process and in contract implementation.

Importantly, it is acknowledged that this approach must necessarily be accompanied by greater tolerance of identified risks, mitigated as to the extent possible. Indeed, risk mitigation measures should be developed “based on risk management rather than risk avoidance”.

Specific mechanisms for encouraging local content are identified as follows:

- (i) **Contract splitting** under national competitive procurement or shopping.

- (ii) **Relaxation of financial qualification requirements** to be under competitive procurement, particularly for works contracts²⁴.
- (iii) **Forming joint ventures** between small national contractors or suppliers to provide the level of capacity required to compete for a contract (not mandatory).
- (iv) **Framework agreements** for suppliers and contractors who have been contracted periodically (or the use of consultants who are already mobilized for similar assignments) may help accelerate the procurement process. Notably, framework agreements may be extended to “regional contracts” for the provision of goods and services to more than one country, achieving greater efficiency and economies of scale and, hence, potentially enhancing local content.
- (v) **Force account** for remote works or urgent repair or reconstruction using the implementing agency’s own personnel and equipment, or a government-owned construction unit where there is no private sector interest and where it may be the only practical solution²⁵.
- (vi) **Bid-securing declarations** in lieu of a bid security in the form of a bank guarantee. In the Pacific, costs incurred by bidders to provide such a security are often prohibitive²⁶.
- (vii) **Waiving of performance security requirements** when the borrower is confident that reputational or similar risks will deter contractors or suppliers from defaulting on contracts²⁷.
- (viii) For works contracts, an alternative to performance securities can be **retention amounts**, which are deducted from each regular progress payment (as a percentage of each payment; usually between 5% and 10%) and are released at the end of the defects liability period.
- (ix) **Increasing the amount of advance payment** under works and supply contracts to up to 40% of the contract value, provided the contractor or supplier provides a bank guarantee for the same. Where it is not easy for local contractors to obtain a bank guarantee in the WBG’s standard format, other types of securities that are available and commonly used in the region to guarantee contractual obligations and provide reasonable protection to the borrower may be considered, although it is unclear what form these would take.

²⁴ In these cases, it is sufficient to require a reduced annual turnover (e.g., 80% of the estimated annual expenditure under the proposed contract); reduced cash flow (e.g., access to cash for 3-month expenditures under the contract depending on the payment arrangement of the contract and time for processing payment requests); and considering larger than normal advance payments. Contract duration should also be reconsidered. For example, a contract estimated to cost \$10 million and be completed in 1 year would normally require an annual turnover of \$8 million (80%). However, if the contract period is increased to 18 months, the turnover requirement would be \$5.3 million (80% x 10 / 18 x 12).

²⁵ In Tuvalu for example, the Public Works Department directly implements construction works by supplying materials and equipment and contracting labor.

²⁶ In Samoa, the cost of a bid security is 2% of the security amount, with a further 1% added if the security validity is extended due to protracted award procedures. This cost is borne by bidders.

²⁷ This is the case in Tuvalu, where contractors simply cannot obtain performance guarantee securities.

Appendix 3: Summary of Training Providers in Pacific Island Countries

A3.1 Technical and Vocational Education and Training

Development partners in the Pacific—particularly Australia’s Department of Foreign Affairs and Trade (DFAT)—have invested heavily to improve technical and vocational education and training (TVET) outcomes, especially in the Melanesian and Polynesian countries.

Initiatives have been both top down and bottom up. Top-down support has been aimed at the institutional arrangements for TVET, in particular supporting the creation of national qualification frameworks and the registration and accreditation of TVET providers. Bottom-up support has been provided through the Australian Pacific Training Coalition (APTC), with direct engagement as trainers as well as support for institutional reforms.

The stated aims of DFAT support for TVET include nurturing in Pacific island countries the skills that could be imported to help fill home country (i.e., Australian) skills shortages. The APTC reported that, of 8,000 graduates since 2007 in all TVET disciplines, 5% did in fact emigrate. This needs to be considered in light of the importance of remittances to Pacific island economies, but potentially also a benefit of reverse flow of diaspora that have been able to take their skills to a higher level in a developed country situation.

The APTC has published in-depth TVET situational analyses for several Pacific island countries (links to these reports are included in the country summaries below).

The Secretariat of the Pacific Community (SPC)¹ has supported country education systems in the quality assurance, validation, and accreditation of their higher education programs and institutions. The SPC’s qualifications team helps accrediting agencies (including national qualifications authorities) to develop, accredit, and register their national qualifications on to the Pacific Register of Qualifications and Standards. These services, of quality assurance and maintenance of the register, support labor and learner mobility as they uphold the credibility of regional qualifications and provide for easier comparability of qualifications.

In the North Pacific, TVET programs are accredited by mainland United States-accrediting colleges.

The study found that TVET coverage is generally very good. Those that wish to pursue TVET after school can do so. However, poor numeracy and literacy amongst school leavers are commonly reported as persistent issues.

Effectiveness of consultations on TVET course content between the accreditation authorities, the course providers, and industry appears to be mixed and perhaps diluted, with no particular focus on construction skills, given that many other types of courses are offered, e.g., hairdressing, bakery, etc. There is evidence of consultations in published reports, but there is a need for industry stakeholders to advocate more strongly for change or improvements that are desired.

¹ SPC. Educational Quality & Assessment Programme: Qualifications and Accreditations. <https://eqap.spc.int/focusareas/qualityassurance>.



Employers typically report that the skill levels of newly recruited and certificate-qualified trades persons are below their expectations, and that there is a continuing need to recruit skilled persons from overseas on a project-by-project basis.

The study has also identified a reluctance on the part of employers to provide training (both on-the-job and in the classroom), with loss of good staff to other firms cited as a key problem. Some countries, e.g., Fiji, implement a payroll tax that is used directly to fund training. It is also suggested that development partners might consider financing a levy, to be applied to all contracts they finance, to finance skills and capacity development initiatives, among other requirements.

To help bridge the gap between the acquisition of basic skills and building on those skills in the long term, the study recommends leveraging the future pipeline of infrastructure projects strategically to provide opportunities.

This could involve creating a pathway for skills development and recognition by integrating opportunities for development of local skills with the delivery of overall country infrastructure investment plans. This could extend from entry-level laborer positions through skilled or qualified trades and progression to worksite supervisor and project manager. Recognized certificates of competence could be obtained from registered training organizations and coordinated with on-the-job training. This would be particularly suited to longer terms programs (e.g., Solomon Islands, where DFAT has announced the 10-year investment for the Solomon Islands Infrastructure Plan). A “recognition of prior learning” approach to certify workers at the end of a project to facilitate re-engagement and progression on subsequent projects.

Other recommendations suggest ways of mandating skills transfer, particularly in larger-scale contracts likely to be undertaken by international firms.

A3.2 Professional Qualifications and Professional Development

The University of the South Pacific (USP) provides degree-level courses in civil, mechanical, and electrical engineering. The latter two courses are Washington Accord-accredited, meaning that they are considered to have international equivalence for personal professional development purposes.

The civil engineering degree has been introduced by USP relatively recently, with only 2 years of the first course completed before the COVID-19 pandemic caused disruption. It is the intention of the university to apply for Washington Accord accreditation after it has produced the first cohort of graduates.

At the time of this study, 644 students were enrolled in the civil engineering degree course (most undertaking face-to-face tuition at USP in Suva, Fiji). Many are receiving sponsorships from their home country governments, though USP fees are modest by international standards.

Many senior industry professionals have obtained degrees from overseas institutions. However, this is very expensive and beyond the reach of the majority of prospective students.

A Washington Accord-accredited degree is required to qualify for full membership of international professional organizations, e.g., the Institution of Civil Engineers United Kingdom and the Institution of Professional Engineers New Zealand (IPENZ). In order to maintain international equivalence, local professional organizations, e.g., the Fiji Institute of Engineers and the Institute of Professional Engineers Samoa (IPES), have similar full membership requirements. This has been a major factor in limiting locally based professional development and recognition. Member numbers are suppressed and there is an inability to generate revenue to conduct the business of the institution. Officials are volunteers.

The advent of an internationally recognized degree from USP may, over time, go some way to strengthening the institutions and increasing membership numbers.

This, in turn, will enable the institutions to become more active and able, for example, to obtain chartered status, professional licensing rolls, etc.

Given these constraints, IPES is an exemplar. Its website is informative and well designed, and provides full details of all members. International engineers practicing in Samoa must be registered with IPES. An international engineer reported the process that he went through in order to practice as a civil engineer:

I'm currently yet to be chartered by IPENZ or ICE, etc. so I was not able to simply convert my chartership status to IPES. Similar to Samoan Nationals, I completed a 45-60 minute presentation to a panel of experts (3 individuals from the IPES board) on myself and my experiences showing technical aspects, complexities, issues identified, problems solved, etc. After my presentation, I was interviewed and asked a series of questions regarding my experience as well as general technical engineering.

For IPES, I provided a range of evidence/documents that I had completed through my experience ahead of the presentation for the interview panel to review and ask questions on. The process is a simplified version of the IPENZ from what I can tell and relies significantly less on documentation (i.e., do not have to write essays to prove you meet certain competencies).

All engineers, foreign or nationals, are required to be chartered to perform any engineering duties in Samoa as per the IPES Registration Act 1998 and the IPES Constitution and Rules 1984. On the whole, I think it's good for a Pacific island to have these regulations in place.

The South Pacific Engineers' Association was established with support of IPENZ in 2010. Its primary objective is to provide advocacy at a regional level for better industry policies and regulations. The association suffers the same constraints (particularly financial constraints) as its individual members and as yet has been unable to establish significant visibility.

Table A3.1: Assessment of Education and Training Authorities and Providers in the Pacific

Country	Technical and Vocational Education and Training (TVET) Authorities and Providers
Regional	<p>The Pacific Community: Educational Quality and Assessment Programme (EQAP) supports Pacific education systems in the quality assurance, validation, and accreditation of their higher education programs and institutions. Its qualifications team helps accrediting agencies, including national qualifications authorities, to develop, accredit, and register their national qualifications on to the Pacific Register of Qualifications and Standards. These services, of quality assurance and maintenance of the register, supports labor and learner mobility as they uphold the credibility of regional qualifications and provide for easier comparability of qualifications. Five Pacific island countries (Fiji, Papua New Guinea (PNG), Samoa, Tonga, and Vanuatu), have successfully established their national qualifications and quality assurance frameworks and are progressing well with their accreditation of providers and qualifications. Further information may be found at Qualifications and Accreditations Educational Quality & Assessment Programme Pacific Community (SPC).</p> <p>The University of the South Pacific (USP) provides a broad range of academic courses, including courses related to construction. Its main campus is in Suva, with other smaller campuses in the Pacific member countries. Most construction-related courses are conducted on a face-to-face basis at the Suva campus. More information on the course offered may be found at: Prospectus - University of the South Pacific (usp.ac.fj)</p> <p>The Australia Pacific Training Coalition (APTC) commenced in 2007 with a focus on delivery of quality TVET services to support positive employment outcomes for graduates. The focus has expanded to consider the long-term sustainability and quality of TVET services in the Pacific region. This expanded approach proposes more considered work at country level, in line with the country context. It proposes that partnerships and coalitions with in-country TVET providers and other stakeholders will lay the foundation for increased country investment in, and development of, TVET resources. It assumes that support to build the quality of in-country TVET providers will assist in sustaining the sector and increasing its value to industry. As at 2018, Australia's investment in the APTC was estimated to have totaled some A\$347 million (APTC3 Investment Design Document (dfat.gov.au)). Countries covered by the APTC are Fiji, Kiribati, PNG, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. More information may be found at Home (aptc.edu.au)</p> <p>The United States Agency for International Development (USAID) has partnered with Arizona State University (ASU) under the Vocational Training and Education for Clean Energy (VOCTEC) program to build regional capacity of qualified technical trainers and technicians to install, operate, and troubleshoot off-grid solar photovoltaic systems in the Pacific. This program covers up to 12 Pacific island countries. Eligible countries for training include: the Federated States of Micronesia, Fiji, Kiribati, the Marshall Islands, Nauru, Palau, PNG, Samoa, the Solomon Islands, Tonga, Tuvalu, and Vanuatu. These countries represent a broad range of populations and cultures, geographic sizes, and topological diversity within the region. More information may be found USAID Trains Solar Technicians in Pacific Island Nations U.S. Agency for International Development</p> <p>The UNESCO-UNEVOC Country Profiles aim to provide concise, reliable, and up-to-date information on TVET systems worldwide. Dynamic education system diagrams illustrate education systems at a glance, with a focus on TVET. This may be found at TVET Country Profiles (unesco.org)</p>

Cook Islands	<p>The Cook Islands benefits from free movement of people between it and New Zealand (NZ). It is likely that the majority of skilled persons in Cook Islands acquired those skills in NZ.</p> <p>The Cook Islands Tertiary Training Institute (CITTI) offers CITTI Certificates in Applied Practical Skills, Building and Construction Skills, Automotive and Engineering Workshop Skills. Further information is available at Prospectus-2020.pdf (citti.edu.ck)</p> <p>The Cook Islands' Ministry of Infrastructure (ICI) is trying to register building companies and publicize the list. ICI provide two categories: NZ-qualified and the Cook Islands qualification level obtained from CITTI.</p>
Fiji	<p>The post-school education and training sector in Fiji includes a broad range of public and private institutions. In 2018, this included 2 national universities, 20 theological colleges, a range of training centers run by line ministries, and nearly 50 private training providers. There is good coverage of construction-related training.</p> <p>The Fiji Higher Education Commission (FHEC) is responsible for the accreditation of TVET providers and for the national qualifications and quality assurance frameworks. The FHEC regulates the registration and operation of all higher education institutions, ensuring they meet quality standards and guidelines that reflect national and international imperatives. It is also responsible for establishing and maintaining the Fiji Qualifications Framework, which enables Fiji qualifications to be measured both in Fiji and internationally. More information and a list of registered TVET providers can be found at Higher Education Commission (fhed.org.fj)</p> <p>The Industry Standards Advisory Committees (ISACs) comprise individuals with professional standing and experience in their various trades and professions who are appointed by the FHEC to develop National Qualifications in Levels 1 – 6 on the Fiji Qualifications Framework (FQF). Membership is drawn from industry, professional associations, accrediting agencies, and higher education institutions. ISAC members are trained and registered by the FHEC and they ensure that training and assessment courses meet industry requirements and that each qualification outlines the minimum number of unit standards a learner must achieve in any particular field. Seven National Qualifications were piloted and rolled out at Montfort Boys' Town and Vivekananda Technical Centre in 2013.</p> <p>Fiji National University is a large, accredited provider of TVET. Fiji National University (fnu.ac.fj) A useful overview of the TVET situation in Fiji is provided in the 2019 APTC report at how_tvete_change_happens_fiji_stakeholder-perspectives.pdf (aptc.edu.au)</p>
Federated States of Micronesia	<p>The College of Micronesia (COMFSM) is a multicampus institution with the National Campus located in Palikir, Pohnpei, and a State Campus in each state. It offers a range of TVET for building and construction.²</p> <p>More information is available at https://www.comfsm.fm/</p>
Kiribati	<p>The Kiribati Institute of Technology (KIT) offers a Certificate II in Construction Pathways, with a focus on carpentry. It includes Occupational Health and Safety and introduction to policies and procedures in the construction industry. KIT also offers Certificate II in Drainage, Certificate II in Metal Roofing and Wall Cladding, and Certificate III in Water Plumbing. A “bridging” course is available to persons between the ages of 15 and 30 who have not completed their junior secondary schooling and are unemployed. Study bridging at KIT will provide a pathway to further education opportunities at the institute. More information is available at Home - Kiribati Institute of Technology (kit.edu.ki)</p>
Republic of Marshall Islands	<p>The Vocational Education Department at the College of the Marshall Islands offers a Certificate of Completion in Carpentry. The 1-year certificate program exposes students to the knowledge and skills relating to the construction industry, with a focus on carpentry.</p>

²Corrected from the original publication

	<p>It is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges. More information can be found at Home Page » College of the Marshall Islands (cmi.edu)</p>
Nauru	<p>The APTC and the Nauru Department of Education and Training signed a memorandum of understanding in June 2021 to work collaboratively to strengthen and promote quality TVET programs in Nauru. The partnership will support both institutions to explore and enhance access to training and qualification pathways; strengthen coordination and information sharing between TVET stakeholders; and support quality TVET provision of training programs offered in Nauru. Nauru TVET within the Department of Education and Training, has oversight of all technical and vocational training in Nauru. Certificate I and II courses are being delivered by TVET. Australia's support in TVET continues to offer Nauruan adults a range of courses for in-demand qualifications. TVET compliance with Queensland Certificate of Education and TAFE requirements are managed by the TVET directorate under its agreement with TAFE Queensland.</p>
Niue	<p>Niue has only one primary school, with free schooling until the age of 16. No specific TVET providers were identified.</p>
Palau	<p>The Palau Community College is accredited by the Accrediting Commission for Community and Junior Colleges, California, United States. It offers a range of TVET for building and construction. More information may be found at Palau Community College » About PCC</p>
Samoa	<p>The Samoa Qualifications Authority under the Ministry for Public Enterprise is the accrediting body for TVET training courses and providers in Samoa. Its 5-year plan for further development of TVET is at FINAL-PSET-Strategic-Plan-2020-2024-15.03.2021-2.pdf (sqa.gov.ws)</p> <p>A public list of accredited TVET providers is not available online.</p> <p>A 2019, an APTC report summarized the TVET situation in Samoa as follows: "In 2018, there were 26 registered post school education and training (PSET) providers in Samoa, including the National University of Samoa (NUS) and the University of the South Pacific (USP), and numerous church agency institutions and public-sector run training centers". There were only two private training providers in Samoa at that time, which was identified as a weakness in the TVET system by the NUS. The APTC report can be found at how_tvete_change_happens_samoa_stakeholder_perspectives.pdf (aptc.edu.au)</p> <p>The NUS has a Department of Construction. Further information on its courses and programmes can be found at Department of Construction - National University of Samoa (nus.edu.ws)</p>
Solomon Islands	<p>Solomon Islands TVET stakeholders are diverse and have different levels of involvement, interest and influence. These include those directly involved in the sector such as: Rural Training Centres, the Solomon Islands National University (SINU), the USP, and Don Bosco Technical Institute.</p> <p>The Solomon Islands Tertiary Education and Skills Authority, under legislation passed in 2017, is the national authority responsible for the promotion, planning, development, and coordination of the tertiary skills sector. The Solomon Islands Association of Vocational Rural Training Centres represents training providers.</p> <p>There is currently no system of accreditation for TVET providers or courses. The APTC (2019) provides a useful overview of the TVET situation in the Solomon Islands at how_tvete_change_happens_solomon-islands_stakeholder_perspectives.pdf (aptc.edu.au)</p> <p>The School of the Built Environment at the SINU is the main provider of engineering and construction-related training. More information is available at School of Built Environment - SINU</p>

Tonga	<p>The Tonga National Qualifications and Accreditation Board oversees TVET in Tonga. A public listing of accredited TVET providers is not available. Further information may be found at Home (tnqab.com)</p> <p>The Government of Australia has provided significant support for TVET in Tonga. Most recently, the Tonga Skills program supported skills sector reform, with a key focus on skills development linked directly to inclusive economic growth. Tonga Skills has achieved significant milestones in the past 5 years, including successful activities focusing on disability inclusion, trades training, handicraft manufacturing, and TVET teacher training.</p> <p>The APTC recently extended its previous collaboration in Tonga through agreements with the Tonga Institute of Science and Technology and the Tonga Institute of Higher Education. More information may be found at APTC collaborates with Ministry of Education and Training to enhance TVET outcomes in Tonga</p> <p>Tonga has a skills and employment project, which is financed by the World Bank Group. The total funding envelope is approximately \$20.90 million. The project is jointly implemented by the Ministry of Internal Affairs, the Ministry of Education and Training, and the Ministry of Finance and National Planning. The project objective is to improve opportunities for secondary school progression and facilitate the transition to jobs in the domestic and overseas labor markets for Tongans. The project has four interlinked components: (i) conditional cash transfer program for secondary school enrolment and attendance; (ii) strengthening TVET provision; (iii) enhancing opportunities for labor migration; and (iv) project management, monitoring, and evaluation, and centralized support. The project will support the poorest decile (some 1,500 households) with cash transfers conditional on them ensuring their secondary school-age children enroll and regularly attend classes. It will provide Quality Improvement Grants to eight TVET providers and funds to cover tuition fees and living costs for some 600 TVET students from the poorest decile. It will provide predeparture training for some 8,000 Tongans and build a work-ready pool of 1,600 migrant workers. The program was approved in 2018 and is ongoing. More information may be found at SET Central Services Unit - TONGA (finance.gov.to)</p>
Tuvalu	<p>Of the 10 primary schools in Tuvalu, two offer technical and vocational skills training in Years 9 and 10. One of the two secondary schools also offers technical and vocational skills development in Years 10 to 13.</p> <p>The Tuvalu Maritime Training Institute provides training to approximately 120 marine cadets each year, so that they have the skills necessary for employment as seafarers or merchant sailors. Additional postsecondary technical training is offered through the Tuvalu Atoll Science and Technology Training Institute and by external providers such as the USP through its Tuvalu campus, as well as by the APTC.</p> <p>In 2019, the APTC reported that they were supporting short courses on skills for work and vocational pathways that enable people with no foundational skills to have a pathway to enroll in: Certificate II in Skills for Work and Vocational Pathways, targeting 40 Tuvaluans; Certificate II in Skills for Work and Vocational Pathways, targeting 15 Tuvaluans from the short course cohort; and Certificate I in Construction, targeting eight construction workers identified during the construction of the Australian High Commission facility. More information and a situational analysis are available at how tvet change happens tuvalu stakeholder-perspectives.pdf (aptc.edu.au)</p>

Vanuatu	<p>The TVET framework in Vanuatu is described below. However, all websites cited lack detailed information on courses offered, by whom, and whether or not the courses are accredited. The degree to which courses are relevant to construction cannot be determined.</p> <p>The Vanuatu Qualifications Authority (VQA) leads the implementation of the Vanuatu National Qualifications Framework and the Vanuatu Quality Assurance Framework. More information can be found at Vanuatu Qualifications Authority (VQA) - Vanuatu Skills Partnership (vanuatuqualifications.org.vu)</p> <p>The Tertiary Education Directorate Skills Division within the Ministry of Education and Training is responsible for the implementation of the government's Post-School Education and Training policy. Its mandate is to oversee the management of the skills system, with a particular focus on supporting the delivery of quality-based, relevant, and inclusive training services.</p> <p>Provincial Government Training Boards (PGTBs) operate under the VQA and function as skills advisory bodies for skills centers. They are comprised of representatives of key productive sectors and industry. The PGTBs advise the skills centers as to the employment and productivity opportunities at the provincial level which can be maximized through access to training and business development services.</p> <p>The Vanuatu Skill Partnership is a partnership for skills development between the governments of Vanuatu and Australia. Under Vanuatu's Ministry of Education and Training, the partnership supports the decentralized operation of provincial skills centers. These centers act as brokers between demand and supply; contracting local training providers and industry coaches to deliver skills that will lead to sustainable productivity, increased employment, and greater social inclusion. Partnerships are wide-ranging. In addition to the above, partners include provincial governments; industry associations; local entrepreneurs; civil society bodies; and urban, rural, and remote communities. More information on the partnership can be found at Vanuatu TVET - Home</p>
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\$ = United States dollars; A\$ = Australian dollars.

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

A3.3 Summary

Most Pacific island countries have institutions that provide TVET courses, although graduate quality is often limited by poor literacy and numeracy. Only a few of these countries adequately regulate TVET and maintain a register of vocational training providers.

While links between industry and vocational training tend to be weak and informal, chambers of commerce can be useful focal points for industry development if provided with technical support to do so.

Degrees in engineering subjects have not been regarded as internationally equivalent until recently (with the civil engineering degree from the USP still to be accredited). This situation has limited professional development in Pacific island countries. Moreover, professional bodies such as engineering institutions are weak and are not able to influence development of their respective professions, including training requirements.

Appendix 4: Procurement Initiatives, Detailed Case Studies, and Innovative Methodologies

A4.1 Procurement Initiatives

A4.1.1 Procurement Capacity Building

Some Pacific island countries have undertaken procurement training to develop capacity. Tuvalu undertook general capacity development of the private sector with respect to procurement in 2019. This apparently led to an increase in local suppliers, but not in consultants or contractors.

In Samoa, the Ministry of Finance (MOF) has delivered procurement training to government agencies. This training is essentially familiarization with the Government of Samoa's own procurement processes. The intention is to roll out this training to the private sector as well. This was deferred due to the COVID-19 pandemic. The government also intends to liaise with development partners to provide targeted procurement training on specific issues (e.g., evaluation) that have been identified as requiring strengthening. Similar training has been conducted in the Cook Islands.

There is a technical assistance program in the MOF, funded by Australia's Department of Foreign Affairs and Trade (DFAT), to develop a public procurement competency framework. Job descriptions will be developed for procurement officers and, in time, will include managers and provide a qualifications framework. Two of the MOF's procurement staff are undertaking a Certificate IV in Procurement Supply, delivered remotely from the University of the South Pacific and supported by the United States Agency for International Development (USAID), and the two staff members consider the course to be very helpful. It is noted that the University of the South Pacific offers face-to-face, online, and micro qualifications in procurement and supply³.

The Fiji Procurement Office, as an agency in one of the more developed Pacific island countries, provides a Procurement Competency Framework on its website. The lower-level competencies can readily be achieved at minimal or no cost. The office also facilitates a 1-day training course in Managing Tender and Procurement Excellence. Members of Fiji's Tender Evaluation Committees are expected to go through this training. Ministry staff can request specialized training where required.

The World Bank Group (WBG) has supported the development of innovative organizational models of project implementation, including central support units in Samoa and Tonga, which have the advantage of leveraging scarce local procurement and technical skills to benefit the maximum number of projects.

The WBG also offers a free self-paced online Certificate Programme in Public Procurement⁴ to build procurement capacity. More specialized and advanced procurement training is offered by the Chartered Institute of Procurement and Supply⁵.

³ University of the South Pacific. *Procurement and Supply*. <https://www.training.ac.fj/info/courses/procurement-and-supply/>.

⁴ WBG. Certificate Programme in Public Procurement. <https://www.procurementlearning.org/certificate-program-public-procurement-cppp/>

⁵ Chartered Institute of Procurement and Supply. Training.

<https://www.cips.org/learn/training/?itemsperpage=6&orderby=0&sortby=3&searchTerm=&selectedEventTypes=&selectedTopics=&selectedLevel=&selectedCountry=0&selectedRegions=&selectedCities=&fromDate=01/10/2021&toDate=14/04/2022&pagination=1&scrollposition=1763>

In 2017, under the Pacific Aviation Investment Program, the WBG supported public procurement training across the Pacific that focused on professional certification. The initiative was arranged in four phases that presented a pathway to a Strategic Diploma in Public Procurement qualification, delivered by the United Nations Development Programme and the Chartered Institute of Procurement and Supply. Resulting from this program, 40 Pacific islanders have achieved professional procurement certification and 17 have completed the strategic diploma.

The Solomon Islands Chamber of Commerce and Industry delivered procurement training in September 2020 in conjunction with the Government of the Solomon Islands. Course modules included “Introduction to Procurement in Solomon Islands”, “Understanding What Government Wants”, “Responding to Government Tenders”, “Evaluation”, “Approval and Award”, and “Contract Management”. This was the third procurement training course the chamber has hosted for its members since 2017⁶.

It is understood that the Vanuatu Chamber of Commerce is considering some form of procurement or tendering training course, although exact details were not available at the time of this study.

The WBG-funded Solomon Islands Roads and Aviation Project (Case Study 3.9) implemented a capacity building and training workshop on bid process, preparation (including calculation of rates), evaluation, etc., with a view to strengthening the bidding capabilities of local contractors.

A4.1.2 Strategic Procurement Policy Development

The Fiji Roads Authority is an interesting example of a state-owned enterprise that has specifically and overtly integrated a local content policy into its procurement rules. For that reason, it is included in this appendix as a detailed case study (A4.2.2).

Part of the WBG’s procurement framework provides specific procurement guidelines that apply unilaterally to Pacific island countries. They also include simplified bidding documents. These are considered to be best practice for development partners whose remit includes Pacific island countries. (A4.3 describes specific applications of the guidelines).

The Asian Development Bank (ADB) has developed a similar document for fragile and conflicted-affected states, but it is considered to be more restrictive than the WBG document insofar as only applying to Pacific island countries that are classified as fragile.

Both DFAT and New Zealand’s Ministry of Foreign Affairs and Trade (MFAT) are developing social procurement guidelines that enable the embedding of local content in infrastructure projects in a tangible way. DFAT’s Local Industry Participation Plan mechanism is a big stride in the mainstreaming of local content.

A4.1.3 Contracting Modalities

Early contractor involvement (ECI) is an established procurement methodology for construction works in developed countries. It has been utilized to inject contractor expertise (particularly with respect to buildability and cost) into the early design phases of project, where it can have the greatest impact. It is different to design and build insofar as the contractor does not have responsibility for project design (which is retained by the project consultants).

⁶ Solomon Islands Chamber of Commerce and Industry. 2020. SICCI Holds Workshop for Private Sector. 29 September. <https://www.solomonchamber.com.sb/news-reports/posts/2020/september/sicci-holds-procurement-workshop-for-private-sector/>



The same theory is behind MFAT's use of the ECI methodology in the Tonga Parliament House Project (Case Study 3.2), whereby a local contractor has been engaged early in the design process to provide design advice. It is intended that the same contractor will also be engaged to undertake the construction of the project. By its nature, the model will inject a level of local content into the project design through ensuring local buildability (construction techniques, materials, etc.).

Further, and although not included in this project example, it is envisaged that such a model could also be broadened to incorporate a 1–2 year maintenance component. This would ensure that infrastructure is designed to match local capacity requirements for maintenance and provide a potential bridge to longer term sustainability of infrastructure.

In terms of probity of contractor appointment, tenders are typically sought on a competitive basis for preliminaries, profit, and overhead against an established construction budget. For construction, quotations for trades over a certain value are sought on deferred let basis and adjusted against the provisional allowances in the main contract.

The ECI system potentially requires greater client-side involvement, but also potentially results in significant benefits, including from a local content perspective.

Capital Services Infrastructure Panel. To facilitate project implementation, the Australian Infrastructure Financing Facility for the Pacific (AIFFP) has a Capital Infrastructure Service Panel with two categories: Head Contractor and Client-Side Project Manager. These preapproved contractors and consultants are cognizant of the AIFFP local content requirements in general and the Local Industry Participation Plan in particular (use and upskilling of local labor and the private sector were overt selection criteria to the panel itself). This ensures the local content objectives of the AIFFP are achieved, even if they are not given the same level of emphasis by borrowers.

Further, borrowers can utilize these panels for projects if they wish, using limited bidding methods and hence providing direct access to prequalified consultants and contractors who will embrace a collaboration mindset, noting that is a specific requirement of the AIFFP.

This process removes questions over financial and technical capacity, where local bidders often fail. It does, however, reinforce that nonlocal entities will, in the main, lead projects (when utilized), albeit with the explicit requirement to meet minimum local content requirements. In a sense, this provides a balanced risk management mechanism whereby greater certainty of quality and delivery is retained, but local content is also factored into that delivery. Importantly, the local content is factored in by head contractors and client-side project managers who are best placed to manage that risk.

Contract splitting is simply a method of matching contract size with contractor capacity. It is relatively easily applied to road projects, which can be readily broken up into various contracts with similar technical requirements. This approach has been used in both capital works and maintenance contexts (e.g., in Samoa and Tonga).

Project segregation involves splitting projects into separate labor supply and materials supply contracts. There are many examples of this being done—although they tend to be confined to the education sector—and the reasons why are clear: segregation allocates risk to the party best able to manage it. The model facilitates local engagement by acknowledging and leveraging capacity constraints, while at the same time providing certainty of supply and quality of materials through donor or partner government control. This method can also support local suppliers to more effectively manage stock control levels, as was evidenced in the Vanuatu School Reconstruction Project (Case Study 3.8).

The Kiribati Education Improvement Program (Case Study 3.4) is an exemplar of how local capacity limitations shaped the development of the program over a 5-year period and created a successful project segregation procurement methodology.

Meanwhile, the Vanuatu Education Roadmap Program comprised centrally procured and distributed materials for some 13 classroom block renovations or constructions, which were undertaken by local contractors in provincial areas. At the time of procurement, the program's materials supply contract was the largest single contract procured by the Vanuatu Ministry of Education. The procurement was conducted successfully and enabled the ministry to address classroom needs at greater scale than had been the case previously⁷.

Community-driven development was highlighted in the Vanuatu Hybrid Classroom Project, which decentralizes the provision of infrastructure (in this case education) from government to the community. By its nature, it results in greater local content and more user-friendly infrastructure that can be more easily maintained. In this example, it was also considerably more economic. The WBG offers further examples of community-driven development programs⁸.

A4.1.4 Capacity Stocktakes

Engineers Without Borders New Zealand is pursuing capacity building of the engineering profession in Pacific island countries. They are supporting the South Pacific Engineers' Association in undertaking a survey to identify practicing engineers and industry professionals. This is in the early stages of implementation in Kiribati and Vanuatu. The idea is to identify local players and make this information available to government, implementers, and donors as a way to facilitate local participation of engineers in infrastructure projects.

A4.1.5 Construction Skills Capacity Development

Reeves International, an Australian-based international contractor, has a memorandum of understanding with the Australian Pacific Training Coalition to deliver work health and safety courses. They also support workers wishing to undertake certificate-level courses in carpentry and plumbing. This contribution of skills training to local content is already evident, but is likely to increase over time.

MFAT has introduced a skills guarantee program and applied it to the Honiara Multipurpose Hall Project (Case Study 3.1). A broader impact of infrastructure-related skills development is exemplified in the example of the Tonga Skills program (Case Study 3.6).

A4.2 Detailed Case Studies

A4.2.1 Results-Based Lending in Solomon Islands

This case study demonstrates an innovative approach to using country procurement systems to promote local content.

Development partners, particularly ADB and the WBG, typically require that their policies, regulations, and standard bidding documents be used in procurement. Further, partners engage with countries to develop detailed procurement strategies and plans that must be adhered to during implementation.

⁷ Author's personal experience.

⁸ WBG. *Community-Driven Development*. <https://www.worldbank.org/en/topic/communitydrivendevelopment#3>

An innovative approach has been applied to infrastructure financing in the Solomon Islands: Sustainable Transport Infrastructure Improvement Program⁹. The program adopted a results-based lending (RBL) approach. Under this approach, disbursements by the partners were conditioned on annually assessed achievement of disbursement-linked indicators, e.g., that the target length of sealed and major unsealed roads had been adequately maintained and that the host country had made its contribution to the program.

The cost of the program (originally intended to be implemented from 2016 to 2020) was estimated to be \$78.7 million, comprising a \$21 million loan from ADB, \$23.3 million from the Government of Australia, and \$34.4 million from the Government of Solomon Islands. An additional grant of \$4.5 million from the Government of Australia was intended to finance the associated technical assistance needed to develop capacity in various areas.

The assistance was designed to support the Solomon Islands National Transport Plan (NTP) 2010–2030 to improve access to socioeconomic opportunities and promote inclusive growth. The program is a nationwide initiative that supports the NTP priorities from 2016 to 2020, financed through the National Transport Fund (NTF). This project financing was disbursed through the NTF. The results-based modality helped align government and development partner support for the NTP through the NTF; incentivized increased government contribution to the NTF; and marked a shift in the financing of transport programs, with a large element of ownership and control by the Government of Solomon Islands.

The design of the program took into account the limited capacity of the Ministry of Infrastructure Development to manage and maintain infrastructure. Contributing factors to the capacity constraints included high dependency on external assistance, low government contributions to asset maintenance, high costs of rehabilitation and maintenance because of inefficiencies and diseconomies of scale, and poor cost effectiveness due to shifting priorities and timing of investments.

The RBL modality was adopted because (i) it aligned the support of ADB and the Government of Australia with the Solomon Islands NTP infrastructure and capacity targets to meet longer-term development goals; (ii) it provided a strong incentive and greater accountability to development goals and lower transaction costs for more efficient public spending in the sector; and (iii) it relied on country systems to deliver the desired outputs.

In addition to the physical outputs, the program aimed to improve, among other things, fiduciary controls, procurement methods, and safeguard systems, including development, approval, and application of the finance operating manual and safeguards procedures manual. This was intended to be achieved through (i) increased staffing in core areas of procurement, safeguards, and monitoring and evaluation; (ii) contracting and contract management for maintenance and rehabilitation; and (iii) operational and administrative capacity in business processes, including procurement.

As the program was designed to be implemented using the RBL modality, it placed reliance on the Government of Solomon Islands procurement system and processes for implementation. The Public Financial Management Act 2013, the Procurement and Contract Administration Manual 2013, and the associated standard bidding documents for the procurement of works, goods, and services and sample bid evaluation reports were considered satisfactory for procurement under the program.

In particular, the development partners assessed that Government of Solomon Islands procurement system adhered to the principles of (i) competition (less than 10% sole source contracting), (ii) transparency (bidding processes were considered open and transparent), (iii) fairness and equal

⁹ ADB. 2016. *Report and Recommendation of the President. Proposed Results-Based Loan and Administration of Technical Assistance Grant Solomon Islands: Sustainable Transport Infrastructure Improvement Program*. Manila

opportunity, and (iv) economy and efficiency. All proposed contracts under the program were envisaged to remain significantly below the so-called high-value contracts (as defined in WBG guidance on RBL).¹⁰ Packaging could nevertheless be arranged to optimize local content and capacity development. The procurement rules were accessible to the public.

The program was designed to rely on the NTF Secretariat and Board, including the Ministry of Finance and Treasury's Procurement Unit, which were considered to have a satisfactory track record under ongoing projects for procurement planning and budgeting arrangements. Overall, it was concluded that the instructions under the Public Financial Management Act 2013 and associated procurement documentation were adequate for the Ministry of Infrastructure Development to conduct the procurement of works, goods, and services.

Thus, it was intended that planning, programming, and conducting of procurement would be undertaken without detailed oversight by the development partners (e.g., prior or post approval of contract award was not required), but subject only to audit from time to time.

Table .1 shows the actual expenditures by maintenance category under the program. Disbursements to the NTF from ADB are largely in line with projections indicating that the expected results have been achieved and verified.

Table A4.1: Solomon Islands: Expenditures through National Transport Fund (SI\$)

	2016	2017	2019	2018	2020
Road maintenance Labor Based	20,106,843	17,476,194	6,736,908	9,281,978	3,354,177
Road maintenance Machine Based	17,888,251	20,707,589	71,251,714	11,264,753	75,131,773
Road rehabilitation Machine Based			131,432	15,112,408	
Bridge maintenance	709,757	3,431,127	812,383		
Bridge rehabilitation			421,125	3,902,019	3,318,590
Wharf maintenance	1,453,103	1,470,967		87,327	49,715
Emergency and disaster relief	2,390,566	1,562,754	2,729,125	20,099,183	1,902,110
Mberande-Aola Project			1,388,707	42,201,092	6,235,966
	42,548,520	44,648,631	83,471,394	101,948,760	89,992,331

SI\$ = Solomon Islands dollars.

Source: Project audits of the Solomon Islands National Transport Fund available on the Asian Development Bank project website (<https://www.adb.org/projects>).

However, the support from ADB and the Government of Australia demonstrates a willingness on the part of development partners to use country procurement systems for infrastructure delivery and that the results were in line with projections in terms of expenditure. This suggests that efficiency of implementation has not suffered as a result.

A4.2.2 Enhancing Fiji's Local Content Through Procurement

The Fiji Roads Authority (FRA) was established in 2012, to succeed the Department of National Roads. It is a corporate entity responsible for effective management and administration of the whole roading system in Fiji and also for wharves and jetties (other than those in Suva, Lautoka, Vuda, Malau, Rotuma, and Wairiki, which are under the auspices of the Fiji Ports Corporation Ltd).

¹⁰ World Bank. 2015. *Program for Results: Two-Year Review*. Washington, DC.

The FRA's annual budget for maintenance and capital works in recent years has typically been of the order of \$300 million,¹¹ which is considerably larger than the budgets typically managed in other Pacific island countries. In terms of the size of its operations, the FRA is not typical. However, its practices provide an example of how strategic procurement planning can be effective in promoting the growth of the local road construction industry, and are potentially capable of replication elsewhere at a smaller scale.

The legislation establishing the FRA provided it with autonomy and flexibility that is not generally enjoyed by similar bodies in the other Pacific island countries. The FRA was bestowed with

all such powers as may be reasonably necessary or convenient for the purpose of carrying out its functions and regulating its own procedure,

and

the provisions of the Procurement Regulations 2010 (being the regulations adhered to by the Fiji Procurement Office) shall not apply to the Authority and requires the Authority to establish and implement its own procurement process and plan and to ensure that all goods and services are procured pursuant to that plan.

The FRA's Operations Manual sets out the authority's overarching procurement principles. Prominent among these principles is building local capacity¹². The manual explicitly states the policy (in the context of procurement) as follows:

To develop capacity and capability at all levels of the Roads' industry such that Fijians are ultimately able to be appointed to any role within the FRA, Principal Engineering Services Provider or Maintenance Contractor organisations.

The Operations Manual defines what is meant by capacity development and the steps that are to be taken to measure progress:

Capacity building is much more than training. It is the process of equipping individuals with the necessary understanding, skills and access to information, knowledge and training to enable them to perform effectively. It includes getting them to better understand what has to be done and why it is done in the way that it is; the management structure and how it all works; the processes, procedures and relationships; and the legal and regulatory requirements and so forth

- (a) The CEO has developed a set of performance measures and targets against which the progress that is being made to build local capacity can be regularly assessed.
- (b) The Professional Engineering Services Advisor and the maintenance contractors will report half-yearly and annually and at such other times and in such manner as the CEO may direct, explaining the capacity building steps they have taken, how successful that has been, and what their future plans are.
- (c) The rate of progress in this area and the capacity building steps the tenderer and others intend to take in future (and have already taken) will be an important consideration in all contract awards and performance reviews.

¹¹ Amounts cited in the Operations Manual in Fiji dollars have been converted to United States dollars at a rate of 2 Fiji dollars equals one United States dollar. The exchange rate has been relatively stable for several years.

¹² FRA. 2015. *Operations Manual*. (Version 4, Final Amended 16 July 2015). Suva [Fiji Roads Authority Operations Manual 2015 - Bing](#)

The manual defines “sustainable procurement” as follows:

Ensuring goods and services are always procured in a way that achieves value for money on a whole of life basis in terms of generating benefits not only to FRA, but also to society and the economy, whilst minimising damage to the environment.

In this context, the FRA considers development of local capacity to be of benefit to society and the economy.

More specifically, the Operations Manual describes “social factors” to be considered in procurement decision-making. Whenever possible, the FRA endeavors to organize its work and make other procurement decisions in ways that benefit the local community and Fiji’s wider development as a country, including by (i) employing and encouraging the FRA’s consultants and contractors to employ local people wherever possible, and (ii) purchasing goods and services locally wherever possible. The manual acknowledges that there are limitations to this, but reiterates that one of its three goals is to build local capacity, and this means...

on occasions employing local people who don’t currently have the necessary experience but who are anxious to learn, together with a programme to upskill and develop them.

The Operations Manual describes the desired outcomes of the FRA’s Sustainable Procurement Policy with regard to local firms:

- (a) to have a range of sustainable road consulting and contracting businesses;*
- (b) to have a sufficient number of sufficiently skilled local people employed in the sector;*
- (c) to have firms with the capability of providing the required results to the standard required and within the time required;*
- (d) to have firms that are constantly bidding for FRA work at competitive prices; and*
- (e) to have enough capable firms from which the FRA can choose at least one that would be able to satisfactorily perform.*

The FRA considers that whole-of-life costs and the tenderer’s ability to “perform” will always be the two key considerations when awarding a contract, but the authority has a conscious intention to “influence the market”. This includes ensuring at appropriate times the work is “spread around” to help build a stronger marketplace.

Implementation of procurement policy and strategies

The FRA commenced in 2012 with a national road maintenance strategy that involved outsourcing large 3-year maintenance contracts in each of the three divisions of Fiji. This concerted effort was driven by a perceived major backlog that needed an immediate response. These contracts were all awarded to internationals. The Operations Manual notes that:

This is tangible evidence of the fact that the local road construction and rehabilitation industry needs improvement.

The three contracts were awarded following a competitive process that comprised an initial formal assessment of responses to a publicly advertised “Invitation to Submit Statements of Interest and Ability” document. A short list of parties was selected, with whom the FRA discussed and formulated the most appropriate future contractual form. The key to success of the overall strategy was that the contractors should be highly competent and score well under a weighted attribute evaluation system.

Value for money was deemed to be a composite of competence, meeting of expectations that capacity development would be achieved, price, and other factors described below.

Longer contract terms were an essential part of the strategy. These are more attractive to bidders because they allow the contractors to spread their establishment costs over a longer period, but this has been balanced against the FRA's desire to build local capacity and, over time, encourage the local contractors who establish good track records and experience to enable them to get more directly involved.

Initially, the maintenance contracts were awarded (in January 2013) to offshore companies, but the FRA's expectations at the time of the awards was to see those parties involving local contractors and staff at a management level – and witness how this was being done. Upskilling of local contractors was a key aspect of the tender evaluation process.

The contracts contained provisions for limited extensions and the approach was designed to stagger the review dates to give the FRA greater flexibility to fulfill its desire to see suitably qualified and competent local contractors become more involved as soon as possible

Significant input from reputable and experienced overseas parties was considered essential, especially in the early years. The aim was that a greater proportion of the work should, however, be able to be completed by local firms and people over time.

As of 2021, it appeared that the strategy of using international contractors to facilitate capacity development had been successful. Wholly owned local contractors are now involved as prime contractors and others provide a range of subcontracting services, including production and supply of aggregates, not only for the maintenance program but also for the capital works program.

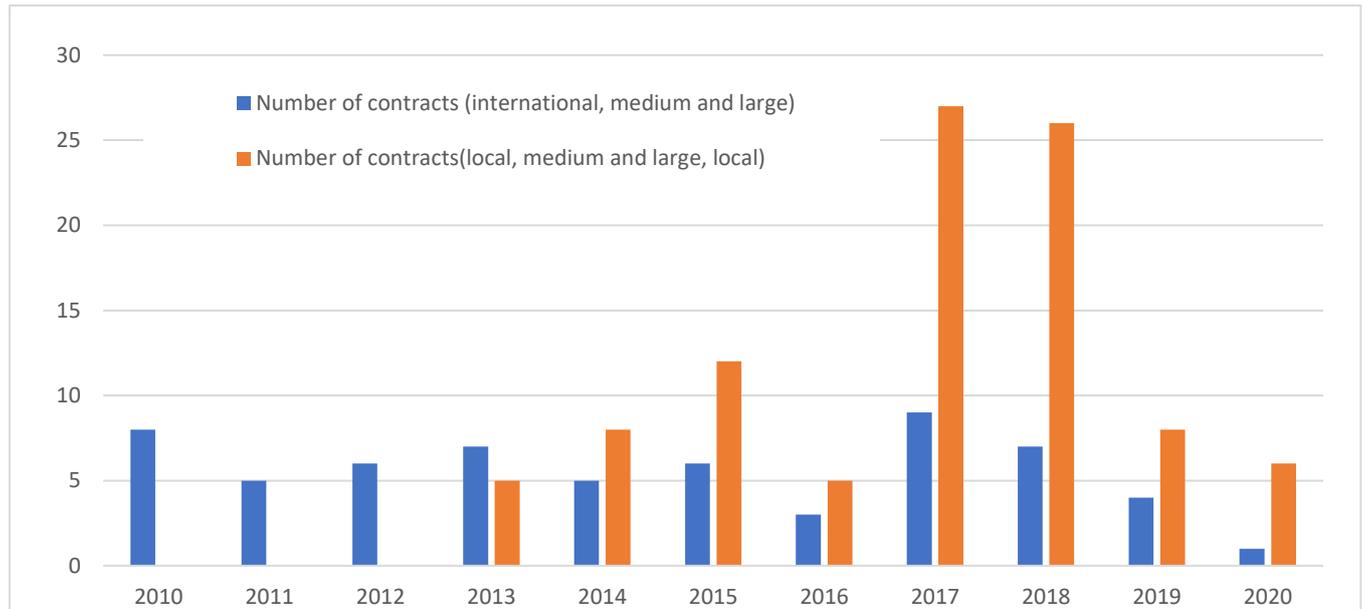
Analysis of the procurement policy and actions

The FRA confirmed for this study that it has not systematically monitored the results and outcomes of its local content policy and actions. However, it provided a record of all contracts awarded from 2010 to 2021, which enabled the involvement of local contractors' participation as prime contractors to be identified.

Figure A4.1 below illustrates the number of medium-sized and large contracts awarded to local and international contractors. A medium-sized contract is one valued from \$1million to \$3million. Large contracts are those of more than \$3 million in value and, in some cases, significantly more.

It remains the case that the very large road contracts in Fiji are still the province of the international contractors. An international contractor is a firm that has a significant link to an overseas affiliate and may rely on that affiliate to meet qualification requirements for internationally tendered works. Thus, a major locally incorporated firm that has been established in Fiji for a considerable time is classified as being international, so that the effects of the FRA policy on developing new market participants is more clearly demonstrated. It should be noted that, while relatively few contracts were awarded from 2012 to 2016, the maintenance contracts were of minimum 3 years' duration and local entities were extensively involved as subcontractors.

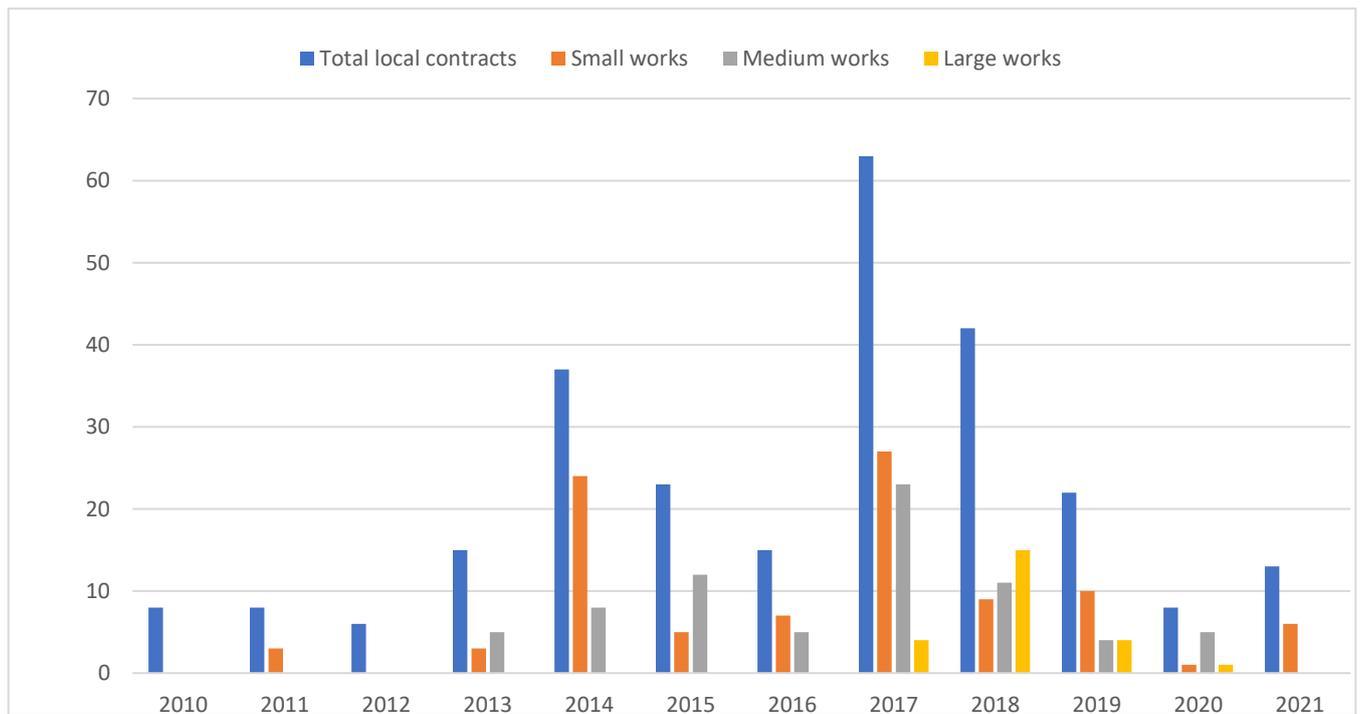
Figure A4.1: Road Contracts Awarded to Local Fijian versus International Entities



Source: Fiji Roads Authority data compiled by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

Figure A4.2 illustrates the number of small, medium-sized, and large contracts awarded to local firms each year. The peak values in 2017 and 2018 result, in part, from the awarding of area maintenance contracts to local contractors, following the expiry of the original area maintenance contracts that were initially awarded to the large international firms. The FRA reduced the size of the new area maintenance contracts to make them more compatible with the local capacity that had been developed. Contracts awarded include new road construction and an increasing number of high- and low-level concrete stream crossings.

Figure A4.2: Road Contracts Awarded to Local Fijian Contractors, by Size of Contract



Source: Fiji Roads Authority data compiled by the Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

One local contractor confirmed that, since 2012, its average annual turnover had increased by around 400% (to about \$5 million per annum) and the number of persons employed had increased by the same proportion. The firm is engaged in both road works and concrete works and, at the time of the study, was constructing its first significant bridge structure. A number of other local firms have experienced significant expansion over the same period. In 2017 and 2018, 17 different local firms were awarded medium-sized contracts by the FRA.

Contract awards and construction activity reduced significantly during 2019, 2020, and 2021 due to the COVID-19 pandemic, but local firms involved in long-term maintenance contracts continued to be engaged.

Ongoing practices that support capacity development

Underpinning procurement planning is the FRA's Asset Management Plan. The FRA prepares its proposed detailed works program in the 6 months prior to the start of the next financial year. This information is firstly integrated with the Asset Management Plan, then the proposed work packages for the ensuing 12-month period are extracted. This forms the basis for the FRA's negotiations with the government during the budget-setting process and for incorporation in its Corporate Plan and Statement of Corporate Intent (CPSCI) for the next year. This document then forms the basis upon which all procurement decisions are made during the ensuing year. A clear pipeline of bidding opportunities provides potential bidders with confidence to plan and invest, enabling them to position themselves to undertake the works.

The FRA continues to encourage small contracting entities. Goods and services estimated to cost less than \$50,000 may be procured by calling public tenders, inviting closed bids, inviting multiple verbal or written quotes, or by direct (sole source) award. The FRA makes use of sole source for goods and services (including consultancy services) where there is a provider who the FRA is satisfied is best suited to meet its needs at an acceptable price. This provides considerable scope to continue to engage with local contractors that have performed satisfactorily in past contracts.

For contracts of relatively small size such as these, the FRA does not require performance security. The Operations Manual explicitly explains this approach to performance security:

The reason why no bonds are required for contracts with an estimated value of less than US\$150,000 is to encourage small local contractors (including those who are trying to establish) to bid and to 'speed up' the 'transferring of skills'/'building local capacity' process.

The FRA maintains a register of all contracts, which includes and evaluation of the contractor's performance. Information from the register is available for evaluation of a performance attribute. This encourages contractors to perform well and consequently improve their prospects of winning future work.

For all contracts with an estimated cost of more than \$250,000, bids must include a methodology from the bidder, describing how the firm intends to build or use local capacity during the contract term. This is a key element of the continuing strategy to place capacity development at the fore.

Use of weighted nonprice attribute scoring in bid evaluation and the flexibility to directly appoint local contractors as part of a capacity development strategy does create moral hazard risks, as scoring of the attributes is often subjective. The Operations Manual requires that

absolute moral correctness and ethical behaviour will be observed throughout the whole tender process.

The FRA has stringent procedures to manage fraud, corruption, and conflicts of interest and these include using a probity auditor to observe at evaluation committee meetings or to review contract awards where these are not awarded to the lowest-priced bidder.

Key lessons for promoting local content

The FRA experience appears to have been quite successful in making substantial gains in local content development. Essential elements of its policy and strategy that can be replicated elsewhere are that:

- (i) A clear policy for local capacity development should be developed and publicly expressed.
- (ii) A realistic strategy should be developed and it should be acknowledged that it will likely take time to “bear fruit”.
- (iii) Mechanistic procurement regulations need reform to allow flexibility to consider the value to society of having local employment and capacity, as a factor in evaluation.
- (iv) Capacity development can be integrated with traditional value-for-money concepts in procurement strategy.
- (v) Appropriate measures are needed to counter potential conflict of interest, fraud, and corruption when adopting often subjective weighted attribute evaluation of tenders.

A4.3 Innovative Methodologies

A4.3.1 Use of Nonprice Criteria in Value for Money Bid Assessment

The procurement policies and guidelines of both ADB and the WBG permit the use of nonprice evaluation criteria, provided that the criteria and method of application comply with these development partners’ respective procurement principles. Nonprice criteria are commonly used in the private sector as the lowest price may not necessarily represent best value for money (VfM). Similarly, the lowest price may not represent VfM for the recipient of a grant or loan.

In the absence of nonprice evaluation criteria, the standard bid evaluation practices amount to a simple assessment of the bidder’s technical and financial capacity to perform the contract, but places no value on other attributes, such as relative efficiency, quality, and contribution to wider socioeconomic objectives. The bidder is selected on the basis of bid price alone, once an adequate level of technical and financial capacity has been established.

Nonprice criteria can be utilized to overcome this deficiency and may include local content to the extent that it is an objective of the borrower.

In addition to the core procurement principles, ADB’s procurement policy explicitly states:

ADB encourages the development of domestic contracting, consulting, and manufacturing industries in the country of the borrower.

As noted above, ADB has, in its updated (2017) procurement regulations, permitted the use of nonprice evaluation criteria¹³ and the example in Table A4.2 draws largely from this.

¹³ For more information: ADB. 2021. *Value for Money: Guidance Note on Procurement*. <https://www.adb.org/sites/default/files/procurement-value-money.pdf>

Depending on the circumstances, nonprice criteria may need to be considered during evaluation to obtain the best VfM. These may include the quality of the goods, works, and/or services to be delivered; responsiveness to socioeconomic or environmental objectives; and fitness for purpose.

Where nonprice criteria cannot be monetized, they are assessed using a scoring system such as in the example in Table A4.2. Each criterion is weighted according to its relative importance. Weightings or scores must be disclosed in advance in the bidding documents and then applied to the scores. This facilitates the evaluation of technical merit, quality, risk, price, and other relevant factors and objectively compares one bid against another. Once the total scores are known, bids can be ranked in order of merit based on the highest to lowest scores. The higher the score, the better the proposal meets the nonprice criteria and offers VfM.

Note that the use of nonprice criteria is typically in addition to the pass-fail criteria typically used in ADB and WBG bidding documents. It must also be appreciated that use of nonprice criteria is often associated with a two-envelope system, which will take more time and effort to evaluate. The scoring itself is also time-consuming and therefore the system should only be used where proportionate to the risks and objectives.

Table A4.2: Example of Value for Money Evaluation using Price and Nonprice Criteria

No.	Description	Weight	Score Bidder A	Score Bidder B
1.	Price weighting	30	30	25
Nonprice criteria				
2.	Understanding the site conditions	10	8	9
3.	Works program	10	7	9
4.	Methodology	10	5	8
5.	Management, organization, and key personnel	10	7	8
6.	Risk assessment	10	6	6
7.	Environment, occupational health and safety	10	6	7
8.	Meeting the local content objectives of the borrower	10	5	8
Total		100	74	80

Note: Criteria 8 “Meeting the local content objectives of the borrower” is described in the bidding documents as follows: “The Bidder shall describe how its conduct when implementing the contract will contribute to meeting the local content objectives of the borrower. The objectives include development of local skills. The Bidder will describe how it intends to use national skilled, semi-skilled and unskilled persons or transfer skills through on-the-job training.”

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.

In the example shown in Table A4.2, Bidder A and Bidder B have both passed mandatory financial and technical capacity requirements. Bidder A has submitted the lowest price and therefore achieves the maximum allowable points under the price criteria. Bidder B’s price score is reduced in proportion to how much higher their price is than that of Bidder A. (i.e., as prices goes higher, fewer points are awarded).

Nonprice criteria points are awarded by the bid assessment committee based on the application of established scoring narratives for each criterion. Typically, this is done individually in the first instance, then discussed and revised if necessary to reach a consensus.

The price and nonprice criteria are then aggregated. The bidder with the most points represents the best VfM as defined in the bid evaluation criteria.

In the example, Bidder B has submitted a higher price. However, their bid is considered superior in terms of the nonprice criteria, which has a greater weighting and includes meeting the local content objectives of the borrower. Bidder B has a higher overall score and would therefore be awarded the contract in this instance. This approach is similar to the quality-cost-based selection methodology that has long been used for consultants.



Appendix 5: Checklist for Incorporation of Local Content into Infrastructure Projects

STAGE	ITEM	Y/N
Planning	Review and be guided by organizational local content policy.	
	Develop a local industry participation plan and integrate requirements into project procurement plans.	
	Consider procurement methodologies that can facilitate local content such as design and build, early contractor involvement, managing contractor.	
	Decouple any risk of local content from other project delivery requirements through explicitly specifying local content requirements and making provision for in pricing schedules.	
	Include a 1-2 year costed maintenance period beyond the defect liability period, being the responsibility of a competent local contractor.	
	Embed local content indicators into project monitoring and evaluation requirements and post-project reviews.	
Implementation	Use procurement mechanisms that facilitate local content including:	
	- Explicit local content nonprice and capacity criteria in bid evaluation and mandatory minimum response requirement.	
	- Incentivizing joint venturing and subcontracting both international-local and local- local.	
	- Domestic preference.	
	- Limited and/or national competitive bidding based on procurement thresholds commensurate with local capacity.	
	- Tendering-securing declarations in lieu of bid securities.	
	- Advance payments and flexible security options.	
	- Contract splitting both by size and/or constituent components (e.g., labor and materials).	
	- Framework contracts.	
	- Set asides.	
	- Parent guarantees (subject to due diligence).	
	- Use of simple tender documents and contracts.	
	- Fair payment and cashflow arrangements.	
	- Security of payments clauses in contracts.	
	- E-procurement for notifications and awards.	
- Sufficient time for bid submissions and reduced time for evaluations.		
- Industry briefing and debriefing.		

Source: Technical Assistance Team for the Analysis of Procurement Practice and Local Content.



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