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Local Content and Natural Resource Governance: The Cases of Angola and Nigeria.

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ABSTRACT: Recent announcements of offshore oil discoveries across sub-Saharan Africa are part an emerging discourse of ‘Africa rising’ that is now displacing older discourses of poverty and state failure in the region in both academia and mainstream media—particularly business periodicals. Accounting for over 75 per cent of sub-Saharan Africa’s oil production in 2013, Angola and Nigeria are at the center of this shift. Previously seen as two prime examples of the resource curse due to their histories of conflict and underdevelopment, Angola and Nigeria are now among the fastest growing economies in the world, yet have been criticized for poor governance. Local content policies, which promote local and national participation in extractive industries, are essential for the sustainability of resource-led economic development. The World Bank, African Development Bank, UN agencies and other organizations are newly emphasising natural resource governance as part of sustainable economic development. This shift underlines the importance of the state’s role in development and in managing natural resource wealth. Drawing on field research and interviews in Angola and Nigeria, this paper will examine recent local content policy initiatives, evaluate their potential benefit and argue for their inclusion in an overall framework for promoting better natural resource governance in sub-Saharan Africa.

Keywords: Angola, Nigeria, Oil, Mining, Local Content, Natural Resource Governance

1. Introduction

The beginning of the 21st century has ushered in a new moment of changed political and economic circumstances for sub-Saharan Africa. At the close of the 1990s, the situation was bleak. Per capita incomes in many of the region’s countries were below those of 1950s-60s when many states gained their independence. To many Western observers – ordinary people as well as many so-called experts – the continent was seen as a poverty-stricken mess and its future prospects were seen as hopeless. In terms of economic development, modest average real Gross Domestic Product (GDP) growth of 2.6 per cent in the 1980s and 2.2 per cent in the 1990s (IMF, 2011b) masked the devastating human impact of neoliberal structural adjustment.

1 Calculations from this source are the author’s own based on the IMF World Economic Outlook Database, September 2011.
Today, the situation has changed. Over the past few years, ‘Africa’ has been spoken about in a different way. In the media, especially in business periodicals,\(^2\) it is now portrayed as a rising land of opportunity. In a speech in Cape Town during his recent trip to six African countries in June 2013, President Obama was widely quoted as remarking: ‘There’s an energy here that can’t be denied – Africa is rising.’ More recently, in August 2014 at a summit of African leaders in Washington DC, Obama was widely quoted as saying that ‘a new Africa is emerging’. These comments reflect a new discourse around ‘Africa rising’ and ‘emerging Africa’ that has in the last few years begun to displace older discourses of poverty and state failure. Natural resources and extractive industries are very much tied into this shift.

New books are also being published which profile Africa’s rise, though like the media analyses, many are failing to do more than scratch the surface of a very complex moment of change. In *Emerging Africa*, Radelet (2010) divides sub-Saharan Africa into three categories: 17 emerging countries, nine oil-exporting countries and ‘the rest’ (a group of 22 countries that are presumably still hopeless (though some may be on the ‘threshold’) simply because their average per capita GDP growth since 1996 is below an arbitrary number set by the author. What is notable about this otherwise superficial analysis is the bracketing of oil exporters into their own category outside the model. According to the author, while the rapid growth of the oil exporters may in some cases be accompanied by reductions in poverty and improved social indicators, in all

situations, the sustainability of growth and equity of benefits is questionable and there has been little change in political development (pp. 29-30).

Radelet’s division, despite its arbitrariness, is a step toward a more in-depth analysis that can be used to better understand what has changed, what prospects exist for development and ways that some countries can achieve them. Many of the oil-exporting countries should be considered part of ‘emerging Africa’. In a new publication on extractive industry and development, the United Nations Development Programme notes that 50 African nations are either producing or exploring for oil (UNDP, 2013). However, Angola and Nigeria, which together accounted for over 75 per cent of sub-Saharan Africa’s oil production in 2012 (Energy Information Agency, 2013), are still by far the most important. Many lessons can be learned from them about best (and worst) practices. As more countries bring oil and gas resources online, natural resource governance becomes more important for development. In business periodicals, Angola and Nigeria are now among the most hyped emerging markets for new investment even as questions of corruption and low-level conflict remain unresolved; and, even as not so low-level conflict rages in the north of Nigeria. The hype has only increased since Nigeria’s GDP rebasing exercise in April 2014 established the country as the biggest economy in Africa.

The oil-exporters of the Gulf of Guinea have generally outperformed the rest of sub-Saharan Africa in terms of GDP growth. Oil-exporting countries averaged 7.9 per cent growth from 2004 to 2010 compared to 5.8 per cent for sub-Saharan Africa overall (IMF, 2011a). While economic growth is only one aspect of development, and GDP is a notoriously poor measure of growth in sub-Saharan Africa, the statistics do help demonstrate that a shift is occurring. Today, the
message that sub-Saharan Africa is stagnating is no longer accurate—particularly for the continent’s current oil producers and, by logical extension, for the many future producers. What, then, is the way forward?

The new popular notion of ‘emerging Africa’ reflects a changed political and economic reality for many of its countries. However, this often simplistic narrative needs to be contextualized and problematized. It is a powerful yet superficial analysis that requires added depth. In this new moment, one of the biggest changes is the decision by the Angolan and Nigerian governments to pursue local content in their respective oil and gas industries. It is on these policies that the remainder of this discussion shall focus.

The paper uses local content policies, which promote local and national participation in extractive industries, as the entry point into a deeper analysis of the sustainability of resource-led economic development. Investment of the rents, royalties and taxes from resource extraction is often seen as the only facet of development through natural resources. However, local content policies represent an important second avenue for achieving positive developmental outcomes from these resources. In Angola and Nigeria, sustainable economic and social development that reaches a majority of citizens is possible. The two countries are useful cases given their size and the advanced nature of local content implementation. With reference to their oil and gas industries, I argue that local content—properly implemented and supported by various stakeholders—offers new potential not only for sub-Saharan Africa’s current and future oil exporters, but for all countries with significant natural resource wealth. Its successful
implementation must therefore be supported by programmes to strengthen natural resource governance.

2. Natural Resource Governance and Local Content

Local content policies increase the utilization of national human and material resources in the petroleum sector and domicile in-country oil and gas-related economic activity that was previously located abroad. Since the industrial revolution in Britain, every capitalist country has developed with state protectionism (Chang, 2002). Unfortunately, local content has a dual nature: it is both a mechanism for promoting large-scale economic development and at the same time a mechanism for the elite to capture oil rent by legitimising policies that play favourites and privilege particular local capitalists (Ovadia, 2012). Local content is a useful entry point for discussing many of the most important issues in Angola and Nigeria, from changing methods of elite accumulation and the growing gap between rich and poor, to new economic growth and development through private sector initiative, and even to conflict in the Niger Delta, which is often related to conflicts amongst local elite over local content (Ovadia, 2013c).

Local content encourages the employment of locals by multinational companies (MNCs), but also recognizes that resource extraction—particularly oil and gas—is an enclave industry that will never be a significant employer in its own right without linkages to the service sector and beyond. Therefore, local content policies (LCPs) force international companies involved in extractive industries to use local companies to supply goods and services. These LCPs also force these companies to invest in facilities for local manufacturing and service provision. Due to the strategic nature of many natural resources and the fact that they cannot simply be moved out of a particular jurisdiction to a more favourable fiscal or regulatory regime, countries with natural
resource wealth can insist on LCPs and have significant leverage to ensure their implementation. The benefit in terms of capital retained in the local economy from local content policies has the potential to be larger than the royalties and taxes from extraction of a particular resource. For this reason, local content may be the single most significant innovation in energy policy in the Global South in recent decades.

After a slow start, the international community is starting to realize the need to promote these policies and devote resources to ensure proper implementation. There is great potential for LCPs in both Angola and Nigeria to foster economic development and to develop the oil services sector as an anchor for growth in manufacturing and other linked areas of economic activity. This state-led approach to development was crucial to the success of the ‘Asian Tigers’ (Taiwan, South Korea, Singapore and Hong Kong). Long a taboo subject, the role of the state in economic growth and natural resource development was highlighted in the Africa Progress Report 2013. In recommending strong adoption and implementation of local content, it states:

The history of successful economic development in East Asia was, to a large degree, built on long-term strategies to build value-added industries. Governments used a range of measures – subsidized credit, local content programmes, tax breaks and temporary protection – to strengthen the competitive position of national firms. Critical to the success of these measures (and to the failure of comparable programmes in Africa) was the application of strict guidelines requiring firms to become competitive in local and, eventually, international markets. [Africa Progress Panel, 2013, p. 84].
On a similar theme, the United Nations Economic Commission for Africa (UNECA)’s 2013 *Economic Report on Africa* argues:

Asia, however, relied on many measures that are prohibited, or at least discouraged, in today’s multilateral trade arena. These include tariff protection and performance requirements, such as trade balancing and local content (Chang, 2002). As African countries negotiate trade agreements at multilateral and regional levels, they should push for the necessary policy space for their export oriented industrialisation strategies. [UNECA, 2013, p. 94].

Undoubtedly, the experience of East Asia is highly relevant to contemporary policies to promote industrialization and manufacturing in Africa. Chang (2003) emphasizes South Korea's coordinating of investments within and across sectors to promote complementary activity and also prescribing excessive entry and competition within sectors to promote economies of scale. There is a growing literature on industrial policy in Africa and the need for “structural transformation” to which local content can contribute. Kelsall (2013), for example, contends that structural transformation into higher-value manufacturing and services is needed given that much of Africa’s recent economic boom has been confined to unsustainable growth in primary commodities. The structural transformation argument is echoed in UNECA’s 2014 *Economic Report on Africa*, which advocates strongly for industrialization and structural transformation and devotes three of five chapters to industrial policy. Local content has a role in turning commodity extraction into a driver of growth in manufacturing and services. Already, there is some evidence of the growth of industry and entrepreneurship in both Angola and Nigeria and
use of regimes of incentives to encourage local capitalists. This will be explored in the sections below.

State intervention in the market is required in the case of local content even though these policies are in the long term interest of the private sector, particularly international oil companies. Strong state governance is required because the promotion of local content may involve short term loss in order to achieve long term gain. Even in the case of oil and gas, where investment decisions must anticipate long term commitment, the higher costs associated with local procurement and the time and money spent on training and skills development may seem too burdensome for international companies involved in mineral extraction. However, the long term benefits include lower transportation costs, lower costs associated with expatriate staffing, smoother-flowing supplies of goods and services, greater skills and experience for workers and managers, a strengthened relationship with the host government and a strengthened social license to operate. Additionally, over time, local procurement costs are likely to decline. Despite the long term gain, in Nigeria, the local content managers of two international oil companies admitted privately that it was a long struggle to embrace local content and one that may not have been successful without regulation.4

The context of state intervention in the market is not always the context through which LCPs are promoted. Levett and Chandler (2012), for example, argue in favour of local content in the context of ‘development from private-sector initiatives in frontier and emerging markets.’ They contend that ‘MNCs impact development in many ways… however, nowhere are the current and

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3 On Nigeria, see Ovadia (2013b); on Angola, Ovadia 2013d).
4 Interviews, December 2012.
potential activities of large companies more dynamic and influential on development than through their local-content policies, programs, and practices’ (p. 1). In this way, writing for an American development policy audience, they are able to frame LCPs as development through private sector initiative as opposed to state intervention.

Before moving on, it is worth pausing to fully understand how local content promotes complementary activity and the extent to which this insight is now coming to the attention of the international community, a collections of important stakeholders in natural resource governance. Despite the small numbers of jobs available in oil and gas, the large number of goods and services needed for oil exploration and production offer numerous possibilities for employment. The potential for local content lies in linking the oil and gas industry to other sectors of the economy. As the idea of a dual nature to local content suggests, the benefit of local content will accrue disproportionately to the domestic elite. However, through specific policy interventions such as those undertaken in Angola and Nigeria, more of the benefit can be directed to small and medium enterprises (SMEs) and communities affected by oil extraction. In this way, SMEs in sectors indirectly linked to oil and gas can still benefit from the enormous annual investment in resource extraction while expanding at the same time into the non-oil economy. It is for this reason that Levett and Chandler (2012) argued LCPs are about ‘giving a chance’ to SMEs (p. 2).

The extension of the benefit outside of the oil sector through linkage programs is the result of spin-off effects. In economics, a spin-off effect is the positive effect of new investment. Spin-off effects include the secondary benefits from job creation and, in the case of local content in oil and gas, the opportunities created for infant industries in the non-oil economy to grow on the
basis of oil sector investment. Infant industries in the non-oil economy can benefit from local content if they supply some goods to the oil and gas sector. For example, companies providing cleaning, maintenance, security and catering can build off their oil sector contracts to find non-oil opportunities and contracts. Companies supplying concrete, industrial paints, line pipes, information technology and more can also have activities in both the oil and non-oil sectors.

Local content is also important because it addresses two of the most pressing concerns for sustainable economic and social development in both Angola and Nigeria. These are economic diversification and youth unemployment. Regarding the former, the Angolan Government has consistently underscored the role of economic diversification in the sustainable growth of national income and in poverty reduction. Regarding the latter, it has long been observed that growing youth unemployment is a major factor behind violence in the Niger Delta. It is also frequently cited with reference to the growing Boko Haram insurgency in Northern Nigeria.

While natural resources were primarily understood as a benefit in terms of increased government revenue from rents, the positive impact from local content on economic growth, job creation, diversification and other pressing concerns adds to the value from increased retention of capital. It is therefore not surprising that gradually, the World Bank, African Development Bank and other international institutions are beginning to devote resources to local content promotion.

The World Bank’s Oil, Gas & Mining Unit released a report (World Bank, 2012a) in January 2012 detailing efforts to support local procurement in mining in West Africa as part of their support for the African Union’s African Mining Vision (AMV). The AMV outlines a new
resource-based industrialisation and development strategy for Africa based on downstream, upstream and sidestream linkages. In making recommendations to regional organisations, national governments, civil society and communities and mining companies, the report’s authors write: ‘This focus on local procurement represents a shift in policy approach: rather than concentrating on the contribution by mining companies through taxes, governments are increasingly exploring ways in which mines can become more closely integrated with local economies’ (p. vii). They followed this report up with a major international conference in the fall of 2013 in Vienna in which they brought various stakeholders and policy makers together to discuss recent research on local content.\(^5\)

The presentations made at Vienna as well as World Bank’s major report on LCPs (Tordo et al., 2013) demonstrate a major tension when it comes to promoting local content. Despite the solid theory of how LCPs could potentially work described above, there is little concrete evidence at this stage that proves they promote economic growth. The nearly complete lack of empirical evidence of any kind on this question becomes clear when reading the variety of reports and publications that have come out in the last few years on this important topic.\(^6\)

Rather than fully advocate for LCPs, the World Bank report discusses LCPs and other ‘productive development policies’—essentially policies of state intervention in the economy—‘without taking a side’. It does note that:

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\(^6\) Perhaps the only empirical evidence about the benefit of local content comes from Ovadia’s (forthcoming), whose qualitative case studies of oil and oil service companies in Angola and Nigeria. The findings, however, are decidedly mixed when it comes to demonstrating actual benefit from LCPs.
While LCPs have the potential to stimulate broad-based economic development, which is necessary to alleviate poverty and achieve the United Nation’s Millennium Development Goals (MDGs), their application in petroleum-rich countries has achieved mixed results. The use of specialized inputs and the technological complexity of the petroleum sector often limit the possibility of developing backward and forward links into the local economy. [Tordo et al, 2013, p. xi]

Additionally, in a note released on local content reporting in the context of the Extractive Industries Transparency Initiative (EITI), the World Bank (2012b) discusses the potential benefits and challenges of increasing local content transparency through robust monitoring and evaluation and recommends multi-stakeholder discussions, reporting, disclosure, verification and dissemination of developed policy and reports. The note was to be considered by EITI’s strategy working group in April 2012, but in the end, was not included explicitly in the revisions to the EITI standard because, according to one person close to the strategy review, of concerns related to how to implement and enforce a standard for measuring local content across member countries.\(^7\)

Despite some steps backward and some confusion as to how to include local content in its set of policy recommendations for resource-rich countries, local content remains an area of concern for governance and transparency advocates and a new focus in the World Bank. Governance and transparency advocates would highlight the potential pitfalls of LCPs in terms of the “dual

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\(^7\) Personal Communication, July 2013. One area of local content that did make it into the revised EITI standard is provision 3.4(d), which requires that EITI reports include the number of jobs involved in the extractive sector as a total number and as a per cent of total employment. See <http://eiti.org/document/standard>. 
nature” of local content, call for policies designed to maximize the developmental potential and advocate civil society involvement in local content implementation. A senior manager confirms that the World Bank plans to continue advocating for local content in oil and gas mining.\textsuperscript{8} However, it may be that he was referring more to voluntary adoption of local content by the private sector and limited measures to support and nurture SMEs. This approach is significantly more palatable than a more comprehensive approach to LCPs linked to industrial policy and development planning.

The African Development Bank is another institution that has begun paying close attention to the role of local content in fostering industrial development through linkages with extractive industry. According to John Anyanwu (2013), Lead Research Economist in the Development and Research Department of the organization, local content can allow these linkages to develop in a way that can transform local businesses into world class companies. He therefore promotes local content as a strategy for maximizing value added and job creation in order to retain more benefits in-country, develop local capabilities, transfer technology and create and/or stimulate other industries on the supply chain of the hydrocarbon industry. Overall, as noted by Iman (2013), Chief Investment Officer of the Bank’s South Africa Regional Resource Center, the organization has supported local content in multiple ways. These include: (1) fostering policy design, promulgation and implementation; (2) offering a legal support facility related to legal and regulatory frameworks for local content; (3) offering technical assistance for capacity building; and (4) implementing specific local content programs such as SME linkage programs and lines of credit to financial institutions. In one of its largest local content projects to date, the Bank has

\textsuperscript{8} Personal Communication, May 2013.
loaned US$100 million to the Nigeria LNG project. This project, which itself is seen as a model in Nigeria for maximizing local inputs, adds value to a resource that has typically been flared off at great cost to the environment and local livelihoods in the Niger Delta.

Finally, local content has also become a priority of the African Union Heads of State and Government. The African Union, African Development Bank and UNECA, are all partners in the AMV and are also working together to establish the African Minerals Development Centre (AMDC) to provide strategic operational support for the AMV and its Action Plan. Programme Cluster 8 of the Action Plan focuses specifically on linkages and diversification and calls for local content and empowerment of citizens in legislation and investing in human resources and knowledge development, particularly to grow the higher level technical skills base required by the minerals industry. Therefore, the AMV strategy involves a plan to ‘Develop value addition policies and strategies (based on supply chain analyses) including local content and beneficiation’ (AMV, 2011, p. 35).

Given UNECA’s involvement in the AMV, it is not surprising that the Economic Report for Africa for 2013 strongly pushes for local content. The report summary entreats African countries to develop an ‘appropriately directed local content policy’ because ‘local content policies have probably been the single most important policy driver of linkages from the commodity sector.’ It also argues there is some legal leeway in World Trade Organisation rules and ‘real-world mechanisms’ to ‘push through and sustain local content policies.’ To put in place successful local content policies, the report argues that value addition will have to take precedence over
satisfying special interest groups and that technical and financial assistance will have to be secured for developing linkages (UNECA, 2013, p. 12).

In less than a decade, local content policies, premised (overtly or implicitly) on state-led industrial development, have become central to development planning for African governments and international institutions. Increasingly, they are also finding support in the international business community, as evidenced by a report on local content strategy from the local content task force of the global oil and gas industry association for environmental and social issues, IPIECA (IPIECA, 2011). This report is particularly significant because it lauds local content as not only meeting regulatory requirements and promoting sustainable development, but also as a strategic issue that protects companies’ commercial interests.

In a report for the Revenue Watch Institute called Beyond Taxation: How Countries Can Benefit From the Extractive Industries through Local Content, Darling (2011) writes: ‘Increasingly, policy-makers in countries endowed with natural resource wealth seek to harness economic development opportunities provided by the presence of the extractive industries within their borders’ (p. 2). However, to get beyond the theoretical benefits of local content policy and begin to understand how it works in practice, the remainder of this paper focuses on the implementation of local content in Angola and Nigeria and how this is tied to questions of natural resource governance. Through these two cases, the strengths and challenges of local content will be brought into focus with a view toward drawing out lessons learned and meaningfully exposing how Africa’s rise can come about and how it can lead not only to
economic growth but also to industrialisation, job creation and an improved quality of everyday life.

3. Local Content Implementation: The Case of Angola

Local content has been pursued in earnest by the Angolan Government since 2002 and is coordinated by the national oil company, Sonangol. Angola has made great gains since the end of the civil war, even in the non-oil economy, which has been growing rapidly (OSISA, 2013). Local content is enforced through a variety of laws and through the government’s Production Sharing Agreements (PSAs) with international oil companies.\(^9\) According to the World Bank, high unemployment rates (over 25 per cent) and a weak education system (both state and privately owned) have been important drivers of LCPs (Tordo et al., 2013). The Angolan Ministry of Petroleum requires all foreign oil and oil service companies to submit human resources plans to increase the number of Angolans working for them and monitors the companies to ensure they are following through. Meanwhile, encouraging local content in terms of procurement is more the responsibility of Sonangol’s Negotiations Directorate, which oversees a new program of local content development in Angola launched in 2008.\(^{10}\)

The Angolan Government and Sonangol have both made it clear that local content is a major priority for the petroleum sector. Like Nigeria, Angola’s local content initiative is inspired by the example of Norway. In many ways, Norway has been directly involved in the promotion of LCPs (Ovadia, 2012). However, as Teka (2012) reminds us, even putting aside questions of governance, Norway at the onset of oil-production and Angola today are not comparable in terms

\(^9\) For a more in-depth history of local content in Angola and overview of the legal and regulatory framework, see Ovadia (2012).
\(^{10}\) Interview, August 2010.
of the size of the economy, per capita income and strength and size of the industrial sector. Nevertheless, Angola has pursued local content in several ways. Although there have been new laws and additions to the PSAs in recent years to bolster local content, changes have been piecemeal. Additionally, there often seems to be a lack of coordination between Sonangol, the Ministry of Petroleum and other key stakeholders. While these drawbacks have delayed major benefit from local content to date, several recent initiatives suggest the groundwork is being laid for local content to make a significant impact on Angolan development. While the new initiatives mentioned below are impressive, the inclusion of civil society organizations, capacity of institutions and overall quality of governance will be important in shaping how much of a developmental effect LCPs have.

Sonangol has also advanced local content by encouraging and exhorting new initiatives from the major international oil companies (IOCs) operating in Angola. Sonangol began in the mid-2000s to work with different operators to each take charge of their own new local content initiative to deal with domestic sourcing challenges (Tordo and Anouti, 2013, pp. 36-37). As a result, Chevron Angola launched its Angola Enterprise Program (AEP) in 2004 to develop the local capacity of SMEs. Total Angola began work in 2005 on a large microfinance initiative called the Zimbo Fund to SMEs access to capital. Also in 2005, BP launched the Centro de Apoio Empresarial (Business Support Centre - CAE) to provide professional training to SMEs. According to Levett and Chandler, who discuss CAE in their Angola case study, ‘CAE improved the capacity of Angolan SMEs to serve as contractors and suppliers’ (2012, p. 8). Finally, Esso Angola began work shortly thereafter on new bidding processes and technical assistance for local suppliers. Some of the results on these programs are summarized in Figure 1.
Beyond the effort to encourage IOCs to adopt LCPs, there are four recent policy initiatives of the state that will be discussed in this section. They are the adoption of tax incentives for Angolan oil exploration and production companies; the adoption of regulations requiring the use of Angolan banks and local currency; the coordination and promotion of investments in manufacturing and oil services through a subsidiary of Sonangol called Sonangol Industrial Investments (SIIND) and efforts to build human capacity for the oil and oil services sectors. Despite these new initiatives, it is very difficult to measure the success of the state’s local content policies in retaining capital, adding value and creating jobs due to a lack of openness and the inadequacy of monitoring and evaluation.

At the same time, even more in Angola than in Nigeria, there is a danger of local content reinforcing the power and wealth of the elite. The Angolan elite dominate the economy and completely control the country’s politics. They have clamped down on all forms of dissent (see Faria, 2013) and have used their connections to take over state-run businesses. They have also taken over much of the independent media. The lack of freedom of speech and reluctance to learn from past mistakes is very dangerous. Where local content has been used to direct benefits to certain well-placed businessmen and help facilitate control and ownership by a small elite around the president, it risks becoming a recipe for underdevelopment instead of development.

The first recent policy initiative is tax incentives for local companies involved in the exploration and production (E&P) of petroleum resources. Since E&P is very capital intensive and involves
very little employment (much of which is of foreigners since it involves a high level of skills, training and experience), it is not as crucial to overall local content strategy as oil services. However, domestic participation in E&P is important for building the skills and experience of locals (which in turn helps with the domestic oil services sector) and for exerting local control of this strategically important sector. In other forms of mineral extraction, the involvement of indigenous companies in E&P may be greater and more beneficial.

There are a few important Angolan companies involved in E&P. Among them are Angola Consulting Resources (ACREP) and Sociedade Petrolífera Angolana (Somoil). While Somoil has greater access to state resources and patronage from Sonangol due to the connections of its owners, ACREP has struggled with profitability in an industry with long investment horizons. The company’s chief executive, Carlos Amaral, lobbied hard for investment incentives for indigenous E&P companies. In 2010, noting that ‘For a major oil country like Angola, not having local companies is not good,’ Amaral explained that ACREP was facing the same taxation system as IOCs even though they were a small local company with limited access to credit and could not compete with international companies, which deduct the costs of doing business in Angola (including the enormous signing bonuses they pay) in other jurisdictions and benefit from enormous economies of scale.  

In every other sector, Amaral argued, companies are governed by the general law on investment and may be eligible for several years of exemptions from corporate taxes. When they do pay taxes, they pay based on their profits. The regime for oil and gas is different because it was

11 Interview, August 2010.
designed for foreign companies. In his words, ‘ACREP wants to grow, but it can’t even deduct the costs of running or expanding its office, let alone its share of the signing bonuses it must pay. This is a good system for foreign companies. But it means we can only grow on profits.’ He went on to point out that as an investor, ACREP was carrying the Sonangol’s stake in oil blocks, which makes little sense given Sonangol’s size relative to ACREP and is doing so only because those are the terms of the typical contract. Convincingly stating that he ‘just wanted to be treated like every other Angolan company,’ Amaral argued for a different legal and financial framework for Angolan E&P companies that allowed local companies to create wealth and jobs in exploration and production and took that fight to the Council of Ministers, discussing his concerns with them in private.\textsuperscript{12} His efforts were part of a larger effort that led to the adoption of a new law, Presidential Legal Decree 3/2012 of 16 March. The new law reduced the Petroleum Income Tax (PIT) from 50 per cent (sometimes as high as 65 per cent in some concessions) to the standard industry tax of 30 per cent.

The second major new initiative is the one that has gained the most attention internationally—the push to require IOCs to use Angolan banks and currency. This push, known as ‘Kwanzanisation’ after Angola’s currency, was introduced through National Bank Order 20/2012, which is supported by Law 2/2012. The new law requires oil companies to settle all tax obligations and payments for goods and services from foreign companies from foreign currency accounts in Angolan banks and to pay Angolan taxes and settle all payments for goods and services to Angolans in the national currency. If the National Bank of Angola (BNA) can manage the stability of the Kwanza against the US dollar and if Angolan banks can handle the number and

\textsuperscript{12}Ibid.
volume of transactions, Angola will have stronger control of monetary policy, a much more vibrant banking sector (which is crucial for job creation as well as access to credit – a major local content challenge) and a more stable economy (due to the stronger foreign exchange market). The move may also help develop the Angolan insurance industry and will certainly create jobs in finance and help capture and retain foreign investment in oil and gas. Kwanzanisation was resisted vigorously for many years by the IOCs; and in private, many insiders acknowledge there has been a great deal of high level lobbying against the current changes. However, the fact that Angola has so far remained firm in its commitment to these changes demonstrates their negotiating power in putting in place protectionist policies that benefit the national economy and further local content objectives. Despite concerns from IOCs and international financial institutions of potential negative effects, since its implementation in 2013, there have been few difficulties with the Kwanzanization programme. Even the IMF agrees that the policy has improved market operations, provided greater effectiveness to monetary policy and should help stem capital flight.13

Through SIIND, the Government of Angola is investing heavily in the third new policy initiative—new special economic zones to promote manufacturing and industrial development. Much of this new investment in factories is anchored and supported by state procurement and oil services. SIIND has coordinated the establishment of 73 factories in the Viana Special Economic Zone. According to various media reports, SIIND invested US$50 million in the first eight factories, which opened in 2011. A further six factories were opened in the summer of 2012 at a cost of US$78 million. These new investments demonstrate how the government is pursuing an

aggressive local content agenda and setting up facilities in-country to do manufacturing work that was previously done abroad.

So far, the factories that have opened are producing fibre optic cables, low and high voltage power cables, paints and varnishes, plastics, pipes, electrical equipment, irrigation materials, fittings, fencing and wire, foam mattresses and roofing tiles. There are also fabrication facilities for metallic structures. Much of the output of these factories, with the exception of the final two items, is of use to the oil industry, though as of yet it is not clear if orders are being placed by IOCs and multinational service companies. The 12 new plants being planned for late 2012 included factories producing hardware, electroplating, water pumps, metalworking, metal packaging, plastic bags, electroplating, metal pavilions, glass for construction and carton. SIIND will be the main shareholder and manager of the industrial units and has also undertaken to provide support, help supply raw materials and ensure the use of modern industrial technology.

With these factories, Sonangol is taking a very active role in substituting imported products for locally-produced ones. At the same time, for the companies that service the oil sector, there is a strong incentive to produce high quality goods and services and to bring cost under control. In terms of quality, IOCs will not switch to local products that are inferior in quality, nor does Sonangol want to put at risk its revenue from oil production. In terms of cost, since IOCs ultimately recover the cost of production from Sonangol, the incentive is still there to lower costs over time. Additionally, the possibility of exporting oil services to other countries in the region is an added incentive to produce products that can compete in the booming regional market.
Although recent analyses of local content in Angola have suggested that there has been little progress to date (UNECA, 2013; Teka, 2012), the Special Economic Zone of Viana is just one of many new initiatives promoting in-country manufacturing. In partnership with the Nigerian logistics company Intels, Sonangol has set up a logistics base and oil service centre called Sonils where many local and multinational companies are basing their new manufacturing activities. For example, Cameron Angola opened a manufacturing plant on Sonils in January 2011 that employs 144 people, of whom 95 are Angolan, and produces a range of subsea wellheads and, metallic structures and does other refurbishment and repairs. Other manufacturers, including indigenous companies, have set themselves up in the Viana Business Park, another purpose-built area for new industrial and commercial development.

Finally, in terms of human capacity, a key official in the department of Sonangol’s responsible for local content notes that skill building is a key aspect of local content for Angola. He acknowledged that ‘There must be more universities for geology, geophysics, chemicals and other important areas. People need to work while they are being trained. That’s the reality for most Angolans.’ He also expressed a need for both new laws to regulate local content and the coordinated management of a local content master plan. In 2010, Sonangol was working on a master plan to cover the next 25 years that would be updated every five years or as required. However, since no plans regarding local content have been made public, there is no way for Angolans to contribute to its development or hold either the government or private companies accountable for its implementation.

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14 Company presentation [Internal document], 2012.
16 Interview, August 2010; Teka (2012) also suggests that Sonangol is working on a new local content plan.
Taken together, Angola’s four government initiatives demonstrate a strong commitment to local content. Ultimately, however, local content’s success may depend less on these new initiatives and more on questions of governance. Governance determines the effectiveness of implementation, the commitment with which the country pursues human capacity building and infrastructure development and the extent to which the government encourages participation from large segments of the Angolan population and Angolan civil society. A World Bank case study on local content in Angola identifies a lack of transparency, high poverty levels, human rights complaints and other issues as evidence that ‘Angola’s oil wealth has not been efficiently managed to the benefit of the economy and the population at large’ (Tordo and Anouti, 2013, p. 25). Combined with concerns raised in OSISA (2013) and elsewhere, the World Bank case study serves as a reminder that LCPs must be linked to natural resource governance.

4. Local Content Implementation: The Case of Nigeria

In April 2010, Nigeria passed the *Nigerian Oil and Gas Industry Content Development* (henceforth referred to as the ‘Nigerian Content Act’ or ‘NCA’). The NCA created the Nigerian Content Development and Monitoring Board (NCDMB) to monitor and enforce local content and ensure successful implementation of the local content objectives Nigeria began pursuing in 2001.\(^{17}\) The NCA sets minimum targets for Nigerian participation in 280 categories of oil services. Despite some resistance from IOCs and some problems with implementation because there is simply inadequate capacity to achieve some of the targets, there has been a marked improvement in local content. Improvement is hard to quantify because there is still some

\(^{17}\) For a more in-depth history of local content in Nigeria and overview of the legal and regulatory framework, see Ovadia (2013a).
difficulty in understanding how to measure local content. However, in numerous presentations and publications, the NCDMB estimates local capture of oil industry spend has gone from 5 per cent to roughly 40 per cent in the last decade. The 40 per cent figure is generally accepted by industry experts. With average annual investment in the range of US$15 billion, local content would be retaining over US$5 billion in the Nigerian economy annually.18

As in Angola, there is a danger that local content will ultimately be more about reinforcing the power of the Nigerian elite and giving them new opportunities for rent-seeking. Therefore, this section will begin by analyzing some of the latest changes and newest initiatives put in place by the NCDMB and by the IOCs before proceeding to track some important implementation challenges such as dealing with a lack of capacity to meet the local content targets set out in the NCA and developing a system to measure local content and a standard metric to be used by the government and all the oil companies. Once local content targets have been set, as they have in Nigeria, the task remaining is determining how to evaluate compliance with those targets.

After its creation, the NCDMB had to quickly commence regulation of local content and set policies and guidelines while embarking on an ambitious programme to improve Nigerian content through capacity building initiatives. Funding its operating costs as well as its start-up costs has been an issue for the Board, which has, in turn, limited its ability to get off the ground quickly. The NCDMB, which is supposed to receive a budgetary allocation under the

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18 According to Oluwole Oluleye, Executive Secretary of Petroleum Development Trust Fund (PDTF), a shortage of skills and capacity has denied indigenous oil servicing companies a significant share of the job opportunities and investment amounting to $17.5 billion annually (Bello, 2014).
submissions of the Ministry of Petroleum Resources, only made its first submission in November 2012.\textsuperscript{19}

The Board began reviewing and approving tenders for contracts within six months of being set up and also began a programme of monitoring and evaluation. However, enforcement of Nigerian content is still quite informal. The NCDMB has yet to issue any fines or cancel any projects. Instead, when the Directorate of Monitoring and Evaluation has found violations, it has chosen to begin a dialogue with the company involved on how best to remedy the situation. This approach, according to an NCDMB official in the Directorate of Monitoring and Evaluation, may result in a new training programme, hiring of new Nigerian staff, or other actions to satisfy the Board.\textsuperscript{20} While the approach is useful for building local capacity and probably significantly more effective than issuing fines (which a company may calculate to be less burdensome than complying with the law), it does add a level of discretion in enforcement which could be abused.

[Insert Figure 2 here]

In terms of concrete deliverables, despite the slow start, the NCDMB has an ambitious agenda for Nigerian content development (see Figure 2). Many of these initiatives are still at an early stage with few details available. The large scope of proposed activities reflects the enormity of the task assigned to the NCDMB. According to Emeka Ene, President of the Petroleum Technology Association of Nigeria, ‘Local content is a real opportunity for industrialisation

\textsuperscript{19} Presentation at the House Committee on Local Content workshop ‘Stimulating Local Capacity,’ 3 December 2012, Abuja.
\textsuperscript{20} Interview, November 2012.
across the country. As Ene says, the biggest potential for job growth is in manufacturing. According to the Manufacturers Association of Nigeria Local Content Group, there are numerous manufacturing activities that could benefit from local content in oil and gas, including chemical manufacturing, paints, varnishes, machining, equipment manufacturing, metal manufacturing and fabrication, welding, steel, manufacturing of subsea structures, steel pipe, nail and wire, cables, flanges, pumps, valves and other common spares (MANLOC, 2010).

In April 2014, Nigeria released more accurate GDP information after rebasing the measure to include new industries. The revised figures (see NBS, 2014), were widely report on because showed an 89 per cent increase in Nigeria’s 2013 nominal GDP. This jump made Nigeria Africa’s largest economy. However, the figures are also noteworthy because they show major growth in manufacturing and services. Previously thought to account for 1.9 per cent of GDP, the new figures put manufacturing at 9 per cent. The biggest jump, however, is in services, which are now thought to account for half of Nigeria’s GDP whereas previously they were thought to account for only one quarter. While these figures indicate that the importance of petroleum resources for Nigeria’s economy is much less than previously thought (crude oil exports are now closer to 13 per cent of GDP), they also indicate the potential for local content policies to boost manufacturing and service provision. In a report released soon after the GDP rebasing, Renaissance Capital flag manufacturing as the major driver of economic growth in Nigeria. According to the report, the manufacturing sector is currently growing faster than the telecommunication, oil and gas, and agricultural sectors (Ventures Africa, 2014)

21 Presentation at the House Committee on Local Content workshop ‘Stimulating Local Capacity,’ 3 December 2012, Abuja.
As mentioned above, another key area of potential for local content development in Nigeria is the large capacity building projects being pursued by the NCDMB. According to Ernest Nwapa, the NCDMB Executive Secretary, the Board has been working to establish three to four pipe mills, two to three dockyards, a subsea equipment manufacturing complex and a topside integration facility for floating production, storage and offloading vessels (FPSOs) in Nigeria. According to NCDMB estimates, the projects combined will generate over 100,000 new jobs for Nigerians as well as thousands of training opportunities (NCDMB, 2011).

The first pipe mill in Nigeria is now operational in Abuja, run by a company called SCC. The Chinese company Yulong Steel has already made a commitment to set up a steel pipe plant in Bayelsa State, while another company is also interested in establishing a mill. Nwapa has said that the three new pipe mills will generate 15,000 jobs and 3000 training opportunities.\(^2^2\) There are, however, some skeptics—especially on the pipe mills projects. According to a Nigerian content manager in one of the IOCs, the Chinese investment may fall through because of security concerns. An additional concern, according to one industry insider, is rumours that the large capacity building projects to encourage new facilities in Nigeria, especially the pipe mills projects, are being used by senior government officials to benefit personally from their positions by negotiating a share in the proposed ventures.\(^2^3\)

A final key initiative is the Nigerian Content Development Fund (NCDF), currently being set up by the NCDMB with a consortium of Nigerian banks. As mandated by the NCA, the Board has been collecting one per cent of every contract awarded in the upstream sector to put toward the

\(^{22}\) Ernest Nwapa, Presentation at ‘Stimulating Local Capacity,’ 3 December 2012, Abuja.

\(^{23}\) Interviews, December 2012.
NCDF to create credit facilities, address capacity building issues, promote human capital development, execute infrastructure projects and provide interest incentives to local companies. The fund may collect as much as US$150 million annually, allowing it to significantly impact industrial development in Nigeria and address one of the biggest challenges facing local content (in both Angola and Nigeria): access to credit for indigenous companies.

Using interviews and case studies, Vaaland et al. (2012) found that both financial institutions and indigenous companies expressed a critical shortage of financial resources available for developing indigenous industry. Ihua (2010), although writing prior to passage of the NCA, found the local content policies to have resulted in increased contract awards to small- and medium-sized firms, but not yet to new entrants. He also found increases in staff employed due to LCPs at all the companies he examined but argued the increases were ‘a tiny drop in the ocean’ when considered in light of ‘Nigeria’s unemployment rate and the role that SMEs in the oil industry can play in reducing the sky-rocketing unemployment index’ (p. 7). These findings, though out of date in the fast-moving world of Nigerian content, do demonstrate the importance of SMEs in the success of local content.

In a manner similar to what has been described above with respect to Angola, the IOCs have also been active in promoting local content in Nigeria. By 2012, they had identified the most important capacity development initiatives (CDIs) and those that would deliver the biggest boost to indigenous capacity. They divided these initiatives amongst the operators and began moving toward implementation. Working together through a CDI subcommittee, Shell committed to developing local capacity to produce seamless pipes, Chevron committed to developing
indigenous capacity to assemble valves, Total committed to developing the local production of barites (a mineral used in drilling), ENI committed to a capacity building project around marine services and ExxonMobil committed to projects on welding qualification and on developing a local plant for producing umbilicals.\textsuperscript{24}

The IOCs undertook these projects for several reasons. Most importantly, and as several of the IOC Nigerian Content General Managers (NCGMs) have stated, the local content initiatives they have undertaken make business sense. They reduce cycle time and lower transportation costs. At the same time, they believe that generating employment for Nigerians, in the words of one NCGM, ‘increases our relevance and our relationship with the country, giving us a social licence to operate.’\textsuperscript{25} While the IOCs are now coordinating more with the NCDMB, the CDIs they have undertaken have been their own initiatives. The IOCs looked to the stated priorities of government officials; however, they decided what projects to undertake and what initiatives to take on first. They coordinated amongst themselves instead of with the NCDMB or Ministry of Petroleum Resources, indicating a lack of leadership from the Nigerian Government.

Another area of concern for local content policy in Nigeria is the NCA’s approach of providing targets for Nigerian content that simply cannot be met in some cases, which has resulted in a system of granting ministerial waivers that is vulnerable to abuse. The waiver system became even more flawed when the formal system for granting waivers expired in April 2012, three years after the NCA came into force. At the ‘Stimulating Local Capacity’ workshop in December 2012, organized by the Local Content Committee of the National Assembly to gather opinions

\textsuperscript{24} Interviews, November/December 2012.
\textsuperscript{25} Interview, November/December 2012.
about the waiver issue, there was widespread agreement that the system as it stands now is discretionary. There are few guidelines for the acceptance of waiver applications and a need for greater transparency, publication of waiver applications and approvals and explicit penalties for not following waiver commitments. The discussion led Hon. Asita Honourable, Chairman of the Local Content Committee, to remark that ‘continuing to allow the Minister to grant waivers is discretionary and it is wrong.’

However, in conversations with NCGMs and other managers in the NCDs of IOCs, it has become apparent that there is no evidence that since 2010 the Minister has ever granted a waiver under the NCA.

According to a source in one of the IOCs, his company has gotten ‘maybe three’ waivers since 2010. When challenged that it is not possible that the company can be in compliance with all but three targets in the Schedule to the NCA, the source replied ‘How do you know? You can’t know that! How do you measure those targets in the Schedule? If there is no set definition of the target, you can’t know if there is compliance!’

When asked how many waivers his company had received, the NCGM of another company said that in practice, there are two types of waivers: ‘ministerial waivers’ and ‘Board waivers’. According to the NCGMs of ExxonMobil and Chevron, neither company has received any ministerial waivers—the waivers they have received have been from the NCDMB in the form of a formal letter, signed by the Executive Secretary, stating that a particular project can go ahead. This seems to be the system that has been in place since 2010, although one of the NCGMs did mention that his company was now being asked by

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26 Presentations and discussions at ‘Stimulating Local Capacity,’ 3 December 2012, Abuja. Despite his comment, the Chairman of the Local Content Committee submitted a bill to the National Assembly in February 2013 extending the ministerial waiver power until 2014. To date the bill has not been passed into law.

27 Interview, November/December 2012.
the NCDMB to apply for its first ministerial waiver. The fact that this system has continued for so long indicates that there are major concerns with the system in place to enforce the NCA and make sure its targets are reasonable, appropriate and fairly enforced.

The targets in the NCA are expressed as percentages in terms of overall spend, hours of labour, tonnage, or other defined measures. However, that is only the beginning of addressing the crucial question of how to measure local content. The real question is how to calculate the percentage of local content in any given activity to determine the existing level compared to the target in the NCA. In the absence of concrete definitions and guidelines for how to measure Nigerian content, the NCDMB has fallen back on simplistic or surface measures for monitoring and evaluation. These measures concentrate mostly on Nigerian ownership (whether or not a company is 51 per cent Nigerian-owned) over Nigerian value-added. This preference promotes elite interest over the country’s economic interest.

The NCA requires full compliance with all targets in order to operate in Nigeria. The inability of Nigerian companies to supply the goods and services required by the NCA is not in dispute. Ernest Nwapa has directly stated: ‘if you read the Schedule of the Act, you will know that there is hardly any part of that Schedule that you can comply with a hundred per cent.’ Robust metrics for measuring and reporting on local content are required to ensure effective implementation of the NCA. For these to be developed, the NCDMB will have to work together

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28 Interviews, November/December 2012.
29 Presentation at ‘Operationalizing a Development Agenda for Local Content,’ June 25-26 2012, Port Harcourt.
with the operating companies, industry groups, labour and other civil society organizations to develop a strong measurement system with independent evaluation capacity.

A final concern with Nigerian local content implementation is the level of publicly available information. While Nigeria has certainly been much more open about its local content programme than Angola, there is still much that can be done. A report produced by Tandice-B Solutions (2011) reviews some of the key challenges, including accountability and transparency in the award of oil blocks, leases and contracts and transparency in the bidding process for indigenous contractors, along with other issues such as transparency in the management of the NCDF, the absence of a standard operating framework for monitoring effectiveness of implementing the Act, and accountability and reporting on compliance. Unfortunately, many of the recommendations in the Tandice-B report have not yet been implemented – by government or by the IOCs.

Local content requires government to trust IOCs, international oil service companies and indigenous companies to act in a fair and impartial manner. While the private sector most certainly plays an important role in local content and SME development, the state’s role is crucial in setting policy and coordinating its implementation. Confidence in the state can only be built upon professional conduct, transparent operations and good governance. Additionally, greater openness can foster greater local participation, which is the aim of local content policy, and also garner support and legitimacy for the government’s development agenda.

5. Conclusion
Local content has already contributed to oil sector transformation in both Angola and Nigeria. Given that upwards of US$15 billion is invested each year in oil extraction in each of these countries, capturing more of this spend through productive economic activity could have a dramatic impact on the economy. Important similarities and differences in the two cases allow for the development of policy implications from Nigeria and Angola's approaches to managing their respective oil resources and promoting economic and social development. Through the adoption of good policy, state bureaucracies with relative autonomy can help ensure positive developmental outcomes.

What does the use of local content solutions in development add to the theoretical understanding of natural resources and development? For states seeking to nurture capitalist development, local content and the domiciliation of economic activity by foreign and domestic companies in-country offer a model of state intervention with support among a broad base of local stakeholders that can also be supported by international actors. While promoting economic development, local content strengthens the national bourgeoisie by providing autonomy for indigenous capitalist accumulation within the external structural constraints imposed by the global system. In effect, it represents a potential working model for reversing decades of underdevelopment under global neoliberalism and moving once again toward industrialisation, job creation and the alleviation of poverty.

The private sector has an important role in the adoption of LCPs; however, they are just one of many stakeholders. Local content has attracted surprisingly little attention from civil society groups. State agencies have made few efforts to engage civil society, and for their part, many
organisations simply have not paid sufficient attention. Outside of the international oil industry, international institutions are only now waking to local content’s potential and significance. For that reason, there is a lot that can be accomplished through applied research and encouraging public participation in the creation, implementation and enforcement of these important policies as well as in ensuring an enabling governance environment for local content to operate and make good on Africa’s development through natural resources.

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