United Nations TD/B/64/3

United Nations Conference on Trade and Development

Distr.: General
10 July 2017

Original: English

Trade and Development Board
Sixty-fourth session
Geneva, 11–22 September 2017
Item 9 of the provisional agenda

Establishing development linkages in the extractive industry: Lessons from the field

Executive summary

The present background note summarizes the lessons learned from the ongoing UNCTAD technical cooperation project, entitled “Strengthening the capacity of the Economic Community of Central African States to enhance development linkages from the mineral resources sector”. The project is funded by the ninth tranche of the United Nations Development Account. UNCTAD is implementing the project in three member countries of the Economic Community of Central African States: Chad, the Congo and Equatorial Guinea. The note provides an overview of the lessons learned from UNCTAD efforts to assist two of the project countries, Chad and the Congo, in building and strengthening development linkages between the extractive sector and the rest of the economy.

GE.17-11533(E)

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Introduction

1. The present background note summarizes the lessons learned from the ongoing UNCTAD technical cooperation project, entitled “Strengthening the capacity of the Economic Community of Central African States to enhance development linkages from the mineral resources sector”. The project is funded by the ninth tranche of the United Nations Development Account. UNCTAD is implementing the project in three member countries of the Economic Community of Central African States (ECCAS):[1] Chad, the Congo and Equatorial Guinea. The note provides an overview of the lessons learned from UNCTAD efforts to assist two of the project countries,[2] Chad and the Congo, in building and strengthening development linkages between the extractive sector and the rest of the economy.

2. The key message is that commodity-dependent developing countries[3] (CDDCs) need to overcome the enclaves that typically form around extractive projects, by creating an enabling environment that fosters linkages between these projects and the broader economy, thereby contributing to inclusive and sustainable development.

3. The present note is structured as follows: chapter I introduces commodity dependence and the project countries; chapter II outlines the concept of development linkages as they relate to the project countries; chapter III presents and analyses the project activities implemented to date; chapter IV presents the lessons learned from the field; and chapter V concludes.

I. Background

4. In many CDDCs, the exploitation of extractive resources has yielded large revenues and created important opportunities for economic growth and sustainable development. According to the UNCTAD *State of Commodity Dependence 2016* (forthcoming), exports of hydrocarbons and mineral commodities, mainly oil, accounted for 93 per cent of total merchandise exports in Chad, 87 per cent in the Congo and 95 per cent in Equatorial Guinea for 2014/15.

5. However, most CDDCs export their extractive resources as raw materials with little value added and therefore have not been able to transform their resource wealth into sustainable economic development gains that benefit the rest of the economy. The high dependence on extractive resources makes these countries vulnerable to market price fluctuations. Underdeveloped linkages with the broader economy, as a result of the enclave and capital-intensive nature of the extractive sector, lead to the sector’s limited contribution to job creation and economic diversification.

6. Countries can respond to this challenge by moving away from exports of unrefined or semi-refined commodities to the creation of downstream industries that would spur economic development and diversification. This can be achieved by strengthening linkages of the extractive sector with the broader economy.

[1] ECCAS comprises 11 member countries: Angola, Burundi, Cameroon, the Central African Republic, Chad, the Congo, the Democratic Republic of the Congo, Gabon, Equatorial Guinea, São Tomé and Príncipe and Rwanda.

[2] Project activities have yet to begin in Equatorial Guinea, due to a delay in appointing a government focal point for the project.

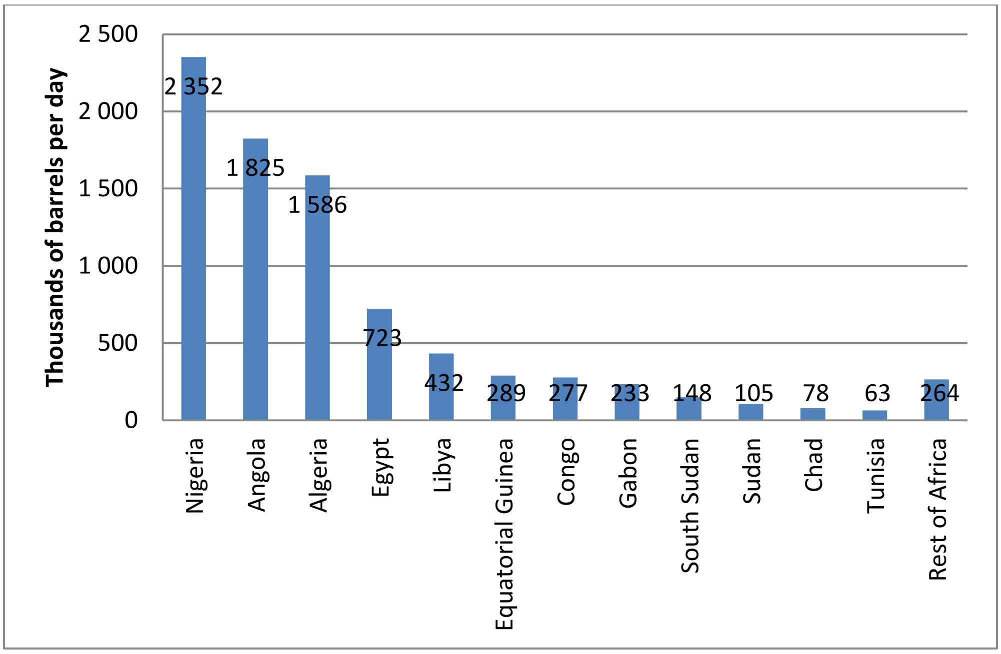
[3] Commodity dependence remains a central concern for most developing countries. UNCTAD classifies a developing country as a CDDC when its commodity export revenues contribute to more than 60 per cent of its total merchandise export earnings.

A. Commodity dependence in selected countries of the Economic Community of Central African States

7. The countries of ECCAS are endowed with large reserves of fuel and non-fuel mineral resources. For example, ECCAS produces 51 per cent of world cobalt, 25 per cent of industrial diamonds and 30 per cent of African crude oil.

8. Five countries in ECCAS (Angola, Chad, the Congo, Equatorial Guinea and Gabon) are dependent on exports of crude oil. As shown in figure 1, in 2015, these five countries accounted for approximately 2.7 million barrels per day, that is, 32 per cent of Africa's total daily production of 8.5 million barrels per day. Figure 2 shows the total proven reserves of these countries to be 18.9 billion barrels, representing 14.6 per cent of Africa's proven total reserves of 129.1 billion barrels.[4]

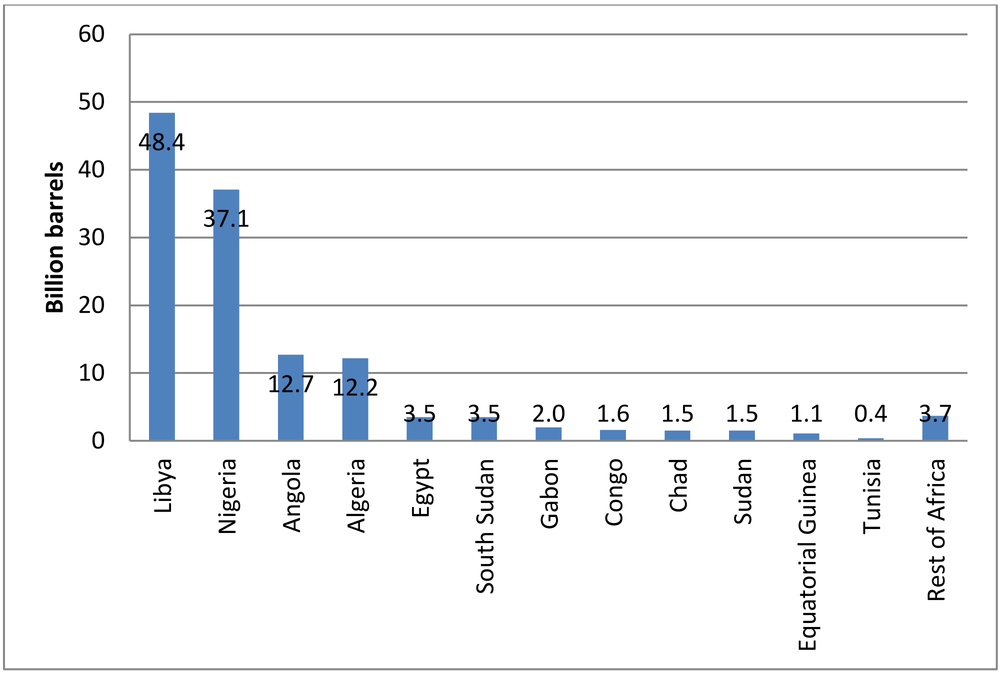
Figure 1
Oil production: selected countries of the Economic Community of Central African States and the rest of Africa, 2015



Source: BP (2016). *BP Statistical Review of World Energy June 2016*. Available at https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf (accessed 10 July 2017).

[4] Oil production in Cameroon is relatively limited compared to other producers; the figure for Cameroon is included under the rest of Africa in figure 1.

Figure 2
Proven oil reserves: selected countries of the Economic Community of Central African States and the rest of Africa, 2015



Source: BP (2016). *BP Statistical Review of World Energy June 2016*. Available at https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf (accessed 10 July 2017).

9. With respect to natural gas, Angola and Equatorial Guinea are the main producers in ECCAS. In 2015, marketed production was estimated at 772.5 million cubic metres in Angola and 6,555 million cubic metres in Equatorial Guinea.[5] Africa's total reserves of natural gas are estimated at 14.1 trillion cubic metres.[6]

10. The region covered by ECCAS holds a variety of non-fuel minerals, including rare and precious metals. For example, the Democratic Republic of the Congo produces gold, copper, cobalt, diamonds, niobium, tantalum, tin and tungsten. Angola is a significant producer of diamonds (with approximately 9,360 carats produced in 2013, 90 per cent of gem quality and 10 per cent of industrial grade) and also produces mineral commodities such as cement, fuller's earth, granite, gypsum, limestone, marble, quartz, salt, sand, silica sand, gold and crushed stone.[7]

11. However, in the three project countries, exploitation of hydrocarbons predominates. For example, in Chad, mineral commodities such as aggregates, cement, clay, gold, lime, limestone, salt, sand, sodium carbonate and stone [8] are produced for domestic consumption by small-scale domestic mining and quarrying operations. The Congo has potential reserves of gold, diamond, potash magnesium, iron ore and magnesium,

[5] Organization of the Petroleum Exporting Countries, 2016, *OPEC Annual Statistical Bulletin*. Available at http://www.opec.org/opec_web/static_files_project/media/downloads/publications/ASB2016.pdf (accessed 4 July 2017).

[6] BP, 2016, *BP Statistical Review of World Energy June 2016*. Available at https://www.bp.com/content/dam/bp/pdf/energy-economics/statistical-review-2016/bp-statistical-review-of-world-energy-2016-full-report.pdf (accessed 10 July 2017).

[7] United States of America, United States Geological Survey, 2016, 2013 Minerals yearbook: Angola. Available at https://minerals.usgs.gov/minerals/pubs/country/2013/myb3-2013-ao.pdf (accessed 4 July 2017).

[8] United States of America, United States Geological Survey, 2016, 2014 Minerals yearbook: Chad. Available at https://minerals.usgs.gov/minerals/pubs/country/2014/myb3-2014-cd.pdf (accessed 4 July 2017).

polymetals (copper, lead and zinc), phosphates and peat,[9] but production has not progressed to the mining stage, due in part to lack of infrastructure.[10] In Equatorial Guinea, the non-fuel minerals mined are limited to clay, gravel, sand and volcanic rock, which are used in the domestic construction sector.[11] In Gabon, manganese and gold are produced and exported but iron ore reserves remain untouched.[12]

B. Chad

12. In 2003, agriculture accounted for 42 per cent of the gross domestic product (GDP) of Chad, compared to 14 per cent for oil. Since 2004, oil exploitation has been the country's main source of revenue and economic activity.[13] In 2015, Chad exported 1,202 billion CFA francs in oil, 92.8 billion CFA francs in livestock and 53.9 billion CFA francs in cotton, representing 58 per cent, 4.5 per cent and 2.6 per cent of total exports, respectively. The slump in oil prices in 2014 had a severe impact on the economy and lower than expected international oil prices continued to erode growth prospects.[14]

13. According to the Economist Intelligence Unit, the real GDP growth of Chad slowed from 6.9 per cent in 2014 to 1.8 per cent in 2015, due in part to a combination of falling oil production and lower international prices.[15] In 2016, real GDP was forecast to contract by 3.1 per cent.

14. Since it began pumping in October 2003, the oil sector has contributed more than 8 trillion CFA francs in revenues to the public treasury, accounting for more than 80 per cent of total export receipts. These receipts contributed to the increase of more than 2,000 per cent in public investments and expenditures. The increase in public spending led to moderate improvements in socioeconomic indicators[16] and financed security spending in the country, contributing to improved political stability in the region.

C. Congo

15. Oil exploitation began in the Congo in 1960 and intensified between 1975 and 1984, transforming the structure of the Congolese economy.[17] In 2015, petroleum accounted for approximately 85 per cent of total exports, while timber accounted for 3.6 per cent. In spite of ongoing efforts to diversify its economy, the Congo remains heavily dependent on oil.

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9 World Bank, 2012, Republic of the Congo: Mining sector review. Available at http://documents.worldbank.org/curated/en/954411468234271193/pdf/743920ESW0P1230C0disclosed020260130.pdf (accessed 7 July 2017).

10 Economist Intelligence Unit, 2017, Congo (Brazzaville) country report, May. Available at http://country.eiu.com (accessed 7 July 2017).

11 United States of America, United States Geological Survey, 2013, 2012 Minerals yearbook: Equatorial Guinea. Available at https://minerals.usgs.gov/minerals/pubs/country/2012/myb3-2012-ek.pdf (accessed 4 July 2017).

12 Economist Intelligence Unit, 2016, Gabon: Chinese firm's manganese sales plummet after shutdown. Available at http://country.eiu.com/article.aspx?articleid=1244490908&Country=Gabon&topic=Economy&subtopic=Forecast&subsubtopic=Economic+growth&u=1&pid=315292815&oid=315292815&uid=1 (accessed 4 July 2017).

13 UNCTAD, 2016, Rapport d'analyse du contexte socioéconomique en vue de la mise en œuvre du projet au Tchad. Paper presented at the national workshop in N'Djamena, December.

14 Economist Intelligence Unit, 2016, Chad country report, December. Available at http://country.eiu.com (accessed 7 July 2017).

15 Ibid.

16 For example, infant mortality declined from 91 per 1,000 between 2000 and 2009, to 72 per 1,000 between 2010 and 2014. Regarding infrastructure, between 2011 and 2014, access to clean water expanded from 29 per cent to 39 per cent, and access to electricity increased from 3.7 per cent to 3.9 per cent. The network of paved roads went from 700 km in 2003 to 1,600 km in 2011. Despite some improvements, however, the country ranks 186th of 189 countries in the 2016 edition of the human development index of the United Nations Development Programme.

17 UNCTAD, 2017, Rapport d'analyse du contexte socioéconomique en vue de la mise en œuvre du projet au Congo. Paper presented at the national workshop in Brazzaville, May.

According to the Economist Intelligence Unit, in 2015, oil represented approximately 40 per cent of GDP, 70 per cent of export receipts and more than 40 per cent of fiscal revenue.[18] High dependence on oil makes the Congo vulnerable to market price fluctuations.

16. In 2012 and 2016, oil production contracted by 14.2 per cent and prices fell 59.2 per cent. Nevertheless, the Congolese economy grew by an average of 3 per cent, due to strong growth in non-oil sectors, such as manufacturing, electricity, gas and telecommunications.

17. The decline in oil prices from 2014 to 2016 resulted in a reduction in revenues of 54.4 per cent, leading the Government to reduce public spending significantly. The World Bank forecasts a recovery in GDP growth, at an average annual rate of 3.6 per cent over 2017–2019, driven by the launch of the Moho Nord oil field.[19]

18. Socioeconomic indicators in the Congo improved somewhat during the 2004–2011 oil price boom.[20] In addition, between 2010 and 2013, public investments increased by 300 per cent. Nonetheless, according to the International Monetary Fund, the GDP growth that resulted from the oil price boom did not result in commensurate reductions in poverty and inequality, which remain especially high in rural areas.[21] In addition, production from mature oil wells in the Congo is expected to decline from 2019 to 2034, underlining the urgent need for the country to diversify its economy.

D. Equatorial Guinea

19. The extractive industry in Equatorial Guinea is dominated by offshore crude oil and natural gas production.[22] In 2015, hydrocarbons accounted for approximately 60 per cent of GDP, nearly 80 per cent of fiscal revenue and 86 per cent of exports. By contrast, non-oil sectors are small and contribute relatively little to the national economy. Dependence on exports of hydrocarbons leaves the country vulnerable to fluctuations in oil prices.[23]

20. Despite government efforts to diversify the country’s economy in recent years, Equatorial Guinea remains heavily dependent on hydrocarbons. In 2015, GDP declined by 8.3 per cent, due to a combination of lower hydrocarbon production and drops in public investment and private sector construction. GDP growth is projected to contract by an average annual rate of 6 per cent over the period 2016–2018.[24]

[18] Economist Intelligence Unit, 2017, Congo (Brazzaville) country report, May. Available at http://country.eiu.com (accessed 7 July 2017).

[19] World Bank, Republic of the Congo: overview. Available at http://www.worldbank.org/en/country/congo/overview (accessed 5 July 2017).

[20] For example, the primary school completion rate increased from 77 per cent in 2008 to 83 per cent in 2011, but quality and access to education remain a challenge according to the African Development Bank and the International Monetary Fund. Life expectancy at birth rose from 52 years in 2000 to 59 years in 2013. Child mortality declined from 121 per 1,000 in 2000 to 49 per 1,000 in 2013. During the same period, maternal mortality decreased from 781 to 426 per 1,000.

[21] International Monetary Fund, 2015, Country Report No. 15/264: Republic of the Congo, see “Poverty and inequalities in the Republic of the Congo: Public expenditure priorities for inclusive growth”. Available at https://www.imf.org/external/pubs/ft/scr/2015/cr15264.pdf (accessed 5 July 2017).

[22] United States of America, United States Geological Survey, 2016, 2014 Minerals yearbook: Equatorial Guinea. Available at https://minerals.usgs.gov/minerals/pubs/country/2014/myb3-2014-ek.pdf (accessed 5 July 2017).

[23] International Monetary Fund, 2016, Country Report No. 16/358, Republic of Equatorial Guinea. Available at https://www.imf.org/external/pubs/ft/scr/2016/cr16358.pdf (accessed 5 July 2017).

[24] World Bank, Equatorial Guinea: overview. Available at http://www.worldbank.org/en/country/equatorialguinea/overview (accessed 5 July 2017).

II. Diversification through development linkages

21. The commodity boom in 2004–2011 encouraged the countries of ECCAS to expand the exploitation of exhaustible hydrocarbon and mineral commodities. Exploiting these resources in the region covered by ECCAS has the potential to generate substantial export revenues and taxes for Governments. With responsible governance and sufficient institutional capacity in place, these revenues can contribute to sustainable economic growth in resource-rich countries.

22. The narrow focus on exports of raw commodities to industrialized countries, however, comes at the expense of national development. Raw commodities are often not processed domestically into high value products, and some extractive activities have adverse social and environmental consequences for communities located close to extraction sites.

23. Moreover, CDDCs are vulnerable to commodity price shocks and volatile revenues, which undermines their macroeconomic management. To mitigate this vulnerability, Governments need to build and strengthen linkages between the extractives sector and the rest of the economy. This will help to overcome the enclaves that often form around extractive projects and foster economic diversification.

24. In this context, Governments in resource-rich countries can put in place measures to create and strengthen development linkages, including production (forward and backward), fiscal, consumption and spatial linkages (see box). These linkages are interrelated; for example, strengthening the fiscal regime can raise the funds necessary for infrastructure investments, thus creating the spatial linkages necessary to attract domestic investment in upstream or downstream activities, i.e. backward and forward production linkages. Nevertheless, the scope of the UNCTAD technical cooperation project and, therefore, of this note is focused mainly on backward and forward production linkages.

Types of development linkages

Forward production linkages involve processing of commodities extracted by the industry locally to produce finished goods instead of exporting them in their raw state. This can contribute to retaining more wealth in the country, as well as promoting employment, industrialization and economic diversification.

Backward production linkages connect local suppliers of goods and services to extractive companies, leading to the establishment of other local industries. This can bring significant social and economic benefits with the multiplier effects of wages and revenue spent locally thereby providing a further boost to local economic development.

Fiscal linkages allow for the collection and strategic use of resource rents. For example, revenues obtained from the sale of hydrocarbons and mineral commodities (for example from taxes and royalties) can be used in the promotion of industrial development in non-commodity sectors.

Spatial linkages involve building essential infrastructure to facilitate resource extraction. Strategic investments by extractive companies or a host Government in infrastructure, such as electricity generation, roads, rail or ports, can lead to benefits for other economic sectors. For example, investment in roads can improve the functioning of local markets.

Consumption linkages entail spending the income generated from the extractive industry on goods and services produced by other sectors within the economy. Demand created from rising incomes of workers in the extractive industries, combined with spending by companies involved in the sector on goods produced locally, can contribute to the development of new industries and employment.

Horizontal linkages involve using skills and capabilities acquired in the extractive sector to develop other industrial activities or sectors. Government support, through the creation of a business friendly environment, for example, can foster development of small and medium-sized enterprises (SMEs) and contribute to industrialization and job creation.

Sources: Collaborative Africa Budget Reform Initiative (2016) Extractive industries and their linkages with the rest of the economy. Keynote paper 1. Available at http://www.cabri-sbo.org/uploads/files/Documents/keynote_paper_2016_extractives_and_linkages_cabri_revenue_management_in_the_extractives_sector_in_africa_english.pdf (accessed 5 July 2017); Hailu D, Gankhuyag U and Kipgen C (2014). How does the extractive industry promote growth, industrialization and employment generation? Paper presented to the United Nations Development Programme and Government of Brazil for the Dialogue on the Extractive Sector and Sustainable Development held 3–5 December. Available at http://www.extractivedialogue.com/wp-content/uploads/2014/12/HowDoestheExtractive1.pdf (accessed 5 July 2017).

25. ECCAS countries have few production linkages comparable to those achieved by countries similarly endowed with natural resources such as South Africa and, to some extent, Botswana. The weak linkages in ECCAS countries are due to limited policy and private-sector capacities to translate investments in extractive industries into increased employment, local participation in supply chains and benefits for all stakeholders (e.g. host communities, workers, artisans, entrepreneurs and future generations). Such a gap could be addressed by strengthening local participation in the sector through local content policies.

26. Nevertheless, policies based on the concepts of production linkages and local content should respect a country's commitments under its trade agreements and bilateral investment treaties. Within the context of the extractive sector, local content requirements contain obligations to employ local service providers and workers in specific services sectors, as well as the purchase of locally produced goods, e.g. machinery and other hardware. The requirements on contracting local labour should comply with the commitments of member States of the World Trade Organization under article XVI (market access) and article XVII (national treatment) of the General Agreement on Trade in Services, which relates to market access and national treatment of foreign suppliers. Similarly, requirements to source goods from local suppliers would conflict with the obligations of member States of the World Trade Organization under the Agreement on Trade-Related Investment Measures. Only member States of the World Trade Organization that are least developed countries have a partial and time-bound exception to these obligations.

A. Policies implemented in project countries

Chad

27. Chad began pumping oil in 2003. Oil rapidly replaced agriculture as the main source of exports and economic activity. Incomes and government revenues rose significantly. The Government increased its investments in infrastructure, security and education. In addition, procurement of goods and services by oil operators fostered the creation of numerous Chadian SMEs.[25] Despite these improvements, economic diversification and industrialization remain limited and persistent structural weaknesses[26] hinder further economic development in the country.

28. The oil industry is the main economic sector and employer in the country, accounting for 72.5 per cent of employment in the formal economy. However, local employment is mainly concentrated in low-skilled jobs. For example, for a project in Doba, Glencore employed 1,828 Chadians in 2013, of which 64 per cent were for low-skilled jobs, compared to 33 per cent placed in positions requiring higher skills and 3 per cent in supervisory positions.[27]

[25] UNCTAD, 2016, Rapport d'analyse du contexte socioéconomique en vue de la mise en œuvre du projet au Tchad. Paper presented at the national workshop in N'Djamena, December.

[26] Includes gaps in infrastructure and skills, insufficient training and business support services and a lack of access to finance.

[27] Esso Exploration and Production Chad, (2015). Rapport de fin d'année 2015, Projet de développement Tchad/Cameroun, mise à jour n°35. http://cdn.exxonmobil.com/~/media/global/files/chad-cameroon/chad_cameroon_project_update_35_ye2014_rpt_fr.pdf (accessed 6 July 2017).

29. With regard to local participation in the value chain, approximately 10 per cent of the companies operating in oil-related activities are Chadian.28 For instance, in its Doba project, a consortium between Exxon Mobil, Petronas, Chevron and the Hydrocarbons Corporation of Chad, the national oil company, reported granting 73 contracts to Chadian companies, far fewer than the 1,024 contracts granted to Cameroonian companies.[29] In addition to the total number of contracts, it would also be illustrative to analyse the types of contracts Chadian companies were granted, for example by the level of skill or technology involved.

30. The current legal framework of Chad for the oil sector contains no formal definition of local content. Local content provisions exist in diverse pieces of general legislation. For example, Law No. 006/PR/2007 of 2 May 2007, on hydrocarbons, included specific local content requirements in areas such as exploration and production and infrastructure contracts, transfer of property, local recruitment and training, and procurement.

31. Meanwhile, Ordinance No. 001/PR/2010, regulating exploration and production sharing agreements, gives a minimum 20 per cent share of projects to the Hydrocarbons Corporation of Chad, as well as establishes local content requirements for procurement, jobs and training.

32. Indirect local content requirements also exist in investment and labour rules. These general guidelines relate to technology transfer, local employment and participation in procurement.

33. As a result of the uncoordinated set of rules relating to local content, in practice local content is administered on a case-by-case basis in the contracts made by the Hydrocarbons Corporation of Chad and operators. The contract provisions are generally linked to local employment, national training, local procurement, corporate social responsibility policies and monitoring and evaluation.[30]

34. Similarly, the mining code of 1995 of Chad contains no specific mention of local content, although it contains related provisions, for example, for local employment and training, technology transfer, preferential treatment for national companies and corporate social responsibility.

Congo

35. Economic diversification is a priority in the 2012–2016 national development plan of the Congo, contributing to economic growth and poverty reduction.[31] Both oil and mining are indicated as strategic sectors for promoting the industrialization and development of the Congolese economy. Nonetheless, the national development plan acknowledges that local participation in both oil and mining is still weak due to a lack of skills, infrastructure and business support services and of a national integration strategy for value chains.

36. To overcome the shortage of skilled Congolese workers in the oil sector, the Government formed a partnership with Total E and P Congo to create a master’s degree programme in oil engineering and geology at the Marien Ngouabi University (Brazzaville). The partnership also created the National School of Polytechnic Studies, as part of

28 UNCTAD, 2016, Rapport d’analyse du contexte socioéconomique en vue de la mise en œuvre du projet au Tchad. Paper presented at the national workshop in N’Djamena, December.

29 Esso Exploration and Production Chad, (2015). Rapport de fin d’année 2015, Projet de développement Tchad/Cameroun, mise à jour n°35. http://cdn.exxonmobil.com/~/media/global/files/chad-cameroon/chad_cameroon_project_update_35_ye2014_rpt_fr.pdf (accessed 6 July 2017).

30 UNCTAD, 2016, Rapport sur l’état des lieux relatif au contenu local du Tchad et contribution à son amélioration. Paper presented at the national workshop in N’Djamena, December.

31 Available at https://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/Congo_-_Document_de_strat%C3%A9gie_pour_la_croissance_l_emploi_et_la_r%C3%A9duction_de_la_pauvret%C3%A9__DSCERP_2012-2016_.pdf (accessed 6 July 2017).

implementation of the Moho Nord project. Total E and P Congo also hosts a training centre for industrial maintenance at the Higher Institute of Technology of Central Africa.[32]

37. In the mining sector, a presidential decree created two institutions to conduct research in the sector: the Geological and Mining Research Centre and the Centre for Expertise, Evaluation and Certification of Precious Minerals.

38. To address the infrastructure gap, the Government of the Congo built an international airport, a deep-water port and a railway to connect the oil-producing region with its markets. Delivering a consistent supply of energy and water remains a challenge for mining development in the country.

39. In 2017, the Government was debating draft legislation on the creation of a SME support centre, linked to the Ministry of Hydrocarbons, which would provide much needed business support services. According to the draft legislation, the focus of the centre's mandate would be to assist Congolese SMEs in increasing their participation in the oil cluster. An SME development agency already exists in the Congo, reporting to the Ministry of SMEs, Crafts and the Informal Sector; the Government is therefore discussing how to consolidate both functions within a single agency.

40. Until late 2016, various laws, decrees, regulations and rules of the Congo relating to local content were general, i.e. not specific to any sector. Moreover, there was no central coordination of the patchwork of rules and, in many cases, it was unclear which government body had jurisdiction over individual rules. In the oil sector, this contributed to a confusing regulatory environment for companies and weak or inconsistent enforcement of the rules.

41. As a result, in practice, local content clauses were included on a case-by-case basis in contracts negotiated between the Government of the Congo and international oil operators. Some companies, such as Total E and P Congo, also implemented local content measures as part of their corporate social responsibility strategies. The corporate social responsibility activities of Total E and P Congo included, for example, (a) training programmes for SMEs in the areas of hygiene, security and environment, and quality and compliance; (b) preferential procurement schemes for national SMEs; and (c) the creation of a database of local suppliers.

42. On 12 October 2016, the Government of the Congo passed Law No. 28-2016, the Hydrocarbons Code, which provides the comprehensive fiscal, customs and legal framework for the hydrocarbons sector, including specific local content requirements. Article 3, title VII of the Code details the criteria for implementation of local content regarding local employment, local procurement, partnerships, technology transfer and monitoring and evaluation.[33]

43. Regarding the mining sector of the Congo, the 2005 Mining Code does not contain specific references to local content. As of May 2017, the Government was reviewing the Mining Code, with a new draft expected to include local content requirements. The Government continues to apply local content provisions, on a case-by-case basis, in its contracts with operators. The exception is Law No. 21-2016 of 26 September 2016,[34] specific to iron ore mining in Mayoko, in the south of the Congo, which contains local content requirements relating to skills development, local procurement, subcontracting and the establishment of a local development fund.

[32] UNCTAD, 2017, Rapport d'analyse du contexte socioéconomique en vue de la mise en œuvre du projet au Congo. Paper presented at the national workshop in Brazzaville, May.

[33] Congo, 2016, Journal Officiel de la République du Congo, Edition spéciale, n° 8. Available at http://www.sgg.cg/imageProvider.asp?private_resource=2588&fn=jo_es2016_08.pdf (accessed 10 July 2017).

[34] Congo, 2016, Journal Officiel de la République du Congo, N° 41. Available at http://www.sgg.cg/imageProvider.asp?private_resource=2528&fn=jo_2016_41.pdf (accessed 10 July 2017).

B. Project rationale

44. UNCTAD launched a project on strengthening the capacity of the countries of ECCAS to enhance potential development linkages from the mineral resources sector to the rest of the economy. The project targets three ECCAS countries (Chad, the Congo and Equatorial Guinea) that have high dependency on hydrocarbons, mainly oil. The project is financed by funds from the ninth tranche of the United Nations Development Account. It aims at developing capacities to design and implement participatory strategies for creating and strengthening sustainable domestic economic linkages to activities related to mineral exploitation.

45. To achieve its objectives, the project has undertaken a variety of activities with a focus on strengthening institutions, fostering research collaboration and stimulating dialogue between stakeholders. These activities include capacity-building workshops and study tours to develop knowledge in areas such as development of suppliers to the sector, local content policy implementation, value addition and transfer of skills.

C. Challenges to establishing development linkages

46. The three project countries are still in the early stages of establishing an enabling environment for the establishment of development linkages to the extractive sector. The main challenges identified in the implementation of this technical cooperation project include the following:

(a) **Access to finance**. SMEs and other local enterprises in the extractive sector underscored that limited access to affordable finance constrained their participation in the extractive industry. Lack of finance has stifled growth of SMEs and hindered their ability to invest in the new technologies and equipment needed to compete with international suppliers on quality and cost. Local banks required collateral amounting to 100–150 per cent of the loan amount and terms were inflexible, effectively making their services inaccessible to SMEs.

(b) **Lack of skills**. SMEs and other local enterprises in the project countries lack the technical and managerial skills to capitalize on backward and forward production linkage opportunities in the extractive sector. Among other factors, stakeholders in the project countries expressed that there are too few vocational training institutions to fill the skills gap. Governments could review whether the curriculum at existing institutions responds adequately to industry demand.

(c) **Limited institutional capacity**. Although there are some laws on developing linkages (e.g. local content) in the project countries, their limited institutional capacity, especially related to the implementation of laws and regulations, has contributed to the slow development and participation of local enterprises in the sector.

(d) **Lack of infrastructure**. Absent or inadequate infrastructure (such as electricity grids, roads or water networks) has contributed to the limited participation of SMEs in the extractive sector. SMEs cite inadequate infrastructure as having a negative impact on their productivity, costs and profits, affecting their competitiveness in relation to international suppliers.

(e) **Insufficient information flow**. Poor information flow on opportunities related to local content negatively affects both multinational contracting companies and potential local contractors. In the project countries, multinationals have difficulty identifying qualified local suppliers due to the absence of a central, public registry for such firms. For SMEs, there are few communication channels through which they can learn about opportunities in the extractive sector, leaving them with the impression that the sector is closed to them. At the first workshop in the Congo, participants proposed a registry of qualified local companies operating in the oil sector. Establishing this registry is one of the objectives of this project.

(f) **Limited involvement of civil society**. The low level of involvement of civil society in the extractive sector has reduced the advocacy role they perform in promoting policies, transparency of contracts and improved business practices, all of which contributes to building sustainable development linkages.

(g) **Capacity to maximize interests in contract negotiations**. Often CDDC Governments enter into agreements that favour extractive companies because of weak negotiation capacities. As a result, the potential of maximizing broad-based linkages from the sector to the rest of the economy is lost.

III. Overview of the project

A. Review of project activities

47. The overall objective of the project is to strengthen the capacity of Chad, Republic of Congo and Equatorial Guinea to enhance development linkages (see box) from the extractive sector for the benefit of the economy. To achieve this objective, the project implemented a variety of activities, including strategic planning, capacity-building workshops and study tours. Activities sought to build capacities on topics such as building a domestic supplier base, implementing local content requirements, value addition, leveraging transferable skills to develop other sectors, governance, strengthening institutions and research collaboration.

48. In November 2015, UNCTAD organized a national capacity-building and regional workshop in Chad to launch the project and design a roadmap for its implementation. Stakeholders in the extractive sector, including public sector officials, institutions, private sector, academia and non-governmental organizations, received training on fostering local content and development linkages and on assessing the social and environmental impact of mineral sector development. As a result of the participatory needs assessment exercise, stakeholders defined the general guidelines of the national roadmap for project activities in Chad. This exercise considered the internal and external environment, such as applicable laws, regulations and policies, practices and available resources. At the end of the workshop, participants formed a national task force and validated the roadmap, which they sent to the Secretary-General of the Ministry of Trade for official endorsement.

49. At the Chad workshop, participants drafted national and regional road maps to achieve the expected goals of the project, and validated the national roadmap. The regional road map still requires official validation by governments from the project countries and ECCAS. Attendees at the workshops included the Minister of Mines and Geology, senior decision-making public officials from related ministries and stakeholders from the local private sector (Chad); the Minister of Planning, Statistics and Regional Integration, senior decision-making public officials from related ministries, the Resident Coordinator of the United Nations Development Programme, stakeholders from the extractive sector, and representatives from higher education institutions and the Central African Economic and Monetary Community (Congo). The participation of ministries and institutions enabled UNCTAD to build synergies between the project and the activities of these institutions.

50. The project organized national and regional workshops in the Congo in September 2016, with objectives similar to those for the first workshop held in Chad. The workshops were also used to share experience on regional best practices in developing linkages with the mineral sector, as well as lessons learned in the implementation of local content policies in ECCAS.

51. Detailed evaluations of the extractive sectors in the Chad and the Congo were completed in March 2017 to identify each country’s needs in implementing the project’s recommendations. In addition, national task forces were set up in both Chad and the Congo to oversee the development of strategic plans, frameworks and guidelines for local content implementation and to promote the exchange of information among the relevant ministries.

52. As part of an UNCTAD collaboration with the Evidence and Lessons from Latin America programme, a project of the Department for International Development (United Kingdom of Great Britain and Northern Ireland), in 2016 members of the national task forces participated in an online course on local content in Africa and Latin America.

After completion of the course, in November 2016, two members from each national task force participated in the Evidence and Lessons from Latin America study tour to Ecuador to deepen their experience of developing linkages between the extractive sectors with the broader economy in Latin America. The tour also allowed for knowledge sharing between the African and Latin American participants thereby enhancing South–South cooperation.

53. More specifically, the following topics were addressed during the study tour: (a) the oil and gas industry in Ecuador; (b) public sector strategies to enhance diversification in the oil and gas sector; (c) the private sector perspective operating on the oil and gas sector in Ecuador; (d) oil operations and best practices in the oil sector in Ecuador; (e) local content practices adopted in the Amazon region from a private company perspective; (f) impacts of the extractive sector at the local level and the role of local actors (civil society, communities and the public sector); and (g) challenges of implementation of local content strategies at the local level.

54. A second capacity-building workshop in Chad was organized in December 2016. Experts provided training to participants on identifying opportunities for developing local content. Four experts (two from Chad and two from the Congo) also shared with workshop participants the knowledge they acquired from the study tour to Latin America. During the workshop, an interactive session enabled participants from various backgrounds to share experiences and practical examples of local content development. The workshop contributed to building institutional capacity as well as exposing participants to international and regional best practices.

55. A joint UNCTAD and Economic Commission for Africa workshop was organized in Equatorial Guinea in February 2017 to build institutional capacity in contract negotiations and monitoring and implementation of mining and oil contracts. The Africa Mining Vision underscores contract negotiation as a critical intervention point to improve resource governance. Thus, strengthening the capacity of African States to negotiate with private companies is essential, not only to reduce asymmetry of information, but also to ensure broad-based linkages from the sector to the rest of the economy.[35] Participants received training on negotiating, monitoring and implementing mining and oil contracts, as well as developing and implementing local content strategies and enhancing domestic production linkages in the mineral resources sector. As in the other capacity-building workshops, participants in the workshop shared regional best practices on local content implementation.

56. A second capacity-building workshop in the Congo was organized in May 2017. The workshop focused on public policy issues. For example, experts presented methodologies and best practices on the development of SMEs, improving the competitiveness of SMEs, improving access of SMEs to finance and the promotion and development of local content in the extractive sector. There were also expert presentations on identifying opportunities at different stages of the value chain. In questionnaire responses at the close of the programme, many participants wrote that the workshop had equipped them to better identify and realize opportunities in the mineral value chain.

B. Preliminary results

57. The project is currently under implementation; its full impact will be assessed by an evaluation to be conducted following the conclusion of activities. However, there is broad consensus among stakeholders that the project has introduced a strategic approach to fostering development linkages in the extractive sectors of the project countries.

58. In this respect, the capacity-building workshops in Chad and the Congo contributed to enhancing collaboration between educational institutions in Central Africa and the

[35] K Busia, 2016, African Minerals Development Centre and contract negotiations, presented at the Multi-stakeholder Plenary Meeting of the CONNEX Negotiation Support Forum, Paris, 23 June. Available at https://www.oecd.org/dev/inclusivesocietiesanddevelopment/Session%203%20-%20AMDC%20and%20Contract%20Negotiation%20Project%20-%20Kojo%20Busia.pdf (accessed 7 July 2017).

private sector on the design of programmes that will upgrade skills of the local workforce to participate in extractive industries.

59. Furthermore, through the capacity-building workshops, public sector officials and other stakeholders learned methodologies and best practices for formulating strategic plans for their participation in extractive industries.

60. From the study tour to Ecuador, participants gained first-hand knowledge about experiences and best practices from the Ecuadorian oil and gas sector and, more generally, from extractive sectors in Latin America. Participants observed how Ecuador addressed diversification and local content strategies, as well as social and environmental challenges arising from public and private investments in oil and gas.

61. Study tour participants shared the knowledge acquired from this study tour with the task forces in their countries, which has proven invaluable to the dissemination of best practices in charting a path forward.

62. UNCTAD is currently discussing the terms of a second study tour to Angola, in cooperation with Angolan partner institutions, such as the Agostinho Neto University and the Business Support Centre, for Angolan SMEs. The second study tour will focus on the public policies and institutional framework necessary to develop local participation in extractive industries, implementation of SME support mechanisms and development of training programmes in partnership with the private sector.

63. Prior to the implementation of the project, stakeholders reported limited exchange between the member countries of ECCAS on the development of linkages in the extractive sector. This changed after the launch of the project and the capacity-building workshops that followed. In addition to academics from Chad and the Congo, representatives from ECCAS and the Central African Economic and Monetary Community and scholars from universities in Angola, Cameroon, Canada, the Central African Republic, Gabon, Nigeria and Uganda shared lessons on relevant topics such as the design and implementation of local content policies, public–private partnerships, educational programmes for skills development, local SME participation in the mineral and oil value chain, corporate social responsibility policies, infrastructure building and civil society participation in extractive industries.

64. Participants in the workshops have underscored the benefits of this platform for increasing their knowledge on local content policy and development, as well as for sharing experiences in developing linkages with the extractive sector at the regional level.

65. Further achievements expected by the end of the project include:

(a) Increased capacity of Governments in ECCAS countries to negotiate equitable and sustainable resource extraction contracts

(b) Strengthened capacity of Governments and civil society in the project countries to monitor the implementation of contracts and ensure their adherence to regulatory frameworks

(c) Improved capacity of policymakers to formulate and implement strategic plans and frameworks to facilitate the participation of local operators/communities in services related to extractive industries

(d) Increased cooperation among national, regional and international training institutions to provide vocational training programmes for occupations related to the mineral value chain

(e) Enhanced capacity of stakeholders to use information on the mineral value chain to carry out gap analyses and for informed decision-making and identification of entry points for local participation.

IV. Lessons learned and preliminary recommendations

66. The key lessons to date from the implementation of the project include:

(a) **Foster dialogue**. Foster dialogue, by creating an environment in which stakeholder can discuss problems openly and frankly. This builds trust among stakeholders and provides the social stability necessary for the inclusive implementation of production linkage strategies.

(b) **Communicate early and widely**. Early buy-in from all stakeholders facilitated communication throughout the implementation of the project. It allowed for the design of a viable road map to achieve the goals of the project. Furthermore, the inclusion of civil society fostered transparency and accountability in analysing opportunities for local participation in the extractive sector, as well as emphasizing community objectives. UNCTAD has noted that it is essential for Government, academia, civil society and business to continue working in partnership to explore synergies between business and development objectives.

(c) **Regional collaboration**. Sharing experiences at the regional level can lead to the design of frameworks that are more appropriate to country context. Chad and the Congo share similar challenges in improving local participation in the extractive industry. Information sharing regarding these challenges, and the policies used to address them, provided insights to stakeholders in both countries. For instance, the Directorate of Natural Resources, under the Ministry of Finance of the Congo, offers technical assistance on the exploitation and commercialization of the country’s natural resources. This facilitates data collection about oil and mineral activities, and fosters institutional coordination among the mining, oil and finance ministries. Another relevant example relates to discussions regarding support mechanisms to SMEs in the Congo. With regard to civil society participation, monitoring of oil activities by non-governmental organizations, such as the Alternative Research and Oil Monitoring Project of Chad–Cameroon Group, provides a relevant lesson about governance and transparency in extractive industries.

(d) **Inter-agency coordination**. Countries need to establish a coordination mechanism that efficiently engages the different ministries and agencies involved in fostering local content development. In the project countries, for example, the lack of coordination between the Chamber of Commerce and the oil, mining and commerce ministries led to an inefficient use of resources to promote SME participation in the extractive sector. It also stifled the development of policies, laws and frameworks essential for diversifying the extractive sector. The project team learned the importance of creating broad awareness of the project among the different agencies involved and providing a coordination mechanism that allows each of them to participate in designing policies.

(e) **Set realistic targets**. The targets set by Government on local content in the extractive industries are sometimes unrealistic, given the gaps in skills, infrastructure, access to finance and the weakness of the private sector.

67. The lessons learned will inform implementation of the remaining project activities, as well as future UNCTAD projects. As of the date of the present note, a number of potential policy recommendations could be made, based on the preliminary observations presented above:

(a) Create multi-stakeholder national teams comprising ministries with responsibilities for the extractive sector and related issues, the private sector, civil society and all other stakeholders to promote the exchange of information, transparency, good governance and more inclusive policies that lead to the design of realistic policies with feasible goals.

(b) Deepen reforms, already initiated in both countries, to improve how institutions deal with issues, such as the promotion of local private companies, skills development and whether or not these institutions receive a share of the budget that would enable them to implement these new activities.

(c) Set up a (virtual or physical) platform where transnationals and SMEs can exchange information on the available opportunities in the oil and mining sector (for SMEs), as well as information on local SMEs (for transnational corporations). This would require coordination between the ministries in charge of oil and mining and SMEs, respectively. The platform could be a database of local SMEs and transnationals operating in the countries, sorted by the activities they are involved in, and based on their location.

(d) Establish collateral funds supported by transnationals and Governments to facilitate the access of SMEs to finance. This would contribute to boosting competitiveness and productivity. While some efforts have already been made to help SMEs gain access to the banking sector, these efforts need to be scaled up with innovative policies, such as the facilitation of electronic currency and mobile money, and the objective of improving economic transactions and reducing the impact of potential corruption that may arise from the handling of too much cash by stakeholders.

(e) Scale up training programmes that emphasize practical skills acquisition. In both countries, there are limited training programmes targeted at local SMEs, especially on issues such as health, environment and quality management. Training programmes need to expand to include coaching SMEs on engaging in industrial, financial and commercial partnerships with multinationals and local SMEs. The latter could include joint ventures with transnationals or having transnationals mentor local SMEs. These programmes should target "strategic sectors" or activities that are central to promoting development linkages in the sector, thereby making a greater contribution to development of the wider economy. It may also be important to harmonize these training programmes with those of neighbouring countries within the context of regional integration.

(f) Train staff on harnessing synergies between national companies, such as the Hydrocarbons Corporation of Chad and the National Oil Company of the Congo, and the ministries of oil, hydrocarbons, mines, geology, trade and others.

(g) Build capacity of national stakeholders to negotiate better oil and mining contracts and to enforce clauses related to local content.

(h) Strengthen regional cooperation. At the regional level, ECCAS countries need to coordinate their efforts by setting up an information sharing platform where successes and failures, including challenges that need closer monitoring by various stakeholders, related to the participation of local SMEs form the basis of lessons learned. For example, Chad will share its successful experience in dealing with environmental issues related to the oil and mining sector while the Congo will share its successful experience on coaching SMEs, as well as training programmes implemented by Total E and P Congo and its partners. UNCTAD can serve as a major facilitator for exchanges of experience from countries in the region with a view to designing and implementing effective local content policies.

V. Conclusion

68. The extractive sector offers many development opportunities beyond the export of raw or semi-processed commodities. As highlighted in this note, production linkages can be established between the extractive sector and the broader economy. However, in some developing countries, the extractive sector remains an enclave, increasing the national economy's exposure to market price volatility, as witnessed by the plight of the project countries since the generalized crash in commodity prices in mid-2014.

69. Due in part to the differences in the maturity of their oil sectors, Chad and the Congo are at different stages of implementing policies that foster development linkages and local content. Until the Government of the Congo passed its Hydrocarbons Code in October 2016, its mature oil sector was subject to a variety of laws, decrees, regulations and rules that related to elements of local content, such as recruitment and procurement. These rules did not explicitly refer to "local content", as many of them were enacted before the concept entered the policy discourse. With no central coordination, these disparate rules proved

difficult to enforce. As a result, these requirements were applied on a case-by-case basis to the contracts struck between the Government and foreign companies. The Hydrocarbons Code is intended to create a coherent legal framework for the oil sector, including specific, realistic local content requirements.

70. Meanwhile, Chad is still developing the legal framework for its young oil sector, in an era when the concept of “local content” is ubiquitous in the natural resource policy discourse. Nevertheless, only general rules currently exist in Chad, such as those relating to recruitment and procurement. These rules do not explicitly apply to local content in the oil sector; they are uncoordinated and partial in their coverage and enforcement. Indeed, the Government of Chad has expressed its intention to pass a comprehensive legal code for the oil sector, with specific local content requirements. In the meantime, local content-related provisions are applied on a case-by-case basis to the contracts made by the Hydrocarbons Corporation of Chad and other operators.

71. Despite the different stages of legislation related to development linkages in Chad and the Congo, both countries face persistent challenges in turning such legislation into tangible outcomes for economic and social development. For example, as highlighted in this note, the project countries are constrained by a skills gap, lack of relevant vocational training institutions, limited access to finance among local firms, poor infrastructure, limited contract negotiation capacity and poor access to information about opportunities available to local firms. These constraints have limited local firms’ participation in the sector.

72. In general, the project’s results to date point to the potential for CDDCs to diversify their economies and mitigate exposure to market price fluctuations, by creating and strengthening linkages between the extractive sector and the broader economy. These linkages can help reduce commodity dependence and diversify the national economy. They can also make direct contributions to realizing the Sustainable Development Goals, such as eradicating poverty (Goal 1), providing decent work and economic growth (Goal 8) and building industry, innovation and infrastructure (Goal 9).