POLICY BRIEF

GETTING MORE OUT OF THE OIL AND GAS SECTOR: LESSONS FROM ANGOLA AND CHAD

This brief was developed by the authors as part of the ELLA Programme. It was developed based on a Regional Evidence Paper Local Content Frameworks in the African Oil and Gas Sector: Lessons from Angola and Chad by the same authors, which contains an overview of regional evidence, as well as original data collection and analysis, on a particular research topic. All publications can be found in the ELLA programme website.
Getting More out of the Oil and Gas Sector
Lessons from Angola and Chad

Introduction

Developing countries in Africa are keen to achieve sustainable economic development out of their non-renewable resource sectors. This imperative has encouraged countries to adopt local content frameworks as a mechanism to transform short-term benefits from extraction into long-term development. The policies, laws and contracts a country adopts and signs with international companies have provisions that encourage jobs creation, business skills development, and local companies’ participation in the oil and gas sector and the wider economy.

What are Local Content frameworks?

These are the policies, laws and contracts designed to generate further benefits from the extractive industries sector beyond the direct contribution of its value-added.

How do Enterprise Centres support Local Content policies?

Enterprise Centres provide technical and financial assistance to small and medium enterprises and in so doing; they promote local content through strengthening local firms’ participation in supply chains.

Summary

Several African countries have adopted Local Content frameworks as a mechanism to transform the short-term benefits of natural resource extraction into long term development - through institutional building and strategic policy tools to promote direct employment, skills development and the participation of local companies in the supply of goods and services in the oil and gas sector.

In Chad and Angola, the establishment of Enterprise Centres has proven a particular success. These Centres impart business skills to citizens and local companies, and facilitate the exchange of information between buyers and suppliers, to help streamline supply chains in the oil and gas industry. They have enabled local small and medium enterprises (SMEs) to access financing opportunities to support investment in capacity building, and brought the SMEs into processes to participate in large oil and gas contracts (for which quality standards are high).

Other African countries that are currently in the process of developing their own local content frameworks would benefit from establishing their own networking and training hubs to help empower their SMEs and citizens.

What are Local Content frameworks?

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Background to the Study

This brief is a synthesis of one key finding from a study on local content frameworks and their outcomes across seven African countries: Angola, Chad, Equatorial Guinea, Ghana, Nigeria, Tanzania and Uganda\(^1\).

The study covered African countries with more and less entrenched provisions on local content in their policies, laws and contracts – with the aim of identifying the impact of local content policies on development outcomes. But national level data on outcomes was rarely available, so a country level case study approach was used to exploit data that is available.

Angola and Chad were selected for deeper analysis. The two countries have different frameworks in terms of the entrenchment of local content provisions in laws, policies and contracts. Angola has developed clear laws, policy tools and contracts. Chad in contrast has no identifiable laws and policies for local content development, although after 2010 model production agreements were developed and contracts signed with international oil companies.

Both countries also have Enterprise Centres. These are a good source of data along with data gathered from national oil companies and the corporate social responsibility reports of international oil companies, in order to observe outcomes. This allowed us to identify beneficial outcomes in terms of skills developed, jobs created and the involvement of local companies in winning contracts and supplying goods and services to the oil and gas industry.

Results and conclusions
The establishment of Enterprise Centres appears to be an effective way to promote national industry participation, skills development and employment. The two case studies of Angola and Chad illustrate this.

In Angola, the Centro de Apoio Empresarial (CAE) programme for building enterprises has strengthened the country’s supply chain network and improved the ability of Angolan enterprises to provide materials to international oil companies. Some of the Small and Medium Enterprises trained by the centre have gone on to become a larger-scale operations thriving as a result of the oil industry’s needs. For example, NASA Commercial Import and Export Ltd has provided personal protective equipment for the past ten years, growing from a two-person outfit to a staff of twenty. Similarly, supported by Chevron, NASA was one of the first clients at the Enterprise Centre receiving training in financial management, human resource management, bidding and contracting.

In 2010, the Enterprise Centre extended its range of services to include the provision of assistance to qualified small and medium enterprises in accessing financing to help address barriers to SME development and growth. The programme has been rated as successful in raising awareness of financial services and helping small and medium enterprises to create innovative investment and lending models.

Since 2005, when Angola set up its Enterprise Centre through the support and funding of the national oil company, Sonangol, British Petroleum, ExxonMobil, Total and Chevron, a series of benefits have been observable, as shown in the box below.

Snapshot of results from CAE operations in Angola, 2005-2011:
- The project generated 4809 jobs, certified 100+ companies in various sectors; and delivered over 224 business training courses
- Participant SMEs won 300+ contracts
- Database established with 1400+ SMEs
- CAE became an organ of chamber of commerce of Angola in 2011

Based on the Angolan experience, operationalisation of enterprise centres is a factor in promoting national industry participation.

The Chad Enterprise Centre, initiated by the government through the relevant Ministry of Energy and Petroleum and the national oil company, was created in December 2004 as a joint partnership

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between the International Finance Corporation and the Chad Chamber of Commerce. It is the major vehicle for delivering micro, small, and medium enterprise capacity building activities and value-added benefits linked to the Chad-Cameroon Pipeline Project. It provides a full range of services for small enterprises that are emerging and growing in the Chad oil economy, including access to information and finance, capacity development and network management, and business linkages between local businesses and international firms.

The centre has established the country’s only private sector database comprising about 1,500 small and medium enterprises. It has delivered a series of business training modules tailored for micro-enterprises. In addition to its main activities with ExxonMobil, the centre has worked with other partners including United Nations Children’s Fund, the Food and Agriculture Organisation and the Chadian Ministry of Water Resources to promote forward and backward linkages between the oil and gas sector and the wider economy of Chad. In short, the enterprise centre in Chad is the one stop shop for a spectrum of services such as local supplier identification and evaluation, training, consultations on contract management and delivery, information dissemination and access to finance.

Since 2004, a number of successes have been registered as shown in the box below.

**Snap shot of Enterprise development results in Chad, 2004-2012:**

- 1300 SMEs in most complete SME database in Chad
- 102 SMEs assisted in submitting bids electronically
- 30 local SMEs recipients of 3-5 year contracts ranging from $99,000-$600,000, and totalling $56m.
- 9 SMEs successfully assisted in obtaining loans.
- In 2012, purchases of goods and services from local suppliers totalled $175 million
The above recorded successes raise a key question. Why did Angola and Chad Enterprise Centres prove to be an effective agency through which to implement the local content agenda? We found that both countries have strong National Oil Companies that act on behalf of the state to initiate and establish relevant institutions to implement local content strategies. In the case of Angola as already noted, Sonangol, the National Oil Company, together with other international development partners provided the funding to establish and operate the enterprise centre. Similarly, in Chad, various stakeholders, the government through the Ministry of Energy and Petroleum, the National Oil Company Societe des Hydrocarbures du Tchad, international financial institutions, international oil companies, the Chamber of Commerce and NGOs, all enabled the country to generate a minimum consensus to establish and operate an Enterprise Centre - that became a nucleus for local content adoption and implementation.

In addition, the business environment, particularly the fiscal regime has shaped the operationalisation of the Enterprises Centre. Incentives for private companies to invest impact on the ability of local enterprises to participate and compete in the oil and gas sector. Indeed, both Angola and Chad have adopted tax incentives which might explain why, despite poor business environments as a whole, local companies trained by the enterprise centres have been attracted to invest in the oil and gas sector; thereby

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increasing national industry participation, creating jobs and opportunities for skills development.

National Oil Companies took the lead and together with other partners established enterprise centres in both Angola and Chad. From a broader perspective the enterprise centres have also enabled citizens and local companies to participate in building linkages between the oil and gas industry and the wider economy. The initiatives undertaken by both centres include: communication and training of local suppliers on relevant standards; training of local suppliers on overall business skills and preparation of bids; business incubation; promotion of collaboration between SMEs; introduction of an e-procurement system and training of local suppliers to use it; assistance with access to finance and identification of joint venture partners. In light of these achievements, we conclude that early establishment of Enterprise Centres as an aspect of industry collaboration can promote the participation and sustainable development of Small and Medium Enterprises in African economies with oil and gas industries.

### Summary of Programmes/Initiatives Undertaken by Enterprise Centres

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<th>Enterprise Centres: Programs and Initiatives</th>
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<tr>
<td>Comprehensive local supplier survey, suppliers’ ranking according to the level of competence and creation of a supplier database</td>
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<tr>
<td>Introduction of an e-procurement system and training of local suppliers to use it. Assistance with access to finance and identification of Joint Venture partners</td>
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<tr>
<td>Communication and training of local suppliers on relevant standards. Provision of information on the pipeline of bidding opportunities</td>
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Recommendations

Adopting local content as a strategy to reap long term benefits from a non-renewable natural resource is gaining more ground in African economies. Based on that achieved through the Enterprise Centres in Angola and Chad, countries still developing their local content frameworks should consider the role of institutional building through national oil companies as critical for achieving meaningful local content outcomes. Similarly, creating a favourable business environment and the fiscal regime in particular is important to attract local companies to train through enterprise centres and invest in the oil and gas sector. African countries like Uganda, Kenya, Tanzania and South Sudan that are still developing local content strategies should consider the policy recommendations below:

- Training programmes through Enterprise Centres should be developed targeting skills development in the local economy and promoting the long-term reputation of local companies as good corporate citizens.
- African states should establish branches of Enterprise Centres in various parts of the country. This will ensure the widest possible reach in terms of capacity building of small and medium enterprises and companies with skills and competencies to engage in joint ventures like manufacturing with potential to create more skills and jobs.
- African states should complement this training with access to credit. This will help companies expand and better compete with larger foreign firms working within the extractive sector. Financing of enterprises is important because, no matter how good their skills of suppliers are, they will not be able to win and deliver on contracts with international oil companies unless they have access to working and investment capital.
- African states should strive to improve the business environment as a whole as it is complementary in attracting investments from both local and international companies.
References


Websites for Enterprise Centres and other useful sources

1. CAE – www.caeangola.com
2. The Chad Enterprise Centre – https://www.devex.com/…/chad-enterprise-centre sme…chad/2036
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