

# Local content in Uganda's oil and gas sector

Sarah Logan, Policy Economist at the IGC

# Context

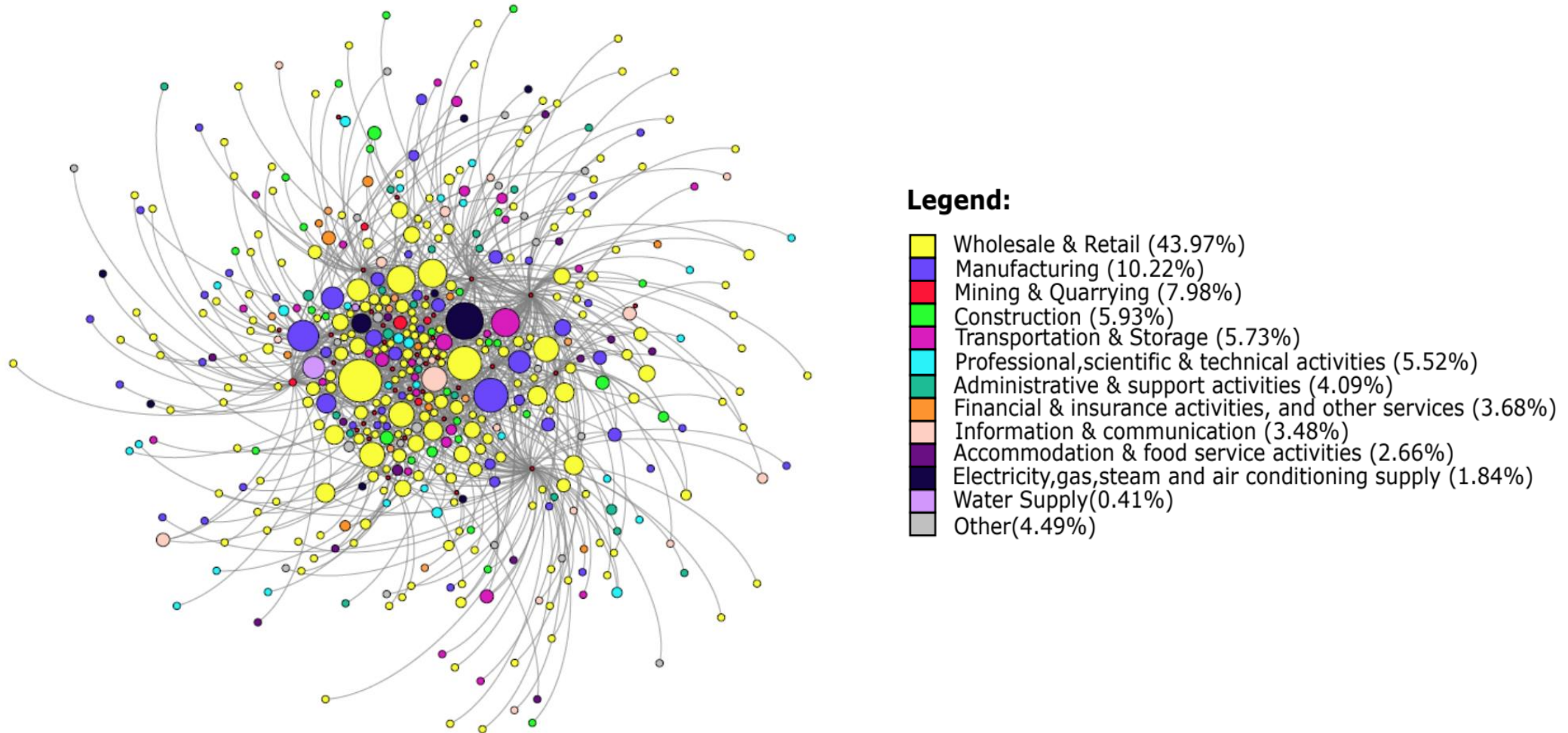
- Commercially viable reserves reached in 2006; first oil exports expected in 2021.
- Government has taken time to develop a solid legal and policy framework, negotiate favourable contracts, and develop national expertise
- Associated large-scale infrastructure projects: export pipeline, oil refinery, Hoima oil & gas industrial park and expanded road network
- Hoped that investment in the oil & gas sector will create multiplier effects that generate further investments in secondary and tertiary industries such as petrochemicals, plastics, fertilizers, construction, transportation, communication, and manufacturing

# Why local content?

- “Local content” generally refers to use of domestic suppliers, employment of nationals, and transfer of technology, skills and know-how from multinationals to domestic suppliers
- Productive linkages between domestic firms and multinationals in the oil & gas industry can drive broad-based economic growth – but for this to happen, **active intervention** is needed:
  - Easy but insufficient: adopting policy and regulatory requirements
  - Harder but effective: raising **domestic supplier capabilities** so that domestic firms can supply goods and services to multinationals according to their specific standards and requirements
- **The challenge: To develop a feasible plan to increase domestic firm integration into the oil & gas sector value chain**

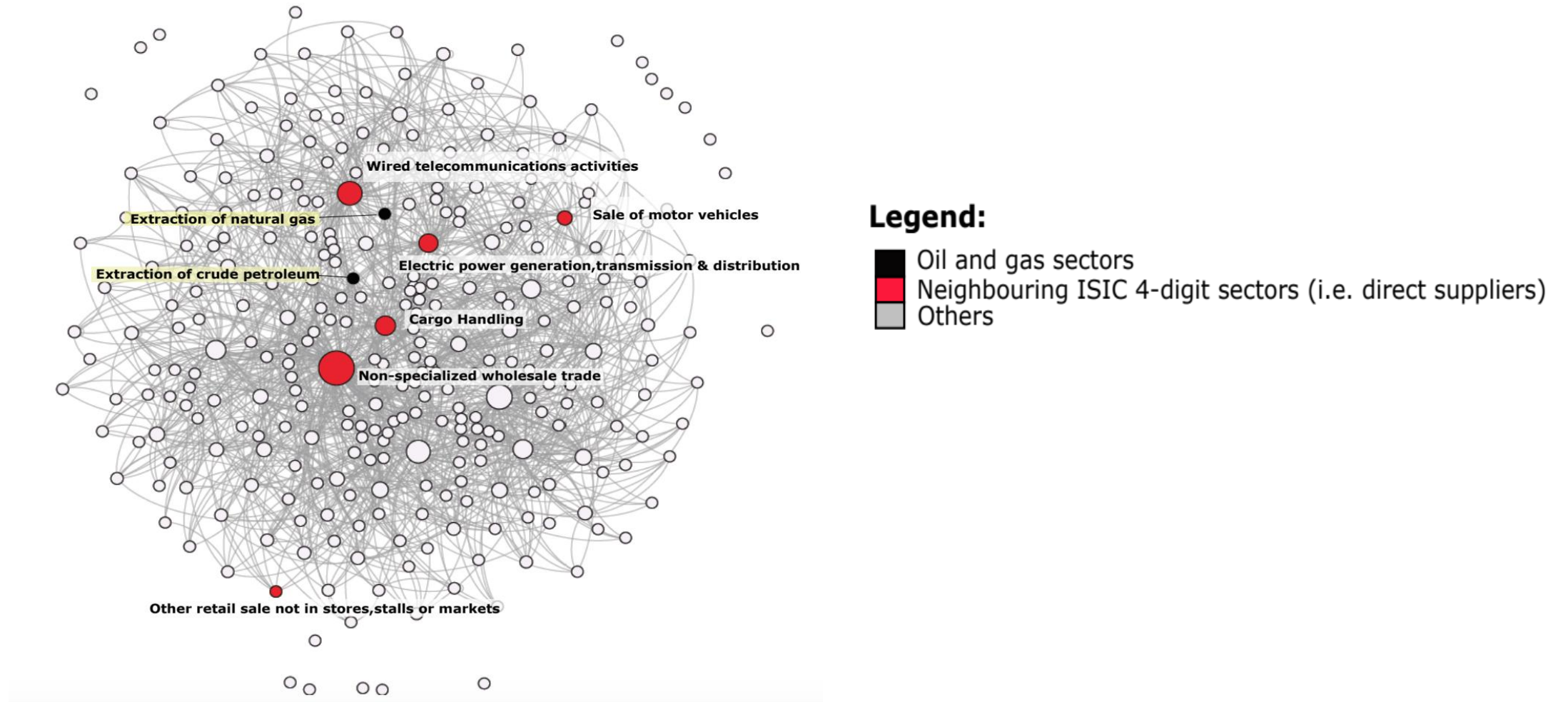
# Current linkages with oil & gas sector in Uganda (1)

*Domestic suppliers in Uganda's natural resource value chain by sector (FY 2014/15)*



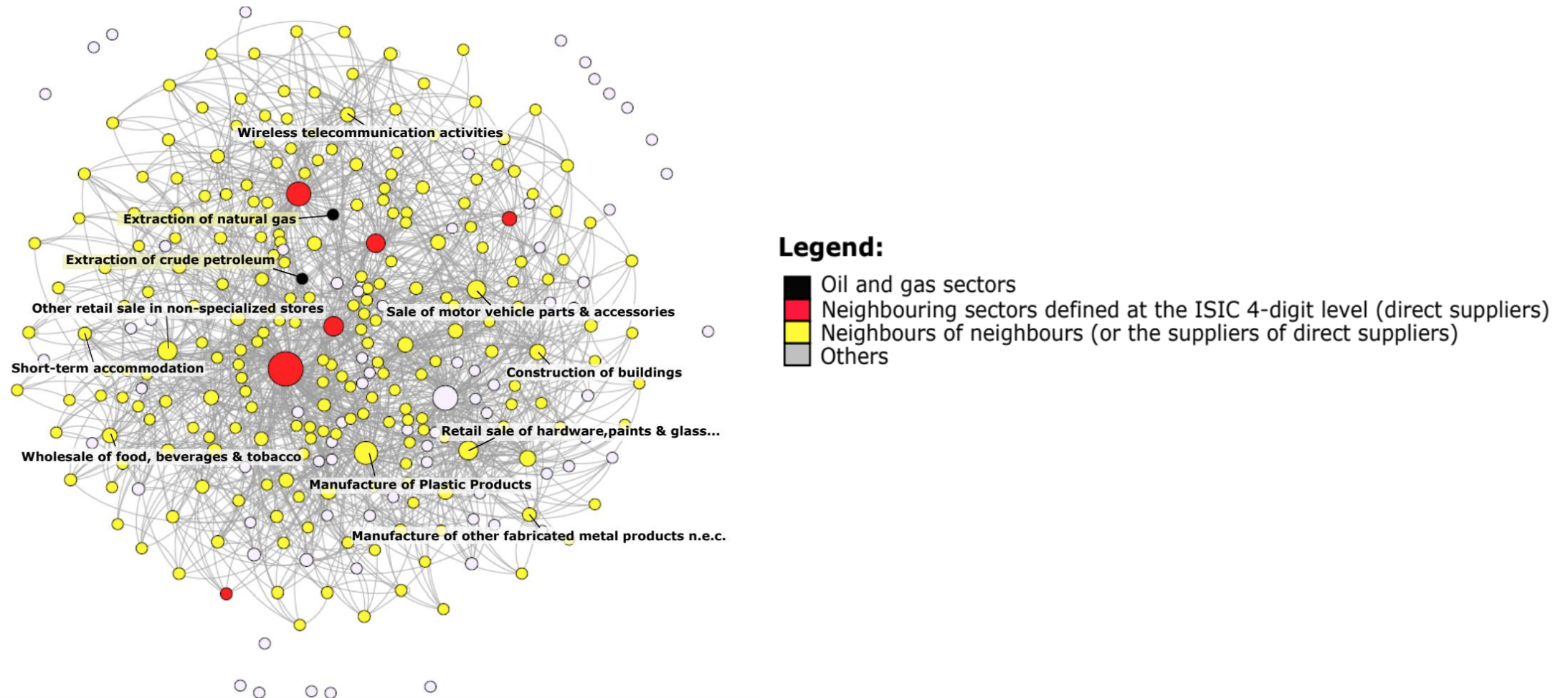
# Current linkages with oil & gas sector in Uganda (2)

*Direct backward linkages from the oil & gas sector (FY2014/15)*



# Current linkages with oil & gas sector in Uganda (3)

*Direct and indirect backward linkages from the oil & gas sector (FY2014/15)*





*Domestic suppliers to Uganda's oil & gas sector, by industry*

| Sector<br>[1]                            | Registered Suppliers |                 | Domestic Firms in Top 5%<br># above 95th pc/total assessed<br>[4] |
|--|----------------------|-----------------|---|
|  | In Uganda #<br>[2]   | Abroad #<br>[3] |   |
| Accommodation & Food Service             | 36                   | 2               | 0/1059  |
| Administrative & Support act.            | 35                   | 6               | 1/977   |
| Agriculture,forestry & fishing           | 5                    | 0               | 9/369   |
| Arts,Ent. & Recreation                   | 1                    | 0               | 0/172   |
| Construction                             | 158                  | 42              | 7/3119  |
| Education                                | 10                   | 1               | 0/78  |
| Electricity,Gas & Air Con. Supply        | 23                   | 6               | 12/203  |
| Financial & Insurance act.               | 37                   | 1               | 8/265   |
| Human Health & Social Work act.          | 27                   | 3               | 1/155   |
| Information & Communication              | 59                   | 12              | 9/841   |
| Manufacturing                            | 52                   | 79              | 44/1673   |
| Mining & Quarrying                       | 26                   | 32              | 3/123   |
| Other Service Act.                       | 138                  | 26              | 0/1005  |
| Professional,scientific & technical act. | 173                  | 69              | 2/1208  |
| Public Admin. and Defense                | 1                    | 0               | 1/799   |
| Real Estate Act.                         | 12                   | 0               | 7/654   |
| Transportation & Storage                 | 99                   | 20              | 7/1015  |
| Water Supply, Sewerage, Waste Mgmt.      | 16                   | 10              | 0/85  |
| Wholesale & Retail Trade                 | 53                   | 7               | 202/8058  |

# Policy options

- **What doesn't work: 'Command and control' approach**
  - **Legal and regulatory requirements** – these have little impact on raising domestic firm capabilities and do little more than distort procurement processes
  - Both reporting and monitoring compliance are difficult; cannot be achieved unless domestic firms have sufficient capabilities
- **What does work: 'Collaborative' approach**
  - **Market-enabling** local content policies that **increase domestic firm capabilities** and enable domestic firms to break into global value chains – a more implementable and durable approach



# Collaborative approach

3 key elements:

- Establish a government agency, a **Local Content Unit**, to manage the process (develop training programmes, develop 'Approved Vendor' qualification scheme, liaise with multinationals in designing tender processes, etc)
- Implement a **training programme** for both firms and individuals to raise their capabilities to the standards needed for servicing multinational companies
- **Timing and sequencing** – training needs to be done ahead of when the oil & gas development schedule requires the relevant goods and services – if training comes too late, most opportunities are lost

# Key policy responses (1)

- Establish a Local Content Unit (LCU)
  - Autonomous, sufficiently resourced
  - High-calibre leadership to negotiate on equal terms with multinationals
  - Initial responsibilities should evolve over time
  - Ideal staff: small size (8-10), mixed experience (commercial, government, etc)
  - Dialogue and discussion with multinationals is key – needs assessment, agreement on financing of training programmes, etc.
- Start with the oil & gas sector, then expand horizontally to other sectors in the economy
  - Local content efforts most likely to succeed if initial focus is narrow (only oil & gas) and only later expands to other sectors
  - Timing & sequencing: Construction > General supply and services > Engineering services

# Key policy responses (2)

- Prioritise "connected" and high-potential productive industries and firms for targeted supplier development programmes
  - LCU must have deep knowledge of existing capabilities of domestic firms and what capabilities can be developed through training
  - Establish Industry Enhancement Centre to provide business and technical trainings for firms
  - Important that training programme application process is open and fair – application open to all, but apply pre-stated, objective and relevant criteria in selection process
  - At completion of training, qualification scheme grants firm "Approved Vendor" status, firm becomes eligible for sub-contracts from multinationals
  - LCU could negotiate with multinationals to unbundle sub-contracts to make them more achievable for smaller firms to secure and deliver on
  - Training of individuals also needed – focus on transferable skills, can include in-house training/shadowing schemes

# Key policy responses (3)

- Target supply-side constraints to domestic firm growth and productivity, e.g. improve access to affordable credit, facilitate standards certification, etc.
- Extend National Suppliers Database to include information on domestic firm capabilities (firm performance, markets served, transaction history) to better guide multinationals' decisions