From local content to shared value creation in extractive industries

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PRESENTATION

Local Content Realities in Extractive Industries

by

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Exploration Activities: East Africa

Discovery of oil in Uganda in 2006. Resources in place: 6.5 billion barrels. Recoverable reserves: over 1.7 billion barrels.

Exploration at its early stage. Western arm of the East African Rift System.

Exploration ongoing. Methane gas production in Lake Kivu.

Exploration beginning in earnest.

Over 180 Tcf of Natural Gas discovered. First LNG export contract identified. Very large LNG development is imminent.

55 Tcf of Natural Gas discovered. Gas monetization projects in top gear. First gas delivery to the new transnational pipeline commenced on 20th August 2015.

10 oil discoveries, 2 gas discoveries. Resources in place: over 1 billion barrels potential resources.
East Africa: E&P Expenditure
Local Content Gap Analysis: Concepts

Our Definition

• Local content, broadly defined as “all resources, human and not, that can be employed or sourced in the country where the business activities take place,”
  – Local content primarily concerns itself with the development of skills (workforce)
  – Competitive provision of goods and services to generate additional value from sector activity that benefits broader areas of the economy

• According to Local content proponents linkages between foreign extractive companies and host nations need to be developed further to generate spill over effects to other industries in the host nation.
  – Local Content can transform local businesses into world class companies maximizing host nation quality of life
  – Value added activities must not just be cosmetic but provide true and lasting value to the host nation and its citizens
Realities: Study findings

- **The Extractives Sector could have a positive and inclusive economic benefit to the Economy**
  - Through taxes and royalties paid to Government
  - Demand for labour - Employment
  - Demand for goods and services will lead to enhanced supply chain capabilities in local companies

- **Indirect and Direct Services have the most appeal for local supplier development.**
  - SMEs, lead contractors and extractives sector companies perceive that indirect services and certain select direct services are most suited for local supplier integration.

- **Core Technical Services represent a greater challenge for local supplier integration.**
  - Buyers in the extractives sector are reluctant to integrate local suppliers for this category because the highly technical nature implies high project risks associated with their procurement.
Realities: Study findings

- **Common supply-chain constraints include:**
  - lack of specific information on the sectors
  - limited industry experience
  - limited understanding of international standards
  - limited access to finance for expansion
  - accessing and paying for qualified and technically astute staff

- **Skills and workforce development need to be strongly linked with supplier development**
  - The development of skills and workforce for suppliers needs to be strongly linked to any supplier development interventions. Special focus needs to be placed on semi-skilled and vocational trades.

- **A number of Supply Chains would be well suited for detailed supplier development interventions.**
  - “Low hanging fruits” such as energy, construction services, vehicle fleet management amongst others would be well suited for interventions.
The supply chain model was developed to capture demand side alongside supply side behavior with reference to procurement of services
- Demand Side – Feasibility
- Supply Side – Suitability

Prioritization matrix could be used to rank the best areas for local content development

Enterprise Development is best suited for the Extractive Sector
- Simple - Strengthen and Expand Markets
- Constrained
  - Form Partnerships among Suppliers
  - Share Knowledge with Suppliers
- Complex - Ensure Supply Continuity

Realities: Study findings
Realities: Conclusion

Supply side services:
- Online supplier database
- Business matchmaking
- Supplier opportunity sharing
- Business development services
- Workforce development and recruitment
- Training and capacity building

Demand side services:
- Online supplier database
- Publishing of opportunities
- Contracting support
- Contracting strategies support
- Business matchmaking
- Training and capacity building

Combined Supplier Development Program
Contact Information

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