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)

Legend:
- Wholesale & Retail (43.97%)
- Manufacturing (10.22%)
- Mining & Quarrying (7.98%)
- Construction (5.93%)
- Transportation & Storage (5.73%)
- Professional, scientific & technical activities (5.52%)
- Administrative & support activities (4.09%)
- Financial & insurance activities, and other services (3.68%)
- Information & communication (3.48%)
- Accommodation & food service activities (2.66%)
- Electricity, gas, steam and air conditioning supply (1.84%)
- Water Supply (0.41%)
- Other (4.49%)
Direct backward linkages from the oil & gas sector (FY2014/15)

Legend:
- Black: Oil and gas sectors
- Red: Neighbouring ISIC 4-digit sectors (i.e. direct suppliers)
- Grey: Others

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

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