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Approaches to development linkages based on the case of local content strategies in Nigeria

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The opinions expressed are those of the author and do not reflect UNCTAD views.



APPROACHES TO DEVELOPMENT LINKAGES BASED ON THE CASE OF LOCAL CONTENT STRATEGIES IN NIGERIA.

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Preamble

“Local content refers to a set of policies that increase the utilization of national human and material resources in the oil sector and domiciles in-country oil-related economic activity previously located abroad”.

- Jesse Ovadia (2013).


“Local content is a means – not a goal... The purpose is to increase national wealth through economic growth and more employment of locals.”

- Willy Olsen (2008).



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1. Background


The Nigerian local content development policy was borne out of the followings:

- To assume the control of the exploration, exploitation and production activities in the oil and gas sector;
- To generate more value-addition in local economy;
- To domiciliate the annual average spending of about \$18 billion by the industry in the local economy;
- To increase employment opportunities for Nigerians;
- To use the substantial wealth generated by the sector for national development.



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2. The Nigerian Local Content Development Policy

Local content policy in Nigeria started in 1971 through the establishment of the National Oil Company (NOC) to promote the indigenisation policy in the oil and gas sector. NOC became Nigerian National Petroleum Corporation (NNPC) in 1977. A serious attempt was, however, made in 2010 with the promulgation of the Nigerian Oil and Gas Development Law and it defines local content as:

« the quantum of composite value added to or created in Nigeria through utilisation of Nigerian resources and services in the petroleum industry resulting in the development of indigenous capability without compromising quality, health, safety and environmental standards »

The policy is framed within the context of growth of Nigerian entrepreneurship and the domestication of assets to fully realise Nigeria's strategic development goals.



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3. Objectives

The Objectives of Nigerian Local Content Policy are:

- Expansion of the downstream and upstream activities of the oil and gas sector;
- Diversification of the sources of investment into the sector to ensure local investment in the sector;
- Promotion of indigenous participation in the sector;
- Technology transfer through local capacity building;
- Employment generation for all categories of Nigerians;
- The integration of the oil and gas industry into the mainstream economy through local refineries and petrochemical industries.



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4. ORGANIZATION AND IMPLEMENTATION FRAMEWORK

1. Institutional Framework:

- Creates & Integrates Nigerian Content Development Monitoring Board (NCDMB) into planning and contracting process to ensure that Nigerian Content counts.
- Requires increased stakeholder engagements in the National Content Coordination Forum to create linkages to other sectors including professional services.

2. Policy Framework:

- Empowers Honorable Minister to Make regulations; NCDMB to Issue procedures and Guidelines for implementation.
- Mandates utilization of electronic platform to cover upstream, midstream, downstream, independents etc.
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4. ORGANIZATION AND IMPLEMENTATION FRAMEWORK

2. Policy Framework contd:

- Requires increased participation by indigenes and defines Indigenous company.
- Requires multinationals to domicile proportion of assets in Nigeria.
- Creates opportunity for integrating oil producing communities into mainstreams industry activity.
- Mandates enlightenment and awareness programs.
- Sets targets for specific work items to be executed in Nigeria.
- Empowers Hon Minister to grant waiver under specific conditions.
- Provides for Monitoring, measurement and tracking compliance.
- Stipulates Penalty for non-compliance.



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4. Organization and Implementation Contd.

3. Capacity Building Framework:

Promotes Education, Employment, Training, Research and Development.

Promotes Indigenous Ownership of Equipment.

Mandates local capacity development.- Gap analysis; design and implement interventions.

4. Funding Framework:

Provides dedicated Nigerian Content Development Fund for capacity building (established the Petroleum Technology Development Fund, PTDF).



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5. Achievements of the Nigerian Local Content Policy

Item	Before Local Content	After Local Content
Average Industry Spend	US\$8 Billion	US\$20 Billion (\$4 billion locally)
Contribution to National Revenue	71%	80%
Contribution to Export earnings	90%	97%
Contribution to GDP	12%	25%
Local Value Added	10-15%	40%
Use of Workforce	More Expatriates	More Nigerians



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5. Achievements contd

Reviewing the implementation of the policy as at 2015, the Nigerian Content Development and Monitoring Board stated some of the achievements of the Nigerian local content policy to include:

- over \$5 billion worth of investments have been made in Nigerian yards since the signing of the Nigerian Content Bill into law in 2010.
- about \$191 billion (N3.8 trillion) investment had been retained in-country
- more than \$1 billion had been invested in the Nigerian oil and gas industry to create capacity and execute Nigerian Content scopes provided on the Egina deep water project
- Nigerian investors and their partners had demonstrated their resolve for the policy to continue by building immense capacity over the past five years, acquiring hi-tech industry equipment and creating employment opportunities for thousands of young Nigerians in their assets and facilities.



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5. Achievements contd

- The industry, which was in the past the exclusive domain of the IOCs in areas such as exploration and production, has seen Nigerian companies now owning more than 100 blocks across oil-producing regions in the country, and at least 30 marginal fields.
- The successful construction of the first deep-water simulation theatre, DST, in Africa located in Port Harcourt was due to the opportunities created by the Nigerian Content policy.
- Globestar yard's fabrication of the jacket for the Amenam platform, Saipem yard's Okpoho platform and ChevronTexaco's Meren-X well jacket and helipad fabricated by Transcoastal Nigeria have helped to create jobs, build capacity and stimulate the nation's economy.
- Local content policy has led to technology transfer from the example of the Lagos Deep Offshore Logistics (LADOL) invested over \$100 million in transforming the swampland of Apapa port axis in Lagos into a world-class, one-stop base for deep offshore logistics created more than 1,000 skilled jobs and prevented the outflow of over \$60 million of foreign capital.
- LADOL has contributed to making Nigeria the West African hub for rig and vessel repair with more than \$500,000 of new revenues and business. Repairing rigs in Nigeria has helped the country to benefit from technological transfer through local manpower development.



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5. Achievements contd


On the linkage of the oil and gas sector to the local economy due to the implementation of the local content policy, Ovadia (2013) observed that:

“SME linkage programs have been especially successful in enabling SMEs to access financing and skills development programs, particularly those that provide technical mentoring and support for the development of business management skills (Deloitte, 2004; Jenkins et al, 2007; Nelson, 2007; Ruffing, 2006; UNCTAD, 2001). Linkage programs also focus heavily on institutional strengthening activities to encourage an enabling environment for SME development. One particular area of success has been in assisting women to establish their own small businesses by providing them with access to legal, business and financial systems, thereby reducing the gender gap that prevents many women from participating in economic life (ODI, 2005; Wise and Shtylla, 2007)”.

Source: *Jesse Ovadia (2013), Measurement and Implementation of Local Content in Nigeria – A framework for working with stakeholders to increase the effectiveness of local content monitoring and development in Foster facility for oil sector transparency in Nigeria project.*



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5. Achievements contd

Also, the former Minister of Petroleum Resources of Nigeria, Mrs. Diezani Alison-Madueke, remarked on the achievements of the local content policy as follows:

“we are all extremely pleased at the Federal level with the various achievements this Board has recorded within this period of time. It is quite clear from our various movements particularly when we go to international fora and see the numbers of Nigerians that are now exhibiting the services they deliver to the industry. It is progressing robustly every year and going from strength to strength. Within Nigeria, the success of Nigerian Content is incredible.”



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6. The Challenges of the Nigerian Local Content Policy

The implementation of the Nigerian local content policy has not been without challenges. These include:

Lack of technical capacity; dearth of research and development institutions and culture; and the limited access to technology limiting the possibility of innovation and domestic technological creativity.

Lack of in-country financial capacity to undertake big ticket transactions and inadequate infrastructure, including the deplorable state of supporting industries, for prototyping or manufacture or assembly of any locally engineered solutions as major challenges facing the local content policy.

Lack of transparency in the implementation of some aspects of the policy. For instance, how the tax payer funded Nigeria Content Development Fund.

From a legislative drafting point of view, there is also the need to make some of its provisions clearer; particularly how the Nigerian content levels under the Schedule to the Act would be fulfilled



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7. Concluding Remarks

The Nigerian experience shows that effective design, implementation and monitoring of local content development policy can lead to the amelioration of the structural effects of the mineral sector through:

- Increased value added,
- Increased employment generation,
- Enhanced entrepreneurial development,
- Improvements in local investment in the sector,
- Increased contribution of the sector to the Gross Domestic Product, poverty reduction and the overall economic development of the country.



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7. Concluding Remarks contd.

“I think local content in Nigeria has come to stay. It is something that the government has been pushing for a few years, but with the enactment of the law in 2010, it has become an imperative. The government believes that by ensuring that more is done in Nigeria we can create more jobs for our people, can retain more capacity and more spend in the country, and there will be more impact from the oil and gas industry on the GDP of the country. It’s also a major part of our national economy, so we believe if we do direct things to the oil and gas industry, it will translate to all that linkage sectors of the economy and the transferability of the capabilities that we are creating in the oil and gas industry will begin to impact deeply on the entire national economy”.

-Ernest Nwapa, former Executive Secretary, Nigerian Content Development & Monitoring Board.

Interview Podcast Available at <http://www.localcontentsummit.com>.



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7. Concluding Remarks contd.

“Local content is perhaps the single most important innovation in energy policy in the Global South in recent decades”.

- Jesse Salah Ovidia (2016)

Source: The Petro-Developmental State in Africa: Making Oil Work in Angola, Nigeria and the Gulf of Guinea, C. Hurst & Co. (June, 2016).



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THANK YOU.

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