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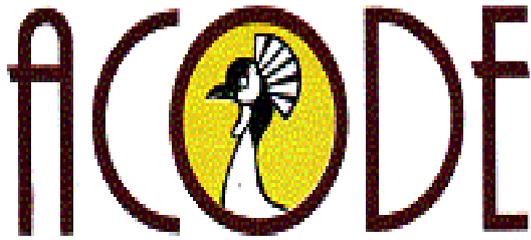


OIL AND GAS LOCAL CONTENT DEVELOPMENT STRATEGY: THE KEYS TO SUCCESS



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This brief was developed based on the Comparative Evidence Paper [What Matters When it Comes to Adopting Local Content in the Oil and Gas Sector? A Comparative Analysis of Success Factors in Africa and Latin America](#). That document was authored by an inter-regional team of researchers, based on regional evidence, as well as original data collection and analysis on a particular research topic. All ELLA publications can be found in the [programme website](#).



Oil and Gas Local Content Development Strategy: The Keys to Success

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Policy Brief

Summary: Recommendations

- ✓ 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.
- ✓ National Oil Companies 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.
- ✓ Policy makers should consider short and long-term benefits when designing local content policies.
- ✓ African countries that 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

Introduction

Local content is a development strategy aimed at increasing the benefits from the oil and gas sector, and translating these to other sectors of the economy. While this strategy has been widely adopted in Africa and Latin America there is little we know beyond specific country cases as to the reasons why local content strategies have or have not been successful in these cases. African countries such as Uganda, Kenya, Tanzania and South Sudan that are still developing local content strategies should find our recommendations important in improving their local content frameworks, strategy and institution building for better local content outcomes.

In particular outcomes in terms of skills development, jobs creation and involvement of local companies.

In this policy brief we attempt to identify common factors in successful local Content strategies by comparing the experiences of countries that have achieved reasonable positive local content outcomes. To do so we looked at the experiences of seven Latin American and seven African countries. Using a comparative strategy makes it possible to identify conditions that are present across cases that are very different from one another in many respects, but which have

led to success in the implementation of local content frameworks.

Latin America and Africa are natural resource rich. The two regions depend on commodities for their foreign exchange earnings. Historically high international prices for these commodities have incentivised the exploitation of natural resources in these regions. Countries from both regions have created mechanisms to capture as much revenue as possible from their gas and oil industries and created the conditions to expand the benefits to other economic sectors. These mechanisms – known as local content - have gained popularity among African and Latin American policy makers over recent years and are the subject of this policy briefing paper.

Methodology

This policy brief highlights the factors that determine successful local content outcomes in Africa and Latin America. We used a comparative framework that looks into the experience of seven countries in each region. We selected all the countries in Latin America that are oil and gas producers in the region, namely Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico and Venezuela. In Africa we selected sub-Saharan countries that are either oil and gas producers or have significant reserves in relation to their economies: Angola, Chad, Equatorial Guinea, Ghana, Nigeria, Tanzania and Uganda.

We understand local content outcomes in terms of local employment generation,

Countries that adopt local content as a development strategy for their extractive sectors usually start by developing local content frameworks (policies, laws and contracts). While a well-designed local content framework is a valuable starting point, there are other factors that can shape their successful implementation. Mapping these factors is challenging since every country exists under particular conditions and these factors might function differently depending on the context. For this reason, existing literature on local content has not yet identified common factors across countries that account for the achievement of positive local content outcomes. Yet this exercise is important for identifying policy lessons that can be transferred from one country to another. In this policy brief we attempt to identify some common factors by comparing the experiences of countries that have achieved successful local content outcomes.

national industry participation along the oil and gas value chain and skills development for local employees in the oil and gas sector. In the first stage of our research, we used local content outcomes as a comparison tool that allowed us to narrow our analysis down from 14 to 4, consisting of the two countries from each region with the highest outcomes from the data generated. (The scoring criteria can be accessed from our Comparative Evidence Paper (Morales, M et.al 2017).

In the second stage of analysis, we focused on these four case studies to identify the factors that could explain the achievement of positive local content outcomes (see Table 1).

Table 1. Comparative Research Methodology

Stage 1		Stage 2	
Analysed Countries	Aspects of Comparison	Analysed Countries	Aspects of Comparison
14 countries • 7 Africa • 7 Latin America	Local content outcomes	4 countries • 2 Africa (Angola and Nigeria) • 2 Latin America (Brazil and Mexico)	Factors that lead to positive local content outcomes

Findings

Table 2. Presence of Local Content Provisions in Case Study Countries

	Employment Requirements	National Industry Participation Requirements	Training Requirements	Technology Transfer Requirements	Monitoring and Implementation Mechanisms	Government supports oil & gas companies	NOCs participation
Brazil	Yellow	Orange	Yellow	Orange	Orange	Orange	Orange
Mexico	Orange	Orange	Orange	Orange	Orange	Orange	Orange
Angola	Orange	Orange	Orange	Orange	Orange	Orange	Orange
Nigeria	Orange	Orange	Orange	Orange	Orange	Orange	Orange
Ecuador	Orange	Orange	Yellow	Yellow	Yellow	Yellow	Yellow
Argentina	Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Bolivia	Orange	Orange	Yellow	Yellow	Yellow	Yellow	Yellow
Venezuela	Orange	Yellow	Yellow	Yellow	Yellow	Yellow	Yellow
Colombia	Yellow	Yellow	Orange	Orange	Yellow	Orange	Yellow
Chad	Orange	Orange	Orange	Orange	Yellow	Yellow	Yellow
Ghana	Orange	Orange	Orange	Orange	Yellow	Orange	Orange
Tanzania	Orange	Yellow	Orange	Yellow	Yellow	Yellow	Yellow
Uganda	Orange	Orange	Orange	Orange	Yellow	Yellow	Yellow
Eq. Guinea	Orange	Orange	Orange	Orange	Yellow	Yellow	Yellow

Source: Columbia Centre on Sustainable Investment 2015, authors' own elaboration.

Key: Yellow: No Parameter

Orange: Parameter present

On the one hand countries with developed local content framework (LCF) and good implementation achieve higher levels of positive outcomes. On the other hand countries that are still developing their LCF and where implementation is still weak, given the infancy or lack of critical institutions such as the National Oil Company, National Monitoring Boards and Enterprise centres, show lower positive local content outcomes. It was also found that countries which have developed LC strategies that emphasise national industry participation and the attendant manufacturing sub sector have better opportunities to develop more skills and creation of jobs.

In the second stage of our analysis, we focused on the experiences in Brazil, Mexico, Angola and Nigeria in order to identify the factors that explain the achievement of these positive results. In particular, we analysed which specific institutions, state-led actions and/or policy measures to promote local content were present across the board. We then cross-checked the results against the remaining 10 countries to confirm that those factors could explain the achievement of positive outcomes were *not* present in the unsuccessful cases.

Based on this assessment, we found that the countries with higher local content outcomes were also countries where local content policies are well developed and structured. In all four countries with higher local content outcomes, requirements to promote local content are integrated into different strategies (employment

generation, national industry participation and skills development. It is important to note that while not all aspects of local content were present in every case - for example, in Brazil employment or training requirements are not included in national local content policy or appear only at a basic level - the existence of monitoring and implementation mechanisms proved important for the achievement of positive local content outcomes in all four countries. In contrast, these mechanisms are non-existent in the other ten countries.

In order to take the analysis one step further and assess whether the existence of well-structured local content frameworks can impact the positive achievement of local content outcomes, we rated each country's framework and analysed them in comparison to their achieved outcomes. To do so, we assessed each country using the following two criteria:

- i. The existence of strategies to promote local content i.e. local employment generation, skills development or national industry participation; and
- ii. The presence of local content within oil and gas frameworks and the existence of measuring, monitoring and implementation mechanisms within these frameworks.

In addition, we identified that in countries with higher local content outcomes, National Oil Companies are actively involved in adopting and implementing local content (see Table 2)

Lessons

While every analysed country in Latin American region has a fairly visible

National Oil Company, Petrobras in Brazil and Pemex in Mexico have played very active roles implementing local content policy in comparison to other NOCs in the

region (like Petroamazonas in Ecuador or Pedvesa in Venezuela where local content promotion is seen as the responsibility of private companies). The role of these NOCs goes beyond adopting local content laws since Petrobras and Pemex have local content divisions within their corporate structure and have been actively involved in the development of programmes to develop worker and supplier capacities.

In Africa, the cases of Angola and Nigeria are similar in that NOCs are the primary instrument through which the government puts local content strategies into practice.

Based on this comparative analysis we identified that the existence of well-designed local content frameworks and the role of NOCs are factors that have the potential to positively shape local content outcomes in oil and gas producing countries. While the presence of NOCs can foster the generation of employment and technology transfer, it is important to keep in mind that the mere existence of NOCs is not enough. There are specific dynamics and factors inside the

management of a NOC that can shape local content. For example, it is valuable for a NOC to collaborate with the private sector and international partners in order to enhance knowledge and technology transfer.

NNPC and Pemex adopted measures to promote the participation and competition of private companies and partners. The case studies show that openness to the participation of private stakeholders does not diminish the NOCs' influence; on the contrary it strengthens their capacity and performance. The experiences of Petrobras and Sonangol highlight the importance that knowledge transfer can have for the development of strong technological basis in an oil company. Furthermore in the cases of Angola and Nigeria, the NOC together with other stakeholders particularly, International oil companies, International financial institutions, and civil society organisations, established enterprise centres that have been found to be valuable in implementation of the local content strategies.

Public Policy Recommendations

- Local content strategies have the potential to be more successful if they are backed sector-specific legal frameworks guaranteeing their measurement, implementation and monitoring. More specific legal frameworks of local content tend to result in better development 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. However, these case studies also highlight the importance of strengthening the institutional capacities of the extractive sectors in resource rich countries. While strong NOCs are desirable, they should not overrule the government. This misbalance can lead to corruption and lack of transparency that has also been found in all the analysed countries as part of this study.
- Policy makers should consider short and long-term benefits when designing local content policies. The achievement of short-term positive outcomes might be easier to attain through certain mechanisms such as the establishment of workforce and procurement quotas and scholarships requirements. However, building linkages through local content policies is a measure that can bring about longer-term benefits to the country's economy.
- Given the achievements of the Angolan and Nigerian Enterprise Centres, African countries such as Uganda, Kenya, Tanzania and South Sudan that 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.

Reference

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