ONLINE LEARNING ALLIANCE ON OIL AND GAS - LOCAL CONTENT

Boosting the benefits from the oil and gas sector through local content

An analysis and discussion of the dimensions and implications of local content policy and its adoption as a development strategy in oil and gas rich countries.

The ELLA Learning Alliances bring together peers from across the global South from government, civil society, the private sector, the academic community and the wider development community to learn from each other, drawing on rigorous, evidence-based research.

Participants of the Online Learning Alliance on Oil and Gas Local Content came from 34 different countries across 5 continents. They discussed and reflected on different strategies and approaches to local content and analysed the policy and outcome experiences of oil and gas producing countries in Latin America and Africa. The focus was on identifying the challenges and opportunities when designing and adopting local content as a strategy to enhance the contribution of the extractive sector to the national economy. Insights from international experts as well as comparative analysis between the two regions, facilitated by the moderators, supported this inter-regional lesson learning.

The Online Learning Alliance on oil and gas local content was designed and moderated jointly by Grupo FARO in Ecuador and ACODE in Uganda. Grupo FARO is an Ecuadorian think tank that seeks to support and strengthen the state, civil society and the private sector through participative research, collective action and informed dialogue. Grupo FARO is an active member of the Latin American Network for Extractive Industries, participating in regional comparative research and advocacy. ACODE is an independent public policy think tank located in Uganda. Its core business is to undertake advocacy-driven public policy research and analysis on contemporary and emerging public policy and governance issues significance for national development. ACODE has been engaged

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1 The lead moderator for Grupo Faro was Juan Jose Herrera, with the support of Marcela Morales. The lead moderator for ACODE was Elijah Mushemeza, with the support of John Okiira.

Along with the moderators, a group of experts provided the technical content and their views. Experts included Anthony Paul (Association of Caribbean Energy Specialists - Trinidad and Tobago), Tonje Gormley (Arntzen de Besche - Norway), Perrine Toledano and Nicolas Maennling (Columbia Center on Sustainable Investment - United States), Susan Maples (Independent Legal Consultant - United States), Carlos Monge (Natural Resource Governance Institute - Peru), Nils Handler (World Bank Group) and Jesse Ovadia (Newcastle University - United Kingdom).
in research into oil and gas governance since commercially viable petroleum was first discovered in Uganda.

The Online Learning Alliance discussions were based on and drew from existing literature and new research conducted by the two research centres for the ELLA Programme, namely:

- **Local Content Frameworks in Latin American Oil and Gas sector: Lessons from Ecuador and Colombia**, authored by Grupo FARO
- **Local Content Frameworks in the African Oil and Gas Sector: Lessons from Angola and Chad**, authored by ACODE
- **What Matters When it Comes to Adopting Local Content? A Comparative Analysis of Success Factors in Africa and Latin America**, authored by Grupo FARO with inputs from ACODE

## Content

Local content policy has gained relevance as a strategy implemented by resource rich countries to obtain further benefits from the extractive sector. These benefits can vary from employment creation and skills generation to the development of national industries. Resource rich countries are increasingly considering different approaches to including local content within their national policies and development strategies.

Experiences from countries such as Angola, Brazil, Mexico, Nigeria, Norway and others show that countries can develop local content policies through different approaches and achieve a variety of outcomes. These experiences can be analysed and used to inform the design of local content policy. This Online Learning Alliance brought together participants with knowledge of the oil and gas sector, including legal frameworks and economic diversification related to extractive industries, to share their experiences so that participants could gain insights from countries that have already adopted local content as part of their national strategies.

The Online Learning Alliance ran from May until September 2016 and covered the following six topics:

- Local Content Basics
- Local Content Frameworks and Outcomes
- What Matters When it Comes to Local Content? Factors that Account for Success
- Additional Factors that Shape Local Content Outcomes
- Does Local Content Matter?
Key conclusions

- In contemporary non-renewable resource endowed economies, local content has become a priority strategy for development. This is why governments are enacting more relevant legislation and policies, while at the same time International Oil Companies (IOCs) are making commitments to review their practices and to involve citizens in harnessing oil and gas resources.

- World over, policy makers and implementers are adopting various local content strategies, the most common ones being national industry participation, skills development and employment generation.

- Two key factors that can contribute to the success of local content strategies are i) a specific framework relating to local content, and ii) a strong National Oil Company (NOC) with clear guidelines and strategy.

- Recent studies show that countries which prioritise national industry participation as a local content strategy have achieved better outcomes in terms of national skill development and job creation.

- Based on the successes achieved through the enterprise centres in Nigeria, Angola and Chad, African countries such as Uganda, Kenya, Tanzania and South Sudan, which are still developing local content strategies, should consider the development of training programmes through such centres in order to build skills in the local workforce and promote the long-term reputation of local companies.
Topic 1: Local Content Basics

Focus of the Topic

This topic introduced the theme of local content. Participants reviewed ideas related to local content including its definition, metrics, backward and forward linkages, means of implementation and institutional arrangements.

The topic focused on identifying the main aspects of local content as a development strategy, its importance and associated challenges. Different local content strategies include national industry participation, the promotion of local employment, skills development, and generating strong linkages with other sectors of the economy.

The discussion was mainly supported by the following reference materials:

- Grupo FARO, 2016. *Local Content Definitions*, a video featuring the Online Learning Alliance moderators, this material provides an excellent presentation from experts of what local content development strategy means in the context of exploitation of oil and gas as important natural resources.
- Grupo FARO and ACODE, 2016. *Local Content Basics Note*, which provides an overview of different definitions of local content in use today. It also introduces local content frameworks and their implementation in African and Latin American countries.
- Natural Resource Governance Institute (NRGI), 2015. *Local Content: Strengthening the Local Economy and Workforce*. This document describes what is local content, the strategies and methods for its implementation and some difficulties that may arise.
- United Nations Conference on Trade and Development (UNCTAD), 2006. *Developing Business Linkages*. This note identifies the key drivers and success factors of linkage promotion programmes that could enhance the competitiveness of SMEs in developing countries. It discusses best practices and policies that help to create an enabling business environment for building linkages that enhance the impact of foreign direct investment (FDI).
- Estevez, A. M. et al., NRGI, 2013. *Local Content Initiatives-Enhancing the Subnational Benefits*. This paper offers guidance on designing and implementing local content initiatives in the oil, gas and mining sectors to ensure economic sustainability within producing regions. It aims to answer the question of how national and sub-national governments, industry and civil society can maximise local benefits through partnerships.
- Tordo, S. et al., World Bank, 2013. *Local Content Policies in the Oil and Gas Sectors*. This paper begins by discussing the meaning of local content, and then describes the fundamental notions of economic linkages - understood as the processes which join the oil and gas sector to other economic sectors and...
through which policies may be able to increase the benefits to the wider economy beyond the oil and gas sector.

To guide the discussion and exchange, the following questions were posted:

1. What are the main strategies used to implement local content policies in your country/region?
2. From your experience, are there any particular strategies that work better than others when promoting local content?

Discussion

Understanding the Concept of Local Content

Local content has been understood as "the extent to which the output of the extractive industry sector generates further benefits to the economy beyond the direct contribution of its value-added, through links to other sectors." According to the African and Latin American experiences shared by participants, oil and gas producing countries are taking action to ensure that the extractive industry provides opportunities for local participation and creates the most value-added for the population. These measures are often referred to as "local content policies."

Is Local Content Desirable?

The majority of participants regarded local content as desirable. In contemporary non-renewable resource endowed economies, increasing local content has become a priority strategy for development. As pointed out by Charles Onak (South Sudan), Valerie Commelin (Chad), Erick Luwongo (Tanzania) and Beatrice Naa Torshie Torto (Ghana), various African governments are enacting legislation and policies, while IOCs are making commitments to review their practices to involve citizens in harnessing oil and gas resources. Although both Africa and Latin America are at different levels of development, local content strategies seem to be beneficial to both continents. The current global economy poses serious challenges to countries that depend on commodity exports. The prices of commodities in recent times have continued to fall and it appears the trend will continue into the foreseeable future. In general, local content policies require national economies to become diversified (although Javier Arellano-Yanguas from Spain has reservations about this) through the establishment of backward and forward linkages between the oil and gas industry and other sectors of the economy.

Local Content Strategies

State actors in their efforts to contribute to social and economic development have adopted various local content strategies. Participants, particularly Amir Lebdioiui (Algeria), Musambya Mutambala (Tanzania), Sabastiano Rwengabo (Uganda), Valerie Commelin

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2 Tordo, S. et al. 2013
(Chad), Carles Onak (South Sudan), David Allan (Myanmar/Burma), Juan José Herrera (Learning Alliance moderator, Ecuador) and Marcela Morales (Learning Alliance researcher, Ecuador) all pointed out that policy makers and implementers have adopted various local content strategies, the most common ones being employment creation, skills development and national industry participation. This was evident in examples cited from Algeria, Bolivia, Brazil, Cameroon, Ghana, Tanzania and Uganda, amongst others.

Local employment and national industry participation are promoted when companies related to the oil and gas sector are required to hire national workforce and to purchase goods and services from national companies for the development of its operations. On the other hand, skills development is incentivised due to the fact that local content generally requires companies and governments to build national industry capacity to provide goods, services and a skilled workforce. It was also pointed out by Julius Byaruhanga (Belgium), Antonia Dalila Munoz (Ecuador) and Nana Opuku-Ware (Ghana) that implementation of local content policies requires strong and functional institutions such National Oil Companies (examples exist in Angola, Brazil, Colombia, Ecuador, Ghana, Mexico and Nigeria), monitoring boards and training centres, to raise the capacity of small and medium enterprises and local companies through public private partnerships, as in Angola, Chad and Nigeria.. Public private partnerships have yielded good results in Brazil in terms of skills development, as Marcela Morales (researcher from Grupo FARO) observed. Unfortunately, as some participants pointed out, many countries lack capacity and clear indicators to measure local content outcomes. This highlights the need to strengthen monitoring boards and design guidelines for measuring local content.

**Challenges Associated with Local Content**

Local content policies and their implementation are not without challenges. Countries which prioritise employment creation without developing skills, for example, risk enhancing employment dependency on extractive industries. Similarly, focusing on national industry participation (like the Brazilian experience) requires a long-term vision and demands higher institutional capacity to generate favorable conditions for strengthening local participation. In Africa, as Beatrice Naa Torshie Torto (Ghana) observed, local participation is hampered by insufficient financing and limited capacities of local companies to compete against experienced IOCs, among other factors. Similarly, Sebastian Rwengabo and John Okiira (both researchers from Uganda) noted the existence of a weak local entrepreneur class and corruption as key challenges to local content implementation. Yet capacity building is a process that may take several years or decades, as Antonia Dalila Munoz (Ecuador) noted, which cannot be conceptualised in the short-run and requires patience. In some countries, like in some Latin American countries where production has been going on for a long time, one major challenge is the lack of economic linkages between the big operations and economies in the sub-regions and localities hosting them, as Javier Arellano ñ Yanguas (Spain) observed.
**Governance**

On the whole, experiences in both continents revealed that increasing local participation in the oil and gas industry is more likely to happen if the local content strategy is part of a broader approach to development and is carried out under sound governance. As Sabastiano Rwengabo and Ephraim Lemmy Nuwagaba (both from Uganda) and Antonia Dalila Munoz (Ecuador), Patricia Cabaleiro (Bolivia) and Erik Luwongo (Tanzania) all argue, governance of the oil and gas sector must, among other things, address issues of transparency, accountability and corruption, and provide an enabling business environment, in particular in relation to the fiscal regime.

**Conclusions**

- Local content is now an important subject for all stakeholders, both in Africa and Latin America, who are involved in extractive activities and see merit in sharing their experiences, discussing the successes and failures and identifying strategies that lead to better outcomes.
- Countries prioritise different strategies for achieving local content and this choice should be guided by national targets for socio-economic progress.
- Increasing local participation in the oil and gas industry is more likely to be successful if the local content strategy is part of a broader approach to development and is carried out under sound governance.
Focus of the Topic

For many countries, the adoption of local content starts with the development of frameworks that include national policies, legislation and contracts. This module involved a comparative analysis of local content frameworks from Africa and Latin America. During two weeks, the participants discussed aspects related to the adoption and implementation of local content and learned about the types of local content frameworks that are more likely to achieve better outcomes.

Specifically, the focus was on the role of frameworks (i.e. the policies, legislation and contract clauses that are put in place) when designing and adopting a local content strategy. The adoption of local content in national legal frameworks has gained popularity worldwide and the topic has become part of the policy debate regarding extractive sectors in many countries in Africa and Latin America. Since the starting point for many countries is the creation of legal provisions, it was important to analyse what type of local content frameworks facilitate the achievement of positive local content outcomes.

Local content in Latin American oil and gas producing countries has been adopted differently compared to other regions of the world. With the exception of Brazil and Mexico, local content frameworks have not been widely institutionalised in oil and gas producing countries in the region. On the other hand, African countries have eagerly included local content into their legislation and their experiences have been widely documented and analysed. This includes Angola, Ghana and Nigeria, as well as other countries that are in the process of designing policies to maximise the benefits of their extractive sectors, like Uganda.

The discussion was mainly supported by the following reference materials:

- Grupo FARO and ACODE, 2016. Extract: Local Content Frameworks in Latin America and Africa. This an extract from the ELLA Regional Evidence Paper on Local Content Frameworks in Latin American and African Oil and Gas Sectors, authored by Grupo FARO and ACODE. It highlights the types of frameworks adopted in selected countries and their outcomes.
- Grupo FARO and ACODE, 2016. Regional Catalogue - Local Content Frameworks in Africa and Latin America. This document provides a review of the policies, legislation and publicly available contracts in selected countries of Africa and Latin America.
- Grupo FARO, 2016. Local Content Frameworks in Africa and Latin America. In this video, Carlos Monge and PerrineToledano define local content and analyse experiences from Latin America.

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3Perrine Toledano, Head of Extractives of the Columbia Center on Sustainable Investment, joined the debate for this topic.
Learning Alliance Highlights

Oil and Gas Local Content

- Columbia Center on Sustainable Investment, (extracted May 2016). Local Content Laws and Contractual Provisions. This document provides a profile of local content frameworks in a number of countries, identifying the key legislation, regulations, contracts and non-binding policies and frameworks dealing with local content issues in the mining and petroleum sectors.

To guide the discussion and exchange, the following questions were posted:

1. What type of framework is used in your country/region to promote local content?
2. How does the local content framework in your country compare to those in other countries (in Africa and/or in Latin America), and why do you think this is?
3. Comparing your country to other countries (in Africa and/or Latin America), do you think a more developed or specific local content framework would have led to better local content outcomes?

Discussion

Relevance of Local Content Frameworks

Most participants recognised the importance of frameworks (such as policies, legislation, contracts) when implementing local content. In practice, this means establishing a legal instrument or provision to regulate the implementation of local content. The experience of some Latin American countries was presented. Brazil, Mexico and Trinidad and Tobago are some of the countries from the region that have designed specific local content frameworks. These countries have also registered interesting outcomes in some aspects, especially through the generation of linkages and local procurement of goods and services. On the other hand, in countries such as Ecuador and Bolivia local content policies prioritise the creation of national and local employment and have produced minimal outcomes in terms of national industry participation along the oil and gas value chain. Participants also mentioned that despite the positive outcomes achieved in countries such as Brazil, Mexico and Trinidad and Tobago, there are still challenges such as corruption, weak human capacities and the lack of an industrial base to support the implementation of good policies, when comparable to the industrialised countries of the Western world.

Regarding Africa, participants from Uganda shed light on the policy making process that the country has been undertaking over the last year. Many participants pointed out that this process has taken too much time and that the debate in the country is divided. Civil society was highlighted as an important actor during this process in Uganda and in other African countries where it has become an actor for monitoring and demanding accountability during local content policy formulation and implementation. In this respect, participants from Latin America highlighted the weak presence of civil society during local content implementation over the last two decades.

Angola, Ghana and Nigeria are just three African countries that have established specific frameworks that include laws and regulations promoting local content. Despite the positive
results that these countries have registered, grey areas still exist, such as contradictions in internal governance processes, a lack of transparency and corruption. Algeria, Chad and Tanzania also promote local content through different mechanisms such as Production Sharing Agreements, local content provisions in oil and gas laws and setting up incentives to comply with the law. However, these countries are still facing challenges such as the need for a clear definition of local content, specific targets and mechanisms to measure and monitor progress.

To summarise, most of participants agreed on the importance and urgency of developing local content frameworks. However, participants also highlighted that there are many other complementary factors that matter for achieving local content outcomes. These factors depend on each country’s context.

**Importance of Other Factors**

Participants identified additional factors and challenges for the achievement of positive local content outcomes. These factors depend on each country’s reality and therefore there is no blueprint local content framework that countries can adopt. Several factors were mentioned throughout the debate based on each country/region perspective. Factors such as the political economy, the challenge of aligning policies and contracts with laws, the role of different actors, the level of corruption and bureaucracy, the industrial base, trade agreements, contradictions in internal governance, amongst others, definitely shape the local content policy design process.

African and Latin American countries have designed policies to overcome these challenges and these could hold lessons for other oil and gas countries. Among the main policies and mechanisms, participants pointed out the support provided by governments to oil and gas companies (for example, through setting up training facilities, supplier development programmes, access to finance, information and infrastructure), the establishment of strong monitoring mechanisms (Chile and Brazil were highlighted as good examples) and monitoring boards, the encouragement of effective joint ventures between foreign and domestic suppliers to foster knowledge transfer, and requesting companies to include a requirement on disclosure of beneficial ownership for suppliers. South Africa and Canada were presented as good examples since both countries prioritised educating and training the workforce, infrastructure and technological development and generating linkages.

An additional recommendation for countries suffering from a low skill base is to focus their efforts on training and knowledge transfer rather than local procurement of goods in the first instance. For low-income countries which include the establishment of national oil companies as part of their local content strategy, there is a need to run cost-benefit and budget analyses, as well as long-term planning.
Topic 3: What Matters When it Comes to Local Content? Factors that Account for Success

Focus of the Topic

Many factors can affect the likelihood of success of local content frameworks, ranging from the size and quality of the natural resource and the economic and business environment, to the existing industrial and skills base of the country, through to governance standards. However, in the comparative research conducted by Grupo FARO and ACODE during the ELLA programme, as well as other research, two policy instruments stand out as crucial in many environments: First, having a well-defined and detailed local content framework that promotes national industry participation, skills development and local employment. And, second, the presence of a strong National Oil Company (NOC), to lead the implementation of programme under this framework.

The ELLA research established that local content strategies have the potential to be more successful if they are backed by sector specific legal frameworks guaranteeing their measurement, implementation and monitoring. In addition to employment generation and capacity building, when designing and adopting local content policy it is advisable to focus on long-term goals that prioritise productive diversification and strengthening national industry.

The discussion was mainly supported by the following reference materials:

- Grupo FARO, 2016. *Boosting the Benefits from Extractive Industries through Local Content Policies* (policy brief). This document describes how specific legal frameworks lead to better results and how governments can promote the adoption of local content strategies.
- Bain & Company, 2011. *Industry Brief: How National Oil Companies can Fuel Economic Development*. This brief explains the role of NOCs in supporting the achievement of positive local content outcomes through initiatives such as partnerships with private partners that can enhance transfer of technology and know-how.
- Grupo FARO, 2016. *Experts’ View on Factors that Account for the Success of Local Content Frameworks*. In this video, Carlos Monge (NRGI), Nils Handler (World Bank), Tony Paul (ACES) and Jesse Ovadia (Newcastle University) share their views regarding factors that shape local content outcomes and the challenges that Latin American and African countries face during this process.
- Tordo, S. et al., 2011. *National Oil Companies and Value Creation*. World Bank Working Paper 218. This working paper is part of a study aimed at exploring the determinants of value creation by national oil companies.
- Aoun, M.C. and Mathieu, C., 2015. *Local Content Strategies in the Oil and Gas Sector*. This paper discusses the social impacts associated with oil and gas
extraction activities and the stance of different stakeholders in towards these issues. It especially focuses on the creation of productive links between extractive industries and the rest of the domestic economy, and how local content can contribute to reversing the resource curse.

- ACODE, 2015. [Local Content Infographic](#) summarises the findings and policy recommendations of [Local Content Frameworks in the African Oil and Gas Sector: Lessons from Angola and Chad](#), authored by ACODE.

To guide the discussion and exchange, the following questions were posted:

1. Comparing your own country with others from Latin America and Africa, do you see scope to move from a local content strategy centred less on employment and more on national industry participation? Would this be desirable, and if so, how might this be achieved in your country?
2. Compared to other countries in the two regions, how effective is the National Oil Company in your country? And what might it do to play a more effective role in promoting local content, in a sustainable way?

**Discussion**

Topic three intended to generate debate on the most important factors that matter for the success of local content. This necessitated a comparison of the influence of factors and strategies in African and Latin American oil producing countries. From the literature and submissions of participants, the nature of the local content framework, the strategies adopted, and a well-established institutional framework stand out as key variables for success both in Africa and Latin America.

**Local Content Strategy**

Participants discussed whether a local content strategy that centred less on employment and more on national industry participation (NIP) was desirable and achievable in those countries where the practice is otherwise. Julian Barungi and John Okiira (both from Uganda) and Juan Jose Herrera (Learning Alliance moderator, from Ecuador) argued that a local content strategy centred on NIP is likely to result in more economic growth and produce a high standard of living because of the powerful multiplier effect it generates. In the process skills and knowledge are transferred to the oil and gas industry. Other participants, particularly Francis Tumwesige (Uganda) and Sam Mucunguzi (Uganda), argued that NIP must involve citizens at every stage of policy/strategy formulation, while at the same time addressing questions about definition and measurement of local content from the onset.

Javier Arellano-Yanguas (Spain) introduced an interesting argument regarding the prioritisation of strategies. In his submission he noted that in countries with reduced industrial capacities, strict requirements on the participation of local firms may lead to inefficiencies and/or the manufacturing of “national intermediaries” that are mere
instruments of international firms. In that sense it is possible that, in some countries, well-designed policies for promoting local employment that incorporate good training programs may enable the creation of more efficient local companies in the future.

A question was raised about whether there are cases of sequencing the approach towards the development of local content policy. Could experiences from Angola and Nigeria, where employment creation has been prioritised, be of any significance in illustrating the sequencing of approaches prioritising employment? On the other hand, examples from Ecuador provided by the moderator seem to show that IOCs have promoted employment as part of their corporate social responsibility (CSR) strategies rather than any government initiative. In other words, Javier’s question on successful examples of prioritising employment and related lessons remains largely unanswered.

Miriam Kyomugisha (Uganda) stated that African and Latin American countries can learn from the experience of Malaysia where “the state empowers local firms to build capacity and develop skills to take up any contract at hand or fill any industrial gap arising, which has in the long run built capacity of local industrial participation, not only in the oil and gas sector but also in industrialising the whole economy gradually.”

Implementation of Local Content

The discussion also focused on how local content implementation should improve the quality of lives of the people. As Siragi Magara Luyima (Uganda) noted, “working to improve the quality of the population in terms of knowledge, skills, attitudes and perceptions in general terms can be more rewarding than just focusing on local content (per se). In short, it should have a holistic approach to touch lives in an all-round fashion.” Elijah Mushemeza (Learning Alliance moderator from Uganda) added that, “The best investment a country can make is empowering its people.” The dilemma of elite capture also featured in the implementation of local content. Jesse Salah Ovadia (UK) and the moderator Juan Herrera (moderator, Ecuador) pointed out that the problem relates to the “dual nature” of local content. Jesse Salah Ovadia (UK) in particular argued that, “local content can and will benefit local elites and have positive developmental effects; and it will be a struggle in Angola and Nigeria as well as in newer oil producing countries to have the positive effects outweigh the negative ones.” Similarly, there are experiences in Latin America where international companies use several loopholes in legislation to establish national companies which are partially owned by nationals but only in marginal shares.

Participants noted that the policy of giving preference to local companies must not only be focused on ownership, rather on comprehensive strategies for the generation of linkages (Juan Jose Herrera, moderator, Ecuador and Amir Lebdioui, Algeria). A question was also raised about whether attention should be less focused on the right policies and more attention paid to the right politics when implementing local content. In response, Elijah Mushemeza (moderator, Uganda) and Winstons Wilson Muhwezi (Uganda) asserted that politics influences economic policies and economic actions shape political decisions. In other words, both the influence of politicians and the right policies are important. This nexus might explain issues of secrecy and lack of transparency that surround decisions.
regarding the implementation of local content particularly in Africa (Lemmy Nuwagaba, Godber Tumushabe and Winstons Wilson Muhwezi, all from Uganda).

**Role of National Oil Companies**

In both the literature and the discussions there is a general consensus that the National Oil Company (NOC) is critical in the implementation of local content strategies. Juan Jose Herrera and Alvaro Andrade (Ecuador), Amir Lebdioui (Algeria) and Valerie Commelin (Chad) shared interesting experiences from their countries. In Chad, for instance, the NOC, which shares responsibilities with the government Ministry, is increasingly taking on a greater role in the oil industry. According to Valerie, Société des Hydrocarbures du Tchad (SHT), the NOC in Chad, is heavily involved in negotiating favourable contracts, the Managing Director of SHT is part of all the negotiations, and the company is learning from past mistakes. Reservations were expressed, particularly by participants from countries where the NOC is not yet functional (Ephraim Lemmy Nuwagaba, Uganda) and questions were raised around whether there are specific targets that could be used to measure the success of local content strategies implemented by the NOCs (Godber Tumushabe, Uganda).

**Challenges**

The discussion drifted onto the challenges that countries face in implementing local content strategies when NOCs lack transparency and sometimes operate in secrecy around certain issues. Participants also asserted that the local content agenda is affected when local companies that should implement NIP lack financing to effectively engage in the oil and gas supply chain. It was also observed that these and more issues or challenges would be discussed in the following topics.

**Conclusions**

- The discussions confirmed that when it comes to implementation of local content agenda in Africa and Latin America, the specificity of the local content framework (how entrenched local provisions are in policies, legislation and contracts) matters.
- This is followed by the type of strategy a country prioritises. When designing and adopting local content policies it is advisable to focus on long-term goals that prioritise productive diversification and strengthening the domestic industry. National industry participation (involvement of local companies and SMEs in the supply of goods and services to the oil and gas industry) will force countries to train more citizens and ultimately generate more jobs.
- Institution building is critical for implementation of local content policies, including establishing a NOC and monitoring boards for measuring local content achievements.
- Countries in Africa that are still developing their local content frameworks and establishing institutions to implement them can draw on rich experiences available...
from Latin America in order to learn about which strategy to prioritise and how NOCs can be modeled to implement the local content agenda.

- Oil and gas resource rich countries should be conscious of the “elite capture syndrome”. It was noted that there is an elite capture dilemma when implementing local content; the problem being related to the “dual nature” of local content. Local content can benefit local elites and have positive developmental effects at the same time. In countries like Angola and Nigeria as well as in newer oil producing countries, where only the elite appears to benefit, this can prove to be a significant challenge. Similarly, there are experiences in Latin America where international companies use several loopholes in legislation and establish “national companies” which are partially owned by nationals but only in marginal shares.
Topic 4: Additional Factors that Shape Local Content Outcomes

Focus of the Topic

The previous module showed that strong National Oil Companies and well-defined local content frameworks are factors that shape local content outcomes in oil and gas producing countries in Africa and Latin America. However, due to the differing contexts in the two regions, the influence of additional factors on local content outcomes may vary between African and Latin America countries. Such factors include the level of economic diversity, technological development, the business environment, and the presence of International Financing Institutions (IFIs) and other coordinating institutions. This module compared how these factors influence local content outcomes in Africa and Latin America.

From the research undertaken for the ELLA programme, the moderators identified three additional factors that have influenced the design and implementation of local content policies in Africa and Latin America. These are: 1) the presence of International Financing Institutions (IFIs) and enterprise centres in oil and gas producing countries; 2) the business-enabling environment of the country, and; 3) internal aspects such as corruption and lack of transparency. IFIs and enterprise centres have played a fundamental role in the design and implementation of local content policies in African countries such as Chad and Nigeria. Some cases in Latin America, such as Colombia and Chile, provide examples of how the national business environment can have a positive influence on the promotion of local content. Finally, despite well-designed policies, Petrobras (NOC of Brazil) and the Nigerian National Petroleum Corporation (NOC of Nigeria) show how corruption and lack of transparency can negatively influence local content implementation.

This module aimed to facilitate comparative analyses of the influence of different factors during the design and implementation of local content in participants’ countries.

The discussion was mainly supported by the following reference materials:

- Grupo FARO and ACODE, 2016. Role of International Financing Institutions Extract Comparative Evidence Paper. This paper describes how, in the oil and gas sectors in Angola, Chad, Ghana and Nigeria, international organisations, particularly the United Nations and its agencies including the UNDP, UNICEF and FAO, the World Bank Group, and the International Monetary Fund, along with IOCs have supported processes to assess the gaps in private sector development, to explore and produce petroleum and gas products, as well as to design and implement of local content policies, legislation and contracts.
- Foster (Facility for Oil Sector in Nigeria), 2013. Measurement and Implementation of Local Content. Almost three years after the passing of the landmark Nigerian Oil and Gas Industry Content Development Act (the Nigerian Content Act or NOGICD Act) in 2010, significant progress has been made. This report reviews progress
made and next steps needed to further advance local content in light of important policy questions that need to be answered about the how the NOGICD Act operates in practice and how it is being implemented.

- Martini, M., 2015. Local Content Policies and Corruption in the Oil and Gas Industry. This article responds to two critical questions: What has been the experience of corruption in local content policies, particularly in oil and gas? Are there any practices or approaches showinghow anti-corruption has been integrated into local content programmes?

- Handler, N., 2015. On Factors that Influence Local Content. In this expert video, Nils Handler discusses the role of the World Bank in promoting local content and explains some of the additional factors that influence local content implementation, such as the national business environment.

To guide the discussion and exchange, the following questions were posted:

1. What has been the role of International Financing Institutions during local content policy design and implementation process in your country/region?
2. Have corruption and lack of transparency been a problem during the implementation of local content in your country/region?
3. Does the existence of enterprise centres contribute to better implementation of local content?

**Discussion**

The discussion focused on the additional factors that shape local content and aimed to provide a comparative analysis of the influence of three specific factors that influence local content policy design and implementation processes, namely the presence of IFIs and enterprise centres in oil and gas producing countries, the business-enabling environment and other internal aspects such as corruption and lack of transparency.

**Corruption and Lack of Transparency**

Most participants agreed that lack of transparency and corruption are still important problems in their countries in relation to the design and implementation of local content policy. It was also pointed out that civil society could be of help in checking these negative tendencies and promoting transparency. The role of civil society was therefore brought into the debate as a mechanism for overcoming these challenges; however some participants argued that civil society is weak in this respect in some environments. While Latin American participants stated that in countries such as Bolivia, Ecuador and Venezuela CSOs have a limited range of action; African participants argued that although CSOs are very active, they cannot influence specific arrangements between the private and public sectors. Uganda was highlighted as one country with particular issues related to corruption and lack of transparency which have stalled the finalisation of the country’s local content framework. The notion of perceived corruption and real corruption was mentioned as an issue in Uganda, where people have the notion of a corrupt government and accept that
there are deals that are already closed between the government and the companies with no transparency.

One of the alternatives to the problem of transparency and corruption was highlighted as the Extractive Industries Transparency Initiative (EITI) which in some participants’ countries has been put into practice while in other countries governments have demonstrated the intention to qualify for this initiative. During the debate around possible solutions to these challenges, the role of institutions was mentioned as fundamental and the desire of some participants is that agencies and entities have an independent role and funding. Finally, the case of Tanzania was mentioned where the government intends to disclose contracts as a measure for increasing transparency.

**International Financing Institutions (IFIs)**

Most participants agreed that IFIs have been fundamental during the decision making process around local content policies, mostly in Africa. Latin American participants established that the role of IFIs in their region has been weaker than in Africa and that there are some cases, such as Ecuador and Bolivia, where the role of IFIs during recent years has been minimal. On the other hand, IFIs in Africa have had a fundamental role especially through financing extractive industry programmes that include some conditions regarding local content. Nils Handler (USA) discussed the role of the World Bank in promoting local content in several countries, especially through the promotion of regional cooperation. He discussed mining in West Africa, where several countries became specialised in different sub-categories of procurement so that each could become competitive in a different sector and also supply and export to neighboring countries. The case of Chad was also mentioned, where the World Bank has played a prominent role in the design of the oil and gas policy (including local content) through financing the Chad – Cameroon pipeline.

**Enterprise Centres**

Participants agreed that enterprise centres provide a good mechanism through which to monitor and evaluate the compliance of local content policies and therefore have a direct influence on its outcomes. Moreover, participants mentioned that enterprise centres can play a fundamental role in supporting local enterprises to build capacities. However, participants highlighted that there are certain conditions required for the creation of enterprise centres which policy makers should take into account. Among these conditions participants mentioned the importance of ensuring the autonomy of these centres, their financing, the power of their decisions and their roles and coordination with public entities such as Ministries or agencies. Latin American participants showed interest in the role that enterprise centres have played in Africa and concluded that their region should include the creation of these centres within local content policies and plans.
Other Factors Identified

The other main factors that could shape local content outcomes were identified by participants as skills-building and technology transfer. These factors were highlighted in particular since the oil and gas sector is very highly specialised. The need for African countries to build their capacity was mentioned on several occasions, especially in relation to the newly producing countries. Nils Handler (USA) recommended that countries like those in East Africa should cooperate and each focus on developing specialising in a particular segment of skills, so that these can be transferred between countries. Other factors discussed during the debate are political challenges, governance issues and the industrial base of the countries.

Conclusions

- Lack of transparency and corruption are still critical challenges in oil and gas producing countries when designing and implementing local content policy. To overcome these challenges, establishing financially and operationally autonomous institutions is fundamental.
- Civil society could become a powerful mechanism to overcome the lack of transparency and corruption; however the role of civil society is still weak in some environments. While in some Latin American countries such as Bolivia, Ecuador and Venezuela CSOs have a limited range of action, in Africa although CSOs are very active, they cannot control specific arrangements between the private and public sector.
- One powerful alternative to the problem of transparency and corruption is the Extractive Industries Transparency Initiative (EITI).
- International Financing Institutions have been fundamental during decision making process around local content policies, mostly in Africa. In Latin America the role of IFIs has been weaker than in Africa and there are cases such as Ecuador and Bolivia where the role of IFIs during the recent years has been minimal. IFIs in Africa have played a fundamental role especially through financing extractive programmes with some conditions regarding local content.
- Enterprise centres have proven to be a good mechanism for monitoring and evaluating the compliance of local content policies and therefore have direct influence on its outcomes. These institutions can play a fundamental role in supporting local enterprises to build capacities. However, there are previous conditions for the creation of enterprise centres that policy makers should consider.
- Skill-building and technology transfer are other factors that could shape local content outcomes since the oil and gas sector is very highly specialised.
Topic 5: Does Local Content Matter?

Focus of the Topic

Local content can represent an alternative development strategy with the potential to provide important benefits to the national and local economy. However, its implementation presents major challenges for most of the resource-rich countries in Africa and Latin America. In broad terms, challenges depend on the context where local content policies are implemented and can range from the character of the state in terms of its democratic credentials, lack of technology and poor industrial capacity to corruption and lack of transparency. This last module aimed at generating a critical debate between the participants and experts about the relevance of local content as an alternative development strategy in emerging economies and the main challenges during implementation.

The discussion was mainly supported by the following reference materials:

- Valois, D. And Pedrete, B., 2015. The Challenge of Local Content in Brazil. This document highlights the challenges of local content vis-a-vis the gap between capacities available and capacities required.
- Kolstad, I. and Kinyondo, A., UNU-Wider, 2015. Alternatives to Local Content. This paper suggests that an optimal local content policy in the context of flawed institutions is a more minimal one than those typically pursued by developing countries with recently discovered petroleum reserves. It is argued that local content requirements need to be seen as a public expenditure question since such requirements increase the costs incurred by multinationals and hence reduce the taxes that can be extracted from these companies.
- Experts’ View on the Challenges of Designing and Applying Local Content video, three experts - Nicolas Maennling, Tonje Gormley and Jesse Ovadia - analyse challenges related to design of local content, definitions, compliance with international investment agreements and coordination during the implementation phase.

To guide the discussion and exchange, the following questions were posted:

1. What are the main challenges that your country faces during the implementation of its local content policy? From your experience, are these challenges similar to other countries?
2. What are the approaches that policy makers have taken in your country/region to overcome these challenges?
3. Given the current oil prices, from your experience, do you think that local content matters for your country? Are there other viable alternatives?
Discussion

Introduction

The discussion started with a positive recognition that local content matters. As Sebastiano Rwengabo (Uganda) ably argued, "the reasons why local content matters are rooted in the psychology of human recognition and status: as 'owners' of petroleum, citizens find pride in contributing to the exploitation of a resource within their geospatial domain of habitation. Leaders also find pride in having their citizens, whether or not they are close cronies, take part in the process of developing the industry." Indeed, as Jesse Salah Ovadia (UK) put it, local content is more relevant now than ever before for African development and should be for Latin America too.

Challenges

In the implementation of local content policies countries face a number of challenges. Charles Onak (Sudan) summarised the challenges common to all developing countries with oil and gas resources, arguing that "the lack of local content policy and transparency and high level of corruption, weak relevant institutions and huge coordination gaps between the government and other sectors all affect the implementation of local content policy. Similar observations were made by Ephraim Lemmy Nuwagaba (Uganda) who argued that countries faced "challenges relating to implementation such as governance, moral and technical competencies."

Also mentioned were issues of the "over exuberance of governments in not managing expectations well. The eagerness of government to get the revenues first at the detriment of other sectors of the economy as reflected in the local content policy" (Beatrice Naa Torshie, Ghana). In some countries like Chad, core challenges are "lack of trained personnel, not understanding local content, lack of competent companies to implement local content and lack of specific policies and laws on local content" (Valerie Commelin, Chad). Similarly Nana Opuku-Ware (Ghana) pointed out challenges including competition of local companies with multinational companies and the high cost of interest on loans and financing by local banks.

Approaches Policy Makers Take to Overcome Challenges

Countries that are still developing their local content frameworks, like Uganda, are taking actions to mitigate possible challenges. Sam Mucunguzi (Uganda) observed that the government has put in place a strong regulatory, institutional and administrative framework for national content to ensure that resource allocation decisions by government ministries, departments and agencies relevant to the petroleum industry are aligned towards the development of national content. The country has put in place mechanisms to encourage contributions from private sector stakeholders on their own initiative and in cooperation with government ministries, departments and agencies. Such initiatives provide a basis for the specific strategic plans for developing national content.
The draft local content policy for Uganda provides for mechanisms to encourage the transfer of technology and know-how from the industry to other sectors of the economy. The success of this will depend, however, on the capacity and commitment of the government to coordinate and manage the oil and gas industry, according to Julius Byaruhanga (Belgium). This is why Charles Mgashi Jole (Tanzania) emphasised the role of the National Oil Companies in implementing the local content agenda. And where local content focuses more on institutional and systems strengthening, Louis Acheampong (Ghana) argued that it makes the business environment more conducive for local participation.

Does Local Content Matter in the Context of Declining Oil Prices?

Local content still matters in spite of the declining commodity prices in the world. The consequences are real as Andrea-Yanez Arcos (Ecuador) and Julian Barungi (Uganda) pointed out. The consequences of low oil prices: death of businesses, significant drops in customers, big business debts, unpaid service providers, loss of jobs, among others, are very real at the local level as seen in the Ecuadorian town of Coco. Unfortunately, this “economic earthquake” was not foreseen by the business owners. With the oil boom, they expanded their businesses, borrowed more money, recruited more staff, only to be surprised in the end. This is a lesson for many countries Enterprise centres, civil society and other related organisations. There is therefore a need to sensitise small and medium sized enterprises about potential effects of fluctuating oil prices and build their capacity to prepare for such shocks (Julian Barungi, Uganda). Economic diversification as an aspect of local content was presented during the discussion as an important action to mitigate declining commodity prices. Some participants are however sceptical about whether local content is the best approach for economic diversification. Amir Lebdoui (Algeria) did not agree with the idea that current oil prices create a more compelling argument for local content but agreed with Jesse Salah Ovadia (UK) and Nicolas Maennling (USA) that local content strategies are less exposed to commodity prices fluctuation than fiscal revenues. However, he conceded that sustained low oil prices can affect local content activities in the longer run. That is why Amir Lebdoui (Algeria) argued for the need to consider the “fact that exploration and production, as well as investments in the oil and gas sectors, are likely to decrease as a result of low commodity prices. A suspension of investments and production, for example, can cause tremendous trouble to suppliers of goods and services in the oil and gas sectors” All in all, a longer term approach to local content is necessary for success rather than changing strategies due to volatile price swings (which cannot be predicted) (Nicolas Maennling, USA).

Other Viable Alternatives to Local Content

Jesse Salah Ovadia (UK) shared her view, stating that, “I do think the alternatives to local content are important to consider in each case and there may be countries that are better served by other policy options. In order to decide what approach to take, it is necessary to evaluate the specific context. If the resource is far from any industrial centre, particularly
costly to extract, or present only in a relatively low quantity, there may be few options for promoting local content. This is something that I believe the new Chatham House publication ‘A Local Content Decision Tree’ tries to explain. However, the specific context cannot be evaluated only through the lens of economics. It must be done through the lens of political economy. If we want to know why African oil exporters have not had any significant development after 50 years of production, we cannot just say they or the commodity is cursed and leave it at that… Development through revenues alone may look like it will work on paper, but in practice it has not worked. Indeed, Jesse Salah Ovadia (UK) has a point; politics influences economics and economic actions shape political decisions. Local content as a strategy in the oil and gas sector or any other option will have to recognise the importance of governance in the countries in question and how other policies and strategies compliment it (Elijah Mushemeza, Learning Alliance moderator, Uganda).

Conclusion

The discussion on whether local content matters was intriguing and interesting from both the theoretical and practical perspective of harnessing oil and gas as non-renewable resources in both Latin America and Africa. Javier Arellano-Yanguas (Spain) called for having an open mind when arguing for or against local content for development. Javier found the ‘different arguments very appealing and thinks that there is enough theory and empirical evidence to maintain simultaneously the potential importance of local content policy for the development of resource rich countries and the caveats expressed by different experts on the ‘automatic’ effect of such policies’. According to him, ‘we can say that context matters at least as much as local content policy. Local content policy and investment of revenues may not be alternative ways of fostering national development, but complementary tools which need to be combined and sequenced to fit into the specific context of each country’. Local content contributes to building critical competencies, helps position nationals to progress to jobs higher up the value chain, helps build internationally competitive local SMEs to support the industry both locally and internationally and, most importantly, helps stimulate the economy (Jemma Langley, Trinidad and Tobago).

Ultimately, countries in both Africa and Latin America need strong local content frameworks, functioning institutions such as NOCs, monitoring boards, and good governance if oil and gas resources are to be beneficial to the lives of the people.

In the implementation of local content policies countries face a number of challenges such as lack of local content policy and transparency, high levels of corruption, weak relevant institutions and huge coordination gaps between the government and other sectors. There are also challenges relating to implementation such as governance, moral and technical competencies and mismanagement of expectations. Finally, there are other common challenges countries face such as lack of trained personnel, lack of competent companies to implement local content, scarce access to credit and the trade agreements countries have.
Countries which are still developing their local content frameworks, like Uganda, are taking actions to mitigate possible challenges. Uganda has put in place a strong regulatory, institutional and administrative framework for national content to ensure that resource allocation decisions by government ministries, departments and agencies relevant to the petroleum industry are aligned towards the development of national content. The country has also put in place mechanisms to encourage contributions from private sector stakeholders and in cooperation with government ministries, departments and agencies. Such initiatives provide a financial basis for the implementation of specific strategic plans for developing national content which other countries should find interesting.

Local content still matters in spite of the declining commodity prices in the world. However, there are consequences of low oil prices such as the death of businesses, significant drops in customers, big business debts, unpaid service providers and loss of jobs, amongst others.

There is a need to sensitise small and medium sized enterprises about potential effects of fluctuating oil prices and build their capacity to prepare for such shocks. Economic diversification is a powerful mechanism for mitigating declining commodity prices.
Conclusion

The five modules of the Online Learning Alliance were characterised by very enriching debates between participants from countries that have adopted different approaches to local content. During this Learning Alliance, we have discussed the basics of local content, the relationship between frameworks and outcomes, the influence of NOCs and the implementation process. The discussion also turned to additional factors that influence local content policy design and implementation process and the relevance and main challenges of local content implementation in both Africa and Latin America.

Local content was generally understood, as "the extent to which the output of the extractive industry sector generates further benefits to the economy beyond the direct contribution of its value added, through links to other sectors." It was argued that countries that have designed specific local content frameworks (entrenched provisions in policies, legislations and contracts) and which have prioritised national industry participation are more likely to develop skills and competencies and create more jobs in the economy. Implementation of local content strategies is never without challenges right from the design stage, the formulation of policies and the enactment of legislation to the signing of contracts and their execution. At all these stages, the political environment influences the economic programmes while economic actions shape political decisions. In other words, the governance and the business environment cannot be ignored.

The discussion also highlighted the significance of institutions in implementing local content, in particular the National Oil Company and the monitoring boards. Several countries, particularly in Africa, lack strong mechanisms for measuring local content compared to the countries studied in Latin America. A well-functioning NOC with a clear strategy is critical for achieving the objectives of any local content framework. This is why it is important to consider what matters most when it comes to adopting local content in oil and gas resource countries.

There are also specific factors unique to Africa, particularly the role of IFIs which, over the years, have supported the development of enterprise centres credited in the implementation of local content policies. Countries like Angola, Chad and Nigeria have achieved observable outcomes in terms of skills developed and jobs created as result of the activities of enterprise centres.

The Online Learning Alliance platform brought together scholars from around the world to share their experiences. This platform should be maintained through networking and the possibility should be explored for developing more research projects in this area. This is particularly relevant because several countries in Africa and Latin America are still shaping their local content frameworks and grappling with which strategy to prioritise. Research and continuous engagement are therefore critical for the development of the oil and gas sector.
Lessons

In terms of local content, several key lessons can be deduced:

- Evidence from Angola, Brazil, Mexico and Nigeria suggests that with a specific local content framework and a strong NOC with clear guidelines and strategy, a country can achieve positive local content outcomes.
- NOCs should play a prominent role when defining and implementing local content. Their involvement in this process can lead to positive local content outcomes in spite of other structural challenges such as limited independence from the government. The cases of Sonangol, NNPC, Petrobras and Pemex show that NOCs that adopt local content as part of their strategy are more successful at achieving positive local content outcomes.
- Given the achievements of the Angolan, Chadian and Nigerian Enterprise Centres, African countries such as Kenya, Tanzania, South Sudan and Uganda, which are still developing local content strategies, should consider running training programmes through enterprise centres in order to develop skills in the local economy and promote the reputation of local companies as good corporate citizens.
- Local content implementation is never without challenges, for example there is an elite capture dilemma with the problem being part of the “dual nature” of local content. Local content can benefit local elites and have positive developmental effects. This is a problem in Angola and Nigeria as well as in newer oil producing countries. Similarly, there are experiences in Latin America where international companies use several loopholes in legislation and establish “national companies” which are partially owned by nationals but in marginal shares. Similarly it is a fact that lack of transparency and corruption are still problems in oil and gas producing countries when designing and implementing local content policy. This why it is being suggested that civil society could become a powerful mechanism to overcome lack of transparency and corruption. Yet the role of civil society is still weak and could be strengthened through deliberate support from development partners, particularly in the areas of research advocacy and outreach.
- Local content still matters in spite of the declining commodity prices in the world. However, there are consequences of low oil prices such as the death of businesses, significant drops in customers, big business debts, unpaid service providers and job losses, amongst others. There is therefore a need to sensitise small and medium sized enterprises about potential effects of fluctuating oil prices and build their capacity to prepare for such shocks. Economic diversification is a powerful mechanism for mitigating declining commodity prices.