

Ahafo Linkages Program: measuring the impact of Supplier Development

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1. Background information

Integration of local suppliers into the supply chain of a Corporate is increasingly recognized as mainstream business practice, especially in extractive industries, where social license and country regulation place it as a key element for sustainable operations and local development. Nevertheless, the impact level of this type of initiatives goes beyond the direct well-known benefits: generation of revenues and employment amongst local entrepreneurs.

In the case of Ahafo mine¹, Newmont's commitment for optimization of local content is with the communities located in the mining lease area that covers part of two districts in the central part of Ghana, with approximately 208,000 habitants, a history of subsistence farming, and literacy levels close to 55% amongst adults. In early 2007, Newmont in cooperation with IFC, set-up a comprehensive intervention in order to maximize local content for its operations at Ahafo mine, combining access to business opportunities with training and mentoring for local entrepreneurs: the Ahafo Linkages Program (ALP).

The ALP is an advisory project that complements the investment in Ahafo mine, and it is sponsored by Newmont Ghana Gold Ltd (NGGL) and IFC. The overall goal of ALP is to create income and employment opportunities for local communities around the Ahafo Gold Project, particularly micro, small and medium enterprises (MSMEs) and to help them become sustainable businesses. ALP has three major components: i) local supplier development (LSD); ii) local economic development (LED), and iii) Institutional capacity building (ICB).

Complementing and integrated into these components are access to finance, gender, and HIV/AIDS.

Despite the early stage of the implementation of this intervention, officially launched in June 2007, Newmont in partnership with IFC and the World Business Council for Sustainable Development (WBCSD) conducted a pilot study in the second part of 2008 to detect non-direct and induced effects of the development work with local entrepreneurs. Given the maturity level of the intervention for the three major components, the pilot study focused on the Local Supplier Development component. Although the other two components are not subject to the present document, it is important to stress their strategic role in an integral approach to local supplier development: fostering economic activities not directly linked to mining (LED) and strengthening local institutions to lead the entrepreneurial development at local level (ICB).

The main findings of WBCSD pilot study are incorporated in the present paper. They show how supplier development interventions increase social assets for poor communities: improve formality of business practices, improve the entrepreneurs' access to finance, foster the market diversification and generate space for extended local supply chains derived from the suppliers to the Corporate.

¹ Operated by Newmont Ghana Gold Ltd. since July 2006.

2. Initial indicators for the Ahafo case

IFC, in an effort to unify the key performance indicators for Linkages Programs, has pre-defined a set of indicators that provide information at output, outcome and impact level for these interventions. Out of these indicators, the Ahafo Linkages Program tracked the following which are part of the IFC indicators.

Table 1: Main indicators IFC

Level	Indicator ²
Output	<ul style="list-style-type: none">-Number of entities receiving in-depth advisory services-Number of participants in workshop, training events, seminars, conferences, etc.-Number of female participants in workshops, training events, seminars, Conferences, etc-Number of reports(assessments, surveys, manuals) completed-Number of reports (assessments, surveys, manuals) completed
Outcome	<ul style="list-style-type: none">-Number of entities that implemented recommended changes-Number of participants providing feedback on satisfaction-Number of participants reporting satisfied or very satisfied with workshops, training, seminars, conferences, etc.- Total number of SME contracts signed- Total value of SME contracts signed
Impact	<ul style="list-style-type: none">-Number of formal jobs-Total incremental sales revenues (for SMEs)

At first glance, the list of these indicators may seem extensive and from the monitoring point of view, it covers the Logical Framework and provides useful information for managerial and reporting purposes. Nevertheless, these indicators do not provide much detail on the induced and indirect effects of a capacity building process for entrepreneurial development.

3. The WBCSD pilot in Ahafo

In order to assess the non-direct and induced effects of the Ahafo Linkages Program, Newmont in partnership with IFC and the World Business Council for Sustainable Development (WBCSD) conducted a pilot study from May 2008 to October 2008.

The aim of this assignment was to analyze early results and assess ALP's initial economic contribution to the local community. Specifically, the study aimed at the following:

- Identify the direct, indirect, and induced economic benefits; and employment creation as a result of the ALP;

² Key performance indicators, TAAS supervision report IFC.

- ii. Identify the attendant benefits from the transition of informal businesses to more established businesses;

The scope of this assignment covered the beneficiaries under the Local Supplier Development Component and Institutional Capacity Building. The review and analysis cover all of Local Supplier Development Component and Ahafo Local Business Association (ALBA) results data from roll-out on the field (October 2007) till August 2008. The review was done after the design and data collection survey has been conducted to supplement the existing results data gathered prior to the study. Finally, a combination of qualitative and quantitative data techniques were used to perform an economic impact analysis for the ALP which covers the direct, indirect, and induced economic benefits.

A total of 21 businesses participating in the Local Supplier Development program were interviewed during the field survey. This represents about 87.5 percent of the total active beneficiaries of the program. Initially, the study aimed at interviewing all the 24 active members of the Local Supplier Development program but 21 of them were finally interviewed due to the difficulty in locating the remaining 3. In spite of the inability to interview all the 24 members, it is clear that the 21 businesses did provide the responses needed to draw valid conclusions in the study.

4. Main findings of the WBCSD pilot in Ahafo³

At descriptive level, the main findings related to the technical assistance provided by the ALP are as follows:

a. Participation in Technical Assistance

All the companies visited had taken advantage of the business management and business development training programmes organized by Technoserve⁴. This training programme consisted of about 8 modules and about 90 percent of the 21 companies sampled attended all the modules. The technical training started around March, 2008 and all participating companies begun attending the training around that same time with the exception of only 2 companies namely DEDSAH and Daddy Stone Driving School.

b. Type of Technical Assistance Received

Even though all sampled businesses attended almost all the modules, when asked about the type of technical assistance received, the response reflected the module they thought was really beneficial. For instance, about 13.5 percent of them mentioned records keeping with the same percent mentioning tender management and tendering. Details of the type of technical assistance training received by the businesses are presented in Table 2

Table 2: Type of Technical Assistance Received

Type of Technical Assistance	Frequency	Percent
Record Keeping	5	13.5
Profit and Loss Statement	2	5.4
Budgeting	4	10.8
Tax Education	1	2.7
Responsibility Interpretation	2	5.4

³ For the list of direct, indirect and induced effects, go to Appendix 02

⁴ Technoserve Inc. is the firm contracted by IFC and Newmont to provide the business development services for Local Supplier Development and Local Economic Development.

Tendering Procedures	5	13.5
Financial Management	7	18.9
Proposal Writing	2	5.4
General Technical Training	9	24.3
Total	37	100.0

Source: Field Survey, August, 2008.

c. Relevance of Technical Assistance to Business Operations

There is a widely held notion that private business men and women do not have the luxury of time to spend in meetings and would rather wish to be cashing-in on opportunities. However, it was found that all businesses attended the Local Supplier Development Technical Assistance program. The perceived relevance of the training programme was thus seen in the massive attendance by almost all the LSD membership. The huge attendance was due to the fact that respondents saw the training as very critical and timely in the daily operations of their businesses and as such provided an opportunity for growth.

The major findings deduced from the analysis of the field data include the following:

i. Direct Effects

- There has been an increase in average revenue by over 409%.
- Average operating cost has decreased by about 11.5%.
- Average monthly income has increased by over 224% from the figure recorded during the period before the TA program.
- About 40% more businesses than the figure recorded during the period before the TA program are now honoring their tax obligation.
- The number of businesses undertaking investment activities is about 81% with an average investment value of GHC 9,394.

ii. Indirect Effects

- About 55% of the businesses which did not have office space have now acquired office space as well as equipped them;
- All businesses interviewed are of the opinion that they now stand a good chance of securing credit from the financial institutions due to the changes in their operations;
- About 55% business owners who were not running their businesses effectively have now changed their attitude to work by paying considerable attention to their businesses;
- About 81% of businesses have now secured contracts, an increase of 76% of the situation before the TA program.

iii. Induced Effects

- About 81% of businesses have managed to win contracts. This represents an increase of about 76% of businesses that have won contracts after the TA program;
- All businesses interviewed now place the customer at the centre of its operations. This represents an increase of about 90% of businesses which now see customer care as crucial to level of success;
- All the businesses surveyed are now engaged in proper financial planning, an increase of about 95% of businesses now engaged in proper financial planning.
- Some businesses within ALBA openly show their dislike for others due to their inability to secure contract;
- Some ALBA members have refused to pay dues and contribute to the activities of the association.
- About 78% of the businesses which did not keep proper records are now doing so.

iv. Benefits associated with transition from informal to formal businesses

- All the businesses which took part in the Technical Assistance have experienced some form of benefits. It was also found that about 46% of these businesses could not indicate the actual benefit even though they were of the belief that there had been some improvement in their business operations;
- Reorganization of business activities such as record keeping and financial management are the two most dominant benefits recorded during the field surveys. They together contribute about 29.7 percent of all the benefit types recorded;
- A total of 210 jobs have been created by companies operating under the LSD component. Out of this figure, only 10.95 percent went to females;
- About 81 percent of the businesses interviewed had won contracts of varied amount with a greater proportion coming from Newmont Ghana Gold Limited; and
- About 21.6 percent of businesses have expanded their office accommodation. This provides a good image for the businesses and has increased the confidence level of clients of these businesses.

5. Final remarks

- A supplier's development program can effectively increase the social assets of poor communities, if it combines the commercial opportunities with capacity building processes that enhance the ability of the local companies to formalize their practices, compete in the open market, capitalize and grow.
- The transition from informal business practices to formal business practices that an entrepreneurship development program entails, generate indirect effects on the ability of these businesses to be competitive: improve their access to finance, increase their number of clients in the market.
- Vision of micro entrepreneurs is enhanced with a capacity building program: the center of the attention is geared towards the client. Planning starts to play an important role in the managerial practices of the companies.