



# EXTRACTIVES FOR HUMAN DEVELOPMENT:

MAXIMIZING DOMESTIC PARTICIPATION  
ALONG THE VALUE CHAIN



● ● **UONGOZI**  
● **Institute**

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## List of Abbreviations

ACEP	-	Africa Centre for Energy Policy
CEO	-	Chief Executive Officer
CSOs	-	Civil society organizations
CSR	-	Corporate social responsibility
DFID	-	Department for International Development (United Kingdom)
EWURA	-	Energy &Water Utilities Regulatory Authority (Tanzania)
FDI	-	Foreign direct investment
GDP	-	Gross domestic product
HRD	-	Human resources development
ICT	-	Information communication technology
IOCs	-	International oil companies
LC	-	Local content
MIC	-	Middle-income country
MP	-	Member of Parliament
MVC	-	Mineral value chain
NEMC	-	National Environment Management Council (Tanzania)
NGOs	-	Non-governmental organizations
OGAT	-	Oil and Gas Association of Tanzania
PA	-	Petroleum Act (2015)
PMO	-	Prime Minister's Office
R&D	-	Research and development
SADC	-	Southern African Development Community
SAGCOT	-	Southern Agricultural Growth Corridor of Tanzania
SMEs	-	Small and medium-sized enterprises
STAMICO	-	State Mining Corporation
STEM	-	Science, technology, engineering and math
TPDC	-	Tanzania Petroleum Development Corporation
TRA	-	Tanzania Revenue Authority
URT	-	United Republic of Tanzania
VSO	-	Voluntary Services Organization
WTO	-	World Trade Organization

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# Executive Summary



Participants of the Forum at the Opening Session

Tanzania has a wealth of natural resources. In addition to extensive tracts of fertile agricultural land, forests and wildlife areas, the country is also rich in metals, industrial and fuel minerals, and hydrocarbons. Deposits include gold, iron ore, nickel, copper, cobalt, silver, diamond, tanzanite, limestone, soda ash, gypsum, helium, phosphate, gravel and sand, graphite, coal and uranium. In recent years, very large discoveries of offshore natural gas—currently estimated at 57 trillion cubic feet (tcf)—have been found in territorial waters. If managed well, the country’s resource deposits, especially natural gas, have the potential to fast track economic growth and development, support the diversification of the economy into higher value-adding activities, and, ultimately, improve the living standards of Tanzanians.

Historically, however, the extractive industry has largely operated in enclaves of mining activity with weak linkages to local economies. Decades after most African countries gained independence, mining operations remain predominantly focused on extracting and exporting raw minerals to industrialized countries at the expense of Africa’s development. Highly capital-intensive and technical in nature, mining operations frequently import the bulk of their inputs and hire skilled expatriates. Hence, few local jobs are created, linkages to local suppliers are limited, and knowledge and technology transfers are minimal. Not surprisingly, this tends to be coupled with regulatory environments that do not promote local participation in mining value chains. Indeed, most countries have typically relied on collecting income from royalties, taxes and dividends. As a consequence, mining operations have often failed to significantly contribute to economic development in host countries.

To effectively harness their oil and gas and mineral resources as a catalyst for inclusive and sustainable development, resource-rich African countries will need to do much more than attract foreign investment to extract the resource and collect revenues from mining companies during production. Crucially, the extractive sector will need to be proactively and prudently governed and strategically linked to the other sectors of the economy.

## Rationale and Objectives of the Regional Roundtable

If investments to exploit its gas reserves go ahead, Tanzania may still have the better part of a decade before significant revenues begin flowing from the sector. However, to ensure the sector’s expansion for the country’s long-term benefit requires that appropriate legislation, policies and regulations are in place that underpin negotiations with potential investors and govern the start up and operations of extractive companies. In response, the government of Tanzania passed three pieces of legislation in 2015 to lay the foundation for the governance of the oil and gas sector: The Petroleum Act, the Oil and Gas Revenues Management Act and the Tanzania Extractive Industries (Transparency and Accountability) Act.

The design and implementation of local content regime is a further key component for optimizing the benefits flowing from investments in the oil and gas and mining sectors, and, in 2014, the Tanzanian government released a draft Local Content Policy for the Oil and Gas Sector. However, designing, implementing and monitoring the accompanying regulations for local content is a complex process, one that requires factoring in the global economic environment, the constraints within the domestic economy, and the costs of implementation.

It is against this background that the UONGOZI Institute in collaboration with the Ministry of Land, Water, Energy and Environment of Zanzibar organized the regional roundtable “Extractives for Human Development: Maximizing Domestic Participation Along the Value Chain.” The two-day event took place at the Park Hyatt Hotel in Zanzibar, Tanzania on 27-28 October 2016. The forum brought together stakeholders and experts in the extractive sector from Tanzania and internationally, including representatives from Kenya, Canada, USA, Uganda, Nigeria, United Kingdom, South Africa, Sierra Leone and Ghana. Delegates included high-level representatives from the public and private sector, academia and civil society. The Hon. Ambassador Seif Ali Iddi, Second Vice-President of the Revolutionary Government of Zanzibar officiated at the event.<sup>1</sup>

## Key Messages from Discussions

The roundtable provided the opportunity for participants to discuss why local content is important, how it can be achieved, and the role of the government in optimizing domestic participation in the extractive sector. The following key messages emerged from the forum.

### Local content matters

Until only recently, the generation of national income was taken as the principal reason why countries allowed their sovereign, non-renewable, natural resources to be exploited and monetized. However, over the last 10 to 20 years, the case for domestic participation in large extractive projects has gained

<sup>1</sup> See Appendix A for a full list of participants and Appendix B for the event program.

increasing prominence. The extractive industries can provide the impetus for local economic growth by expanding and deepening the country’s industrial base, improving the capabilities of the business sector, enhancing the skills of the national workforce, and promoting the transfer and adaptation of international knowledge and technology to the domestic context.

Multinational companies also see local content as increasingly important for maintaining mutually beneficial relations with local stakeholders and averting resource-based conflicts, thereby, enhancing the long-term sustainability and profitability of their operations. Local content makes business sense. For example, if a company is going to operate in a country for 30-plus years, it makes sense to be able to procure goods and services locally.

*Local content policy should be aligned with, and contribute to, a country’s broader development objectives.*

Natural resources have the potential to accelerate the achievement of national development goals but not to replace or alter them. Rather, natural resources should be leveraged throughout the economy to maximize their contribution towards realizing the country’s vision. For Tanzania and the East Africa region, the oil and gas sector could be a game changer. In particular, the exploitation of natural gas may enable Tanzania to jump to a faster growth path. However, experiences in developing countries to date have proven that a simple revenue stream is not as valuable as leveraging resources at every stage of operations, and, where possible, using locally available raw materials for in-country value addition. This is what can lift citizens out of poverty.

*Optimizing local content: A balancing act to attract foreign investment while retaining natural resource wealth in-country*

Africa is rich in resources but many countries lack the technological and financial capacity to exploit those resources. Therefore, the continent needs to attract suitable foreign investment. But, in attracting investment, the continent needs to be careful not to lose ownership of its resources and the benefits that they can bring. To become more competitive to international mining firms, governments may seek to create a more investor-friendly business environment. But these actions should not override the reasonable consideration of retaining as large a proportion of resource wealth as possible in-country. Upfront investments in the extractive sector are huge for developing countries and the payback may be long into the future. Therefore, countries need to make deliberate and conscious efforts to recoup their initial investment and more.

This is why domestic participation is extremely important, and, in turn, why the rigorous planning and cost-benefit analysis of local content is absolutely critical. The more that local content is pursued, the more expensive the project becomes to the firms involved, for example, through the costs incurred

in on-the-job training of local employees and skills-building of local firms. Therefore, governments must decide how hard to push companies for how much gain in local content. If one country has less stringent, smarter or more tactical local content provisions, investors may have greater incentive to invest there than in another country. But if a country takes that strategy too far and relaxes local content requirements too much, then it may well secure the investment but potentially at great political and economic cost, because the project brings no local jobs and no domestic industrial development. Therefore, the goal becomes not one of “maximizing” but one of “optimizing” domestic participation.

*Strengthening linkages between the extractive sector and other sectors of the economy*

Historically, developing countries have placed more emphasis on attracting foreign direct investment in the extractive sector and commercial agreements with mining companies have narrowly focused on increasing domestic revenue, through the collection of various company taxes and royalties on the commodities extracted. However, to diversify domestic economies for long-term growth, economic linkages between the extractive sector and the rest of the economy need to be strengthened not only in terms of ‘breadth’ (the number of linkages) but also in terms of ‘depth’ (local value added). Governments, as custodians of natural resources, have the responsibility to develop approaches that maximize these linkages and to put in place policy, legislative and regulatory frameworks that are not only pro-growth but also pro-development.

Important types of linkages between projects in the extractive industries (EI) sector and the broader economy include: upstream (or backward) linkages, which relate to the procurement of goods and services that EI projects need to operate; downstream (or forward) linkages, which result from further in-country processing of commodities; and spatial linkages, which are derived from the shared use of infrastructure that is developed or upgraded for mining operations.

The spending of EI companies on equipment and supplies dwarfs royalty and tax payments, hence, creating and/or strengthening backward linkages—i.e., those that involve companies purchasing locally supplied goods and services for their operations—will be extremely important. Developing forward linkages to enhance the value of the commodity extracted will further help to ensure that more of the resource wealth remains in-country. Here, the manufacturing sector has the greatest potential for rapid job creation. Infrastructure investments can also offer significant benefits for local communities in mining areas and the broader economy.

Therefore, countries can valuably adopt a multi-sectoral approach to identify the potential drivers for local content across all sectors of the economy—agricultural, manufacturing, construction, hotel and service sectors in addition to the oil and gas and mining sectors—what linkages are feasible, and on what sectors to focus public investment.

*The importance of regional integration to optimizing local content*

Regional integration will be crucial for optimizing local content in Africa. For example, if countries seek to strengthen downstream linkages—i.e., improve the value of the extracted commodities through further processing—then markets of sufficient size will be needed for the intermediate products. To be competitive, the production of intermediates demands higher economies of scale but national markets are often too small. Exports are, therefore, a critical factor underpinning the downstream, and developing regional strategies and strengthening regional markets and trade becomes vitally important. To leverage the benefits of regionalization will require political will, a harmonized regulatory environment and significant improvements in trade-related infrastructure, particularly intra-regional transport and power networks.

Notably, member countries in the Southern African Development Community currently produce over 100 minerals, metals and compounds. Hence, putting in place a regional mineral value chain (MVC) strategy that focuses on strategic downstream mineral feedstocks could strongly underpin national and regional economic growth, development and industrialization. SADC has all of the inputs for manufacturing, energy, infrastructure, agriculture and power production

*The African Mining Vision: A blueprint for sustainable, beneficial mining development*

The African Mining Vision (AMV) adopted by the African Union in 2009 provides a blueprint for mining development on the continent. The AMV advocates for a holistic approach to achieve the “transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”.<sup>2</sup> It not only advocates for optimizing tax revenues derived from the extractive sector and that this income be appropriately spent but also seeks to fully integrate mining into development policies at local, national and regional levels. To achieve this goal, the AMV promotes a knowledge-driven African mining sector by strengthening linkages, fostering mutually beneficial partnerships between the state, private sector, civil society and local communities, and ensuring that countries have comprehensive knowledge of their mineral endowments.

*Building domestic capacity to participate in the value chain*

Increasing local content by expanding the opportunities for local individuals, communities and enterprises to participate in the value chain of extractive industries, will necessarily require up-skilling national workforces as well as enhancing the capacity and competitiveness of local firms. Further financial sector reforms will also likely be needed or specific funds set aside to enable local investors and local communities to access sufficient capital to participate and take advantage of opportunities in the sector. The oil and gas sector is a capital-intensive and highly-skilled industry and countries

cannot impose upon companies to employ locals who do not have the required qualifications or rely on suppliers that are unable to provide goods and services of the required standard (both in quantity and quality) and on time.

Again a multi-sectoral approach will be critical in relation to skills development so that the competencies gained can be transferable to other economic sectors. To this end, priority areas for training and supplier development will need to be identified. To do so, countries will need to be well informed. Governments will need to conduct robust studies and extractive companies will also have to be willing to provide detailed information on their job requirements and procurement needs if local content is to be successfully implemented. Building capability often needs to be on-the-job or in partnership, through joint ventures and/or other partnerships/alliances between local businesses and mining companies to enable domestic companies to broaden their knowledge of the extractive industry and promote technology and skills transfer.

*Beyond policy: The ongoing role of government in optimizing local content*

To achieve desired development outcomes, governments will need to put in place the laws, policies and regulatory systems to govern extractive activities, including the creation of competent, independent, transparent authorities to monitor and enforce company compliance with local content requirements, with appropriate penalties for non-compliance. When setting the parameters of a local content regime, governments will need to factor in the domestic constraints such as the host country’s oil and gas experience, the skills level of its workforce and industrial supply base.

However, national governments cannot simply enact a local content regime, sit back and leave its implementation to investor companies, their contractors and sub-contractors. All aspects of public policy in relation to domestic participation will need to be carefully weighed and set to optimize local content and its contribution to national development goals. Important aspects of public policy will include: the design of local content regulations; ongoing public investment to facilitate domestic participation; education and training of the national workforce; promoting alliances between international and local suppliers; and monitoring and reporting to ensure compliance and inform and improve implementation.

Of particular note, governments will need to identify priority sectors and help indigenous businesses to access market information on opportunities in extractives sector and build their capacity over time to effectively participate in and link with mining companies and their contractors. Without the necessary capacities, domestic firms will continue to miss out on available opportunities. Training facilities and investment in research and development will be vital to enhance local business capacity to meet the needs of extractive projects. Substantial benefits can be realized from close collaboration with companies, hence the importance of facilitating alliances between local businesses

<sup>2</sup> African Mining Vision, p. v. accessed on 29 March 2017 at [www.africaminingvision.org/amv\\_resources/.../Africa\\_Mining\\_Vision\\_English.pdf](http://www.africaminingvision.org/amv_resources/.../Africa_Mining_Vision_English.pdf)

and international firms. However, the government cannot do it alone. The participation of the private sector and civil society will be critical to raise community awareness and build the capacity of local enterprises to take advantage of emerging economic opportunities.

*Collaboration and transparency are essential for achieving local content goals*

The success of a local content policy will depend on engagement and collaboration among stakeholders, and involve cross-sectoral, national, regional, and local considerations. It will require industry-wide collaboration and multi-stakeholder involvement, knowledge sharing through dialogue with government representatives, industry associations, supplier organizations, civil society organizations, donors, and other relevant institutions to ensure the buy-in of key stakeholders. A significant challenge to designing the appropriate local content mechanisms is managing expectations. Each stakeholder group has its own expectations. Therefore, governments must purposefully bring the private sector, civil society and local communities into the discourse so as to move forward together.

Frequently, governments have tended to impose policies without the right engagement, potentially undermining the participation and compliance of foreign companies. In doing so, governments overlook that, by default, achieving local content necessarily means that there is foreign content. Hence, to be successful, all stakeholders need to be actively engaged in developing a national framework for local content such that all parties benefit, and all negotiations and processes are open and transparent. To manage public expectations and minimize the possibility of conflicting statements and confusion, the government as a whole and other key stakeholders can valuably put in place a communication strategy to ensure that messages are both consistent and timely.

Conclusion

**What is clear is that building domestic participation in the extractive sector in Africa will take time. The value-add from local content will not happen overnight. For example, Norway took 20 years to establish a sovereign wealth fund and 30 years to leverage meaningful local procurement of goods and services from its oil and gas industry. However, the long-term advantages of enhanced local development, alongside the empowerment of a generation to participate directly in Africa’s natural resource wealth, are well worth pursuing. The ultimate aim is to ensure that natural resources are not a curse but a blessing, and bring sustainable economic and social benefits to Tanzania and countries throughout the continent.**

Introduction

In recent years, many African countries, including Tanzania, have discovered significant reserves of non-renewable natural resources, including oil and gas, with the potential to accelerate broad-based national, regional and continental development. Historically, however, the extractive industry has largely operated in enclaves of mining activity with weak linkages to local economies. Decades after most African countries gained independence, mining operations remain predominantly focused on extracting and exporting raw minerals to industrialized countries at the expense of Africa’s development.

With increasing discoveries of valuable resources on the continent, this situation is changing. African countries are examining how to increase domestic participation in the extractive sector. The adoption of local content policies is one of the strategies being used to optimize the benefits flowing from the investments in the oil and gas and mining sectors. By implementing these policies, governments are endeavouring to expand the opportunities for local businesses and individuals in the extractive industries value chain, and drive long-term, sustainable and inclusive development.

However, designing local content policies and regulations entails recognizing the constraints of the local economy and the costs of implementation. Increasing local content is a complex and long-term process, one that requires enhancing the skills of the national workforce as well as the capacity and competitiveness of local firms. Important questions abound on the best approach to pursue. What type of policies will encourage increases in local content? What are the costs and benefits of introducing such policies? How can the implementation of such policies be measured and monitored? What are the roles of the public sector, extractive companies and civil society in promoting local content within countries? How can local citizens and businesses be made aware of opportunities and empowered to participate?

It is against this background that the UONGOZI Institute in collaboration with the Ministry of Land, Water, Energy and Environment of Zanzibar organized the regional roundtable “Extractives for Human Development: Maximizing Domestic Participation Along the Value Chain.” The two-day event took place at the Park Hyatt Hotel in Zanzibar, Tanzania on 27-28 October 2016. The Hon. Ambassador Seif Ali Iddi, Second Vice-President of the Revolutionary Government of Zanzibar officiated at the event.

The forum brought together stakeholders in the extractive sector from Tanzania and internationally, including representatives from Kenya, Canada, USA, Uganda, Nigeria, United Kingdom, South Africa, Sierra Leone and Ghana. Delegates included high-level representatives from the public and private sector, academia and civil society. The event featured a series of expert presentations and two broad-ranging panel discussions.

The primary goal of the roundtable discussion was to examine how to optimize benefits from domestic participation in the extractive sector. Specifically, the forum sought to discuss:

- Areas along the value chain with greater potential for domestic participation in the sector
- Measures to encourage local business participation
- Industry-level initiatives to build sustainable local supply chains
- Public policies to leverage extractive industries to build local industrial capacity
- Employment and skills development, particularly approaches to reducing the skills gap, and the role of the private and public sector.

The Structure of the Report

This report presents edited highlights from the roundtable’s presentations and panel discussions.

**Section 1** summarizes the opening address by the Hon. Ambassador Seif Ali Iddi, Second Vice-President of the Revolutionary Government of Zanzibar. In his address, the Vice-President emphasized the importance of increasing local participation in the extractive industry to ensure broad-based and inclusive growth and development

**Section 2** provides edited highlights from the keynote presentation by Dr. Michael Warner from Local Content Solutions Ltd. (UK). His address set the overall context for the event by introducing the concepts of domestic participation and the value chain. He stressed the need for all aspects of public policy in relation to domestic participation to be carefully weighed and set to optimize local content.

**Section 3** summarizes the insights from the first panel discussion which examined the implementation of local content initiatives in different African countries, including Sierra Leone, South Africa and Nigeria as well as in mainland Tanzania and Zanzibar.

**Section 4** summarizes the key findings from the Local Content Benchmarking Study (LCBS) in Tanzania commissioned by Oil and Gas Association of Tanzania.

**Section 5** then provides edited highlights of the presentation by Mr. Mark Beare, Principal Consultant, Oxford Policy Management, which examined how strengthening linkages with the extractive sector and enhancing regional integration can accelerate economic development in Africa.

**Section 6** summarizes the second panel discussion which investigated how to improve the business environment to increase local content.

**Section 7** concludes the report with a summary of the closing address to the roundtable delivered by Hon. Salama Aboud Talib, Minister of Land, Water, Energy and Environment, Zanzibar.



Group photo of a selection of participants of the forum. Front row L-R: **Hon Adam Muawakilu (MP)** - Vice Chair of the Parliamentary Committee for Energy and Mines - Ghana  
**Hon. Salama Aboud Talib** Minister of Land, Water, Energy and Environment - Zanzibar **H.E. Ambassador Seif Ali Iddi** The Second Vice President of Zanzibar  
**Hon. Abdul Ignosi Koroma** - Deputy Minister, Ministry of Mineral Resources - Sierra Leone **Mr. Ali Khalil Mirza**, Principal Secretary, Ministry of Land, Water, Energy and Environment

# 1. Opening address: Translating Africa's natural resource wealth into inclusive growth and development

Hon. Ambassador Seif Ali Iddi, Second Vice-President of the Revolutionary Government of Zanzibar



Amb. Seif Ali Iddi

*Second Vice-President Seif Ali Iddi officiated at the roundtable. He welcomed delegates to Zanzibar and thanked the organizers, the UONGOZI Institute and the Ministry of Lands, Water, Energy and Environment for the timely initiative. As Tanzania embarks on a new phase of development as an oil and gas producing nation, he highlighted the importance of maximizing local participation in the extractive industry to ensure broad-based and inclusive growth and development. He tasked the distinguished group of participants assembled to share their knowledge and experience on how the Governments of Tanzania and Zanzibar can generate the best possible returns from their natural resources and build the foundation for socio-economic transformation. The main issues raised by the Vice-President are summarized in the sections below.*

## The opportunities and risks of natural resource discoveries

The Vice-President commenced his speech by highlighting the potential upside and downside of natural resource discoveries. Globally, the extractive sector has been credited with adding value to human lives but it has also caused serious problems politically, economically, environmentally and socially. In some countries, especially in the developing world, periods of unrest have followed the discoveries of natural resources. In many ways, this has been due to having policies, laws, regulations, and strategies that do not maximize domestic participation in the extractive industries. As a result, many local people feel left out.

In Tanzania, the very large discoveries of oil and gas to date offer significant opportunities to fast track economic development and ensure that public welfare improvements are delivered to citizens. However, using minerals, oil, and gas as a catalyst for broad-based growth and development requires more than attracting foreign investment to extract the resource. It also requires developing local linkages with the non-extractive sectors of the economy.

## How can extractive industries contribute to broad-based growth and development?

Extractive industries can provide the impetus for local economic growth through demand for local goods and services, as well as through the transfer of international business knowledge. To facilitate

domestic participation, the Government can develop policies to increase access to opportunities for local enterprises and workers. It may also wish to temporarily protect local suppliers from global competition if they are not sufficiently competitive to supply the extractive industry.

Local content legislation is one of the methods resource-rich countries can employ to increase the benefits from resource extraction to their economies, beyond securing revenues through royalties, taxes and dividends. The aim is to enhance linkages with other sectors of the economy through local employment opportunities, in-country spending and procurement of local goods and services, technology and skills transfer, and local participation through equity and management.

## Enhancing domestic participation: Lessons from the Zanzibar's tourism sector

Vice-President Iddi related that Zanzibar has no direct experience of dealing with extractives, but important lessons on enhancing domestic participation can be drawn from the tourism sector, which is a core sector within the Zanzibar economy. As opposed to the extractive sector, tourism is labour-intensive, providing many jobs and enterprise opportunities, as well as direct access to well-off tourists who are often keen to buy local goods and services. Hotels seek out the cost advantage of local labour and supplies, such as food, and encourage guests to enjoy local activities to increase the length of their stay. For many hoteliers and tour operators it is common sense to support local artisans, guides or neighbourhood groups, if these directly enhance customer experience.

All that said, many linkage opportunities from the tourist sector are still missing in Zanzibar. Procurement is often from distant wholesale suppliers, to take advantage of bulk purchasing discounts, to ensure reliability of supply or to cater for the tastes of international tourists. Yet, many practical ways exist for hotels to help local firms to enter the supply chain. For example, hotels could advertise procurement needs through local business networks. They could break contracts into smaller chunks that are manageable for small businesses with less working capital, and they could provide advice on product requirements, standards and safety issues. And all of these methods which can work perfectly in the tourism sector could also be applied in the extractive sector to enhance domestic participation.

## Implementing local content policies: Collaboration among stakeholders is the key to success

To achieve local content (LC) goals within Tanzania's emerging oil and gas industries, close collaboration between the government and companies in the sector will be needed to ensure the efficient implementation of LC policies. National governments cannot simply enact a policy, sit back and leave its implementation to the companies, their contractors and sub-contractors. The success of a policy will largely depend on engagement and collaboration among stakeholders, and involve cross-

sectoral, national, regional, and local considerations. It will require industry-wide collaboration and multi-stakeholder involvement.

Many policies already place an onus on governments to create an enabling environment. But what is clear is that the value-add from local content will not happen overnight. However, the long-term advantages of enhanced local development, alongside the empowerment of a generation to participate directly in their nation’s natural resource wealth, are well worth pursuing. The ultimate aim is to ensure that natural resources are not a curse but a blessing, bringing sustainable social and economic benefits within the oil and gas sector and the wider economy.

Challenges to increased domestic participation

Since the discovery of oil and gas in commercial quantities, many countries have attempted to put in place policy and legislative frameworks to enhance domestic participation so that the newfound wealth will benefit citizens and the national economy as a whole. However, Vice-President Iddi identified the following challenges that still hindered the realization of that goal.

- Extractive industries are capital-intensive, and, therefore, hire fewer employees compared with other industries. In addition, many of the jobs are extremely technical. Such highly-skilled employees might not be available locally.
- Even non-technical jobs such as food production require a level of capacity that may not exist in the local community. Small-scale farmers often lack the capacity to meet the quality and quantity requirements for companies to use their produce.
- Businesses servicing the oil and gas industry require a sound capital base because of the capital-intensive nature of the industry, but many local companies may not have sufficient financial means.
- Foreign companies have well-established supply chain networks. Hence, they prefer to deal with global suppliers or award major service contracts to specialized global firms. They are reluctant to abandon established relationships so as to deal with local companies.

The importance of knowledge sharing

In closing, he acknowledged that there are no easy solutions to these challenges. But he hoped that they would be discussed during the forum and ideas offered on how to address them, including suggestions on ways in which the Government can play its role in maximizing domestic participation along the value chain in the extractive sector. He firmly believed that knowledge sharing through dialogue with government representatives, industry associations, supplier organizations, civil society organizations, donors, and other relevant institutions would be critical to the success of the sector. On this encouraging note, he declared the regional roundtable officially open.

2. Keynote presentation: Maximizing domestic participation in the value chain: Why it is important and how can it be achieved?

Dr. Michael Warner, Director, Local Content Solutions Ltd



Dr. Michael Warner

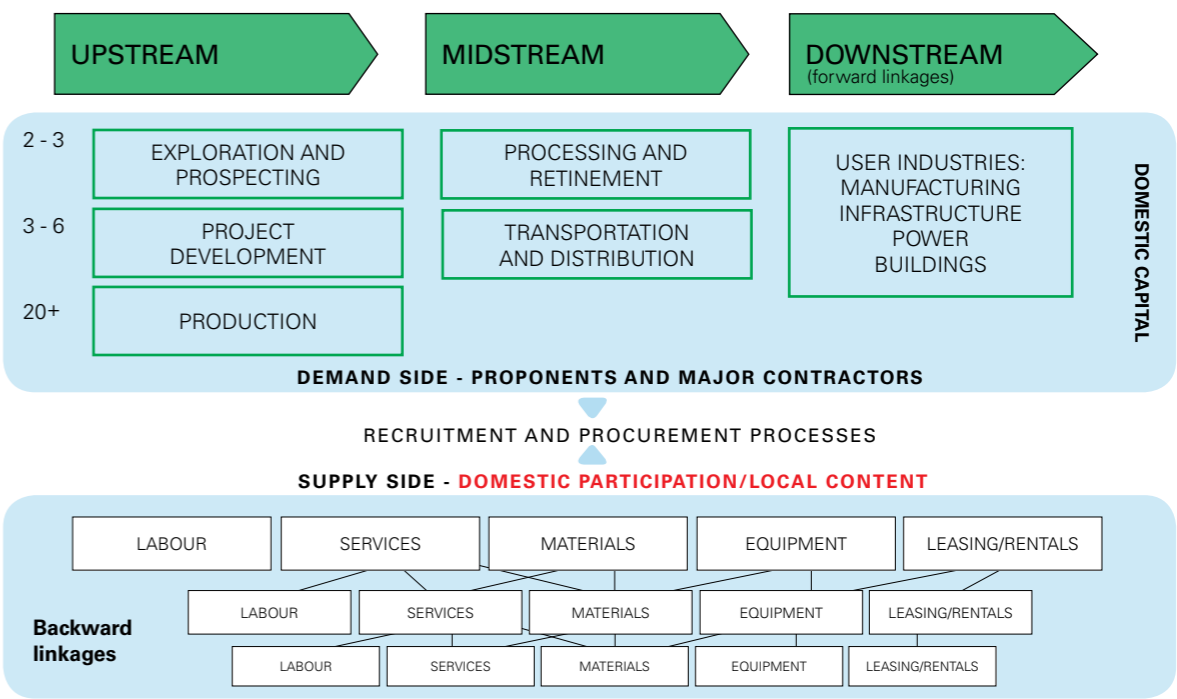
What is domestic participation? What is the value chain?

To begin, Dr. Warner briefly explained the two key terms in the title of his presentation: “domestic participation” and “value chain”. First, “domestic participation”—a term which he said was roughly synonymous with “local content” or “in-country value”—could be defined as:

“The participation and development of domestic capital, labour, goods, services and technology in the planning and execution of oil, gas and mineral exploration, development, production and utilization.”

The term “value chain” , i.e., the processes or activities by which a company adds value to a product, could be better understood with reference to Figure 1, which breaks down the value chain in relation to the extractive industries into three areas: upstream, midstream and downstream.

Figure 1: The value chain in the extractive sector



Source: © Local Content Solutions Ltd (2016). All rights reserved.

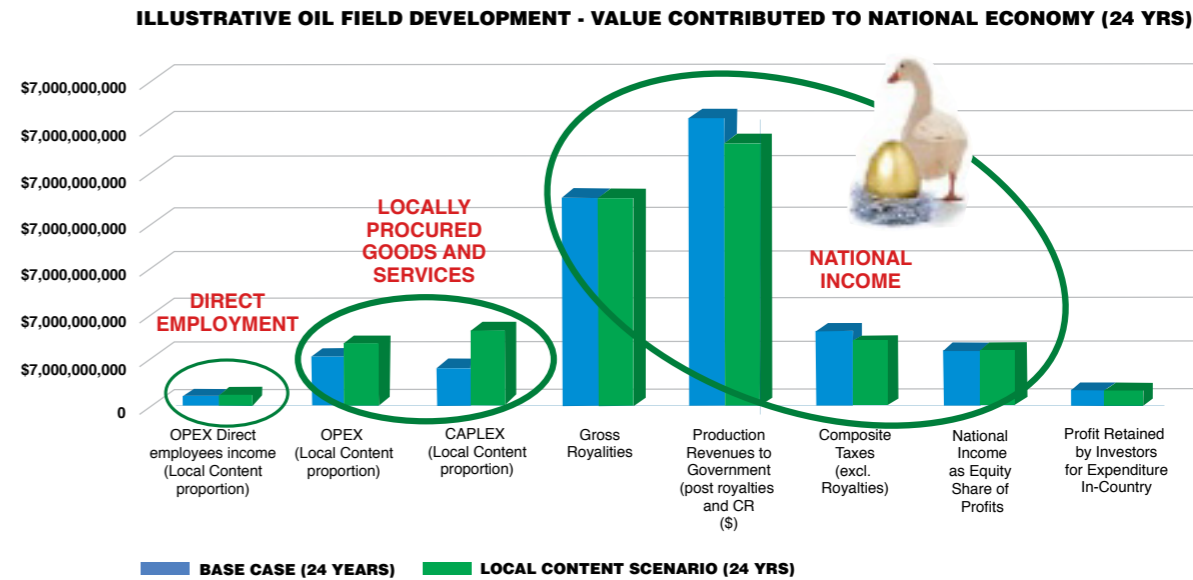
Upstream activities in the value chain include the exploration/prospecting for and extraction of a mineral, midstream activities include the processing/refinement of the mineral as well as its transportation and distribution, and upstream activities refer to the industrial or other uses of the mineral, for example, in the manufacturing, infrastructure, construction or power sectors. To conduct any and all of these activities, companies necessarily require people, goods and materials, and equipment. Therefore, supply chains will be needed to feed these recruitment and procurement processes. And, as Dr. Warner explained, this is where a large part of the local content will come from within the extractive industries in Tanzania in the next 20 years. Figure 1 also shows that domestic capital will be another potential source of local content, i.e., if Tanzanian capital forms a part of the equity of the companies in the extractive industry and/or the companies that supply them.

Local content matters

Using two illustrative examples—an oil field development (see Figure 2) and a gold mine (see Figure 3)—Dr. Warner explained why local content matters. To start, he reminded the audience that the generation of national income was the principal reason why governments allow their sovereign, non-renewable, natural resources to be exploited and monetized. Colloquially, the exploitation of natural resources to augment national income may be likened to the “goose that lays the golden egg.” However, over the last 20 to 30 years, the case for domestic participation or local content in the extractive industries—including local equity participation, the use of local business services, the employment of national citizens—has become increasingly important for the long-term sustainability of operations.

Figure 2 presents a hypothetical example of an oil field development over a 24-year period. The principal contributions to the national economy are listed in their relative time sequence on the x-axis. As can be clearly seen, the largest contribution of the oil development is to **national income**, including gross royalties, revenues from production, corporate taxes and profit shares from equity investment. However, the earlier contribution of local content to the national economy, including the **direct employment of nationals** in the operating company and through **locally procured goods and services**, both operational expenditure (OPEX) and capital expenditure (CAPEX), can be politically significant. Local content can bring benefits to the society faster than the visible benefits derived from expenditures of government revenue raised from the extractive sector.

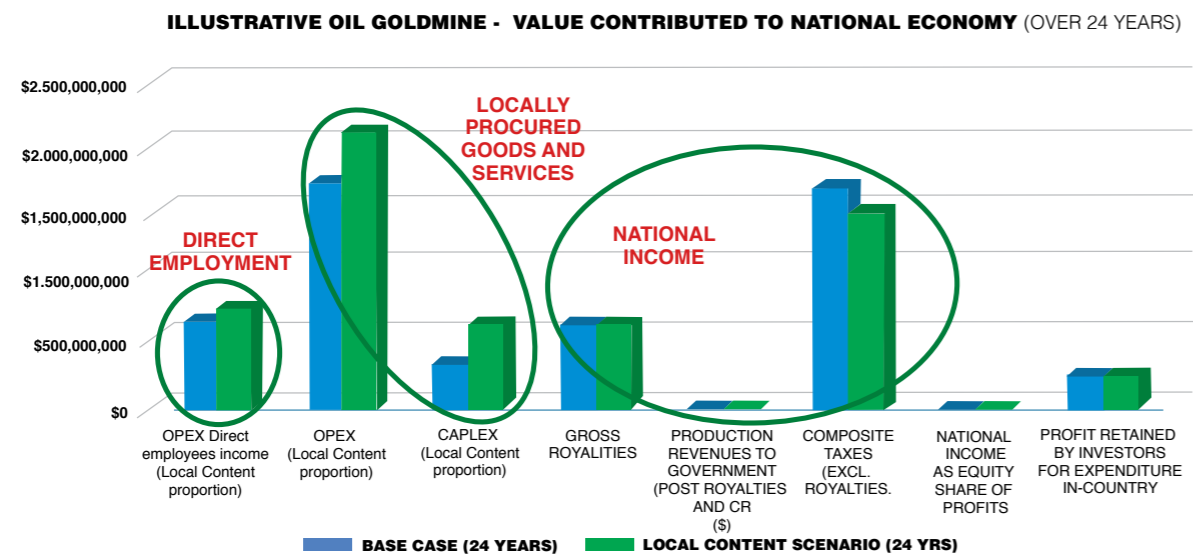
Figure 2: In-country value: An illustrative example of an oil field development



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As illustrated in Figure 3, the situation in the mining sector is quite different. The potential contribution of local content to the economy in monetary terms from the mining sector can be considerably higher than from the oil and gas sector depending on the value of labour and goods and services that can be captured locally. The other potential benefit of the mining sector to local content is through “rolling CAPEX”, i.e., the periodic replenishment of capital equipment by mining firms. Rolling CAPEX can present significant opportunities for local manufacturers and suppliers to invest and build the facilities to produce the material and equipment needed by the mining sector. In contrast, in the oil-gas sector, you typically see a spike in CAPEX at the outset of a major project. Consequently, there is less opportunity and less time for domestic manufacturers to realize the necessary capability to supply the equipment and materials needed.

Figure 3: In country-value: An illustrative example of a gold mine



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The economic cost of local content

Figures 2 and 3 also compare the value of local content derived from a typical “base case” scenario, i.e., the situation in which only the existing capabilities within the national labour market and local industry are considered (the blue columns) against a scenario in which the government acts to increase local content through public policy initiatives to improve the skills and capabilities of local labour and industry (the red columns). As can be seen, increases in the total value of local content tend to be accompanied by decreases in the value accrued in national income, i.e., national revenues start to fall.

Why is this so? Dr. Warner explained that the more local content is pursued, the more expensive the project becomes to the firms involved, for example, through the costs incurred in on-the-job training of local employees and skills-building of local firms to ensure that quality specifications for locally procured goods and services are met as well as delivery times. On balance, the cost of



Various participants of the Forum during Mr. Warner's presentation.

some investments to increase local content may be relatively low and the benefits in terms of skills and capacity building may be relatively high. And the government can allow for the recovery of the investments by companies via the tax system.

But what happens if the government pushes harder and requires companies to spend even more? For example, what if the government proposes regulations that a certain amount of the resources extracted must also be processed in-country. Achieving those targets may result in longer negotiations of the local content policy (as investors may be reluctant to agree to these more restrictive contract terms), and, consequently, cause additional delays in the timing of the first gas or first mineral extraction, all of which may play havoc with the cash flow models of the investors and the expected rate of return from the project. And, if the rate of return falls below the threshold for a company to proceed, the project will simply not go ahead, and there will be no local content.

Hence, the cost-benefit analysis of local content becomes absolutely critical. Governments must decide how hard to push and companies must decide how much to accommodate, i.e., decide how much cost the government and companies are willing to bear for how much gain in local content. And how to avoid killing the ‘golden goose’ by introducing too many regulations and too many costs on potential investors. Therefore, the goal becomes not one of “maximizing” but one of “optimizing” domestic participation. In the next part of his address, Dr. Warner discussed what optimal local content might look like and what governments need to do to achieve the best outcome.

Optimal domestic participation. How can it be achieved?

Dr. Warner explained that various dimensions of national policy need to be considered if a favourable level of local content is to be achieved. Importantly, in setting the parameters of local content policy, governments need to factor in the current global economic context for the extractive sector. In 2016, there is a sustained downturn in global markets for oil, gas and minerals with slower global growth more generally. With 68 major oil and gas capital project now on hold totaling USD 380 billion, the pendulum of power has swung firmly towards investors.

Which of these projects will come back on stream first, when, and in which countries, is a matter of fierce competition between nation states, all of which are keen to prevent a decline in public finances and to boost employment. If one country has less stringent, smarter or more tactical local content provisions, investors may have greater incentive to invest there than in another country that may have put regulations in place during the peak period of extractive industry activity. But if a country takes that strategy too far and relaxes local content requirements too much, then it may well get the investment but potentially at great political and economic cost because the project brings no local jobs and no domestic industrial development, hence, no sustainability.

Striking the balance in public policy to optimize local content

All aspects of public policy in relation to domestic participation need to be carefully weighed and set to achieve the right balance. These include:

- Local content regulations
- Public investment to facilitate domestic participation
- Education and training of the national workforce
- Strategies for the construction of facilities for extractive projects
- Alliances between international and local companies
- Procurement-driven solutions
- Monitoring and reporting

Dr. Warner discussed each of these in turn.

Local content regulations

Local content regulations cover many aspects of foreign investment in a domestic market. They may include provisions on:

- Procurement of local goods and services, including the definition of a local company, preference and accompanying targets for local suppliers and local goods and services, local content in contract tender evaluation, and international/local joint ventures
- Local content plans, including their level, timing and approval
- Preference and targets for nationals in the workforce of investing companies
- Offences and penalties for non-compliance with local content regulations, including whether liability is individual or corporate.

Citing a recent study that compared the local content regulations in six countries in Africa—Angola, Tanzania, Mozambique, Nigeria, Ghana and Sierra Leone—Dr. Warner highlighted that the provisions of the recently enacted Local Content Agency Act 2016 in Sierra Leone may work to give that country a competitive advantage in attracting investors. In comparison with the other countries, the local content provisions in Sierra Leone had:

- Less restrictions to market access for foreign suppliers.
- Realistic targets for hiring Sierra Leone citizens. Recruitment targets for nationals were set at 50% for managerial and intermediate positions and 100% for unskilled positions.
- Achievable objectives for encouraging local raw material inputs to manufacturing, for example, mandatory targets were put in place for commodities with proven local production, such as cassava, sorghum and palm oil.

- Phasing-in of the regulatory instruments within the Act with a least-cost burden approach to implementation

Only Sierra Leone defines a “local company” as one requiring a minimum of 50% national equity. For all other countries, the percentage is greater than 50%. Hence, a foreign supplier—for example, a supplier of mining equipment—seeking to invest in the country and gain access to this market (and secure preferential treatment under local content regulations as a local company) does not have to give up a controlling share of the company. Rather, it can invest and retain an equal share of control as the local citizens. In contrast, countries that push for a joint venture or a local content definition that has more than 50% national ownership may deter investment.

Dr. Warner emphasized that having targets as an integral part of local content regulations was not the problem. Targets can be voluntary. Targets can be aspirational. Targets can be contractual. Targets can be agreed. Rather, problems arise when targets that are too high for local markets to deliver are set and locked in. As a consequence, companies either end up paying fines for non-compliance or have to invest more heavily to be able to meet the targets, hence costs go up and the return on investments goes down. So targets themselves are not the issue. Rather it is height that the bar is set. He added that local content legislation may also valuably include a clause that allows targets to be revised periodically. If the original targets have been set too high for the local market, then as a government you are locking in cost escalation into future investments or locking in future fines. Or worse still, the message is conveyed to the investment market that it’s going to be more expensive to do business in this country. Most of all, what really scares off investors is the potential for individuals to carry personal liability for corporate non-compliance such that they end up in prison.

Another important point about the Sierra Leone regulations is the phasing-in of their implementation. Sierra Leone is effectively rolling out their local content provisions one-by-one starting broadly speaking with the lower-cost, easier-to-implement provisions. Over time, companies will be required to implement different indicators of local content, and then progress into local content planning and the more sophisticated elements of the Act. So rolling out the provisions in a step-wise way is another key attribute to successful regulations.

Ongoing public investment to facilitate domestic participation

Dr. Warner also highlighted the critical role of the government as investors of public money to facilitate domestic participation. The government cannot take a “set and forget” attitude to achieving local content. Many aspects of local content require the ongoing consultation and collaboration among the relevant government authorities with the private sector as well as civil society institutions, particularly those in the education and training sectors. Some of the areas for public investment or public activities with respect to optimizing local content include:

- ♦ Tax policy needs to be in place that provides fiscal incentives for inward investment that supports domestic participation, for example, import tariff waivers when there is sufficient evidence of no local capability and/or tax credits/cost recovery mechanisms for training nationals, local research and development (R&D) or domestic private equity.
- ♦ Critical physical infrastructure, such as water and power utilities and transportation networks, such as road and rail, pipeline and port facilities.
- ♦ Targeted financing for local companies in the supply chain, for example, loans, subordinated debt or credit guarantees for small to medium sized enterprises (SMEs). Given that similar extractive projects are likely to come on line in several countries in Eastern Africa in coming years—ones that will need the same services and the same equipment—a great opportunity exists for the government in conjunction with the financial sector to put in place targeted mechanisms to support supplier companies.
- ♦ Establishment of domestic industrial, technological, geographic or sector-wide clusters. Governments should be encouraged to identify strategic opportunities for local industry to participate and compete more effectively. For example, Ghana is working to aggregate procurement for different mining projects to enhance purchasing power. Other strategies could include making targeted investments in technology transfer, research and development, and/or human capital development to fill skills gaps.
- ♦ Education and training of the local workforce, which is discussed in greater detail below. To facilitate the hiring of national staff, the technical and professional qualifications of local candidates need to be closely aligned with the recruitment criteria of investor firms (i.e., with the actual qualifications for different job descriptions in the extractive sector) as well as transferable to other sectors for long-term sustainability.

Education and training of the national workforce

It is simply not feasible for the government to leave the training of the local workforce up to the companies operating within the extractive sector, some of whom may only have limited periods of operation in the country, such as engineering contractors involved in the construction of oil and gas facilities. Rather, there has to be a pipeline, a stream of suitably qualified nationals available in the market at the right time to pick up positions. For example, to bring qualified engineers on stream would entail successful completion of university courses of several years in duration. The curriculum of training and educational institutions has to be matched up with the job descriptions, otherwise increasing greater participation of the domestic workforce in the sector is not going to happen. Long-term analysis and planning will be essential to identify and prepare locals to take advantage of future job opportunities. Therefore, authorities will need to work in concert with recruiting companies, the major suppliers and the operators in the sector to feed the vocational training and tertiary education institutions with the exact job descriptions and skills that companies in the sector are going to need.

Strategies in the construction of facilities for extractive projects

Depending on the national context and the availability of local capability, different engineering and contracting strategies in the construction of oil and gas facilities can be pursued to increase local content. However, each strategy will likely involve different trade-offs in cost to implement. For example, the “modular build” of a facility involves the construction of different modules of the facility overseas. Then, the completed modules are integrated and commissioned in a host country, such as Tanzania. Under this strategy there is clearly less local content. However, depending on a realistic assessment of capability, a government may try to push for fabrication of some modules locally. But this may result in project delays, thereby introducing additional risks and/or costs. Alternatively, the government may opt to increase future domestic capability by arranging for local personnel to work and learn at the fabrication yards overseas. Hence, expertise can be brought back to the country without incurring the lost time and increased cost of local manufacture.

At the other end of the spectrum, facilities may be “stick-built”, i.e., they are largely or wholly constructed on-site in the country. This approach may promote increased local content but may be more costly or less efficient. Therefore, each strategy has trade-offs and so a balance will need to be struck.

Other strategies include a “design-to-local” or “national capabilities driven” approach, whereby operators are encouraged to design facilities that factor in the limitations in domestic capabilities. For instance, it is no good building a 3,000-ton module in a local fabrication yard that is equipped with only a 1,000-ton crane to lift it. Major procurement contracts can be unbundled so that local suppliers have the chance to bid.

Alliances between international and local companies

Dr. Warner then discussed several different ways that international and local companies can be linked together to facilitate the transfer of technology and expertise to the domestic economy. Table 1 lists three common ways that partnerships are formed between foreign and local entities: 1) Joint ventures; 2) Licensing agreements; and 3) Sub-contracting arrangements. Each approach comes with different pros and cons.

In the case of a joint venture, the contracting companies are closely tied together. They decide on joint strategies and may develop products and services to better suit the local market. However, there are some downsides to joint ventures. Typically, the local companies are tied into one-on-one agreements with the foreign company, hence limiting the opportunities for relationships with other companies. On the other side, foreign companies with proprietary technologies may be reluctant to enter into joint ventures to protect these assets.

Alternatively, a foreign company with proprietary technology can set up a licensing agreement with a local firm. This is a common arrangement for manufacturing. The foreign company provides a local company with the rights to operate or build particular equipment or technology in the country. Under this approach, which is relatively quick and easy to establish, the local company assumes the financial risk and invests the necessary capital to set up and operate the facility, while the foreign company can better protect the exclusivity of its intellectual property. On the downside, depending on the terms of the agreement, the local company may have the license withdrawn or revoked, while the foreign company tends to lose control over the sales strategy as well as after-sales service, which may be a problem if quality control is poor.

Sub-contracting a local company to provide a good or service is another common method of partnering adopted by foreign companies. Valuably from the local perspective, sub-contracting arrangements can present longer-term opportunities to build expertise and facilitate more flexible technology transfer. Indeed, Dr. Warner described the example of one sub-contractor to a major international company in Egypt that built its expertise to the point that it emerged as an independent and competitive company in the sector. On the “cons” side, the danger exists, particularly in services contracts, for the best local staff to be poached by the foreign company.

Table 1: The pros and cons of different arrangements for foreign firms to partner with local companies

OPTION 1: FORMAL JOINT VENTURE	OPTION 2: LICENSING AGREEMENT	OPTION 3: SUB-CONTRACTING ARRANGEMENT
<b>Pros</b> <ul style="list-style-type: none"><li>• Long-term commitment and willingness to transfer technology</li><li>• May meet regulations for national ownership</li></ul>	<b>Pros</b> <ul style="list-style-type: none"><li>• Rapid start-up in new country</li><li>• Foreign company retains control of quality at set-up and better controls exclusivity of proprietary technologies</li><li>• Capital investment costs borne by local firm</li><li>• Foreign company earns income from royalties</li><li>• Meets regulations for national ownership</li></ul>	<b>Pros</b> <ul style="list-style-type: none"><li>• Combines immediate technology transfer with market flexibility for both parties</li><li>• Options for longer-term partnerships</li><li>• May fail regulations for national ownership</li></ul>
<b>Cons</b> <ul style="list-style-type: none"><li>• Limits scope for local company to work with other foreign contractors</li><li>• High risk for foreign companies with proprietary technologies</li></ul>	<b>Cons</b> <ul style="list-style-type: none"><li>• Intellectual property risk</li><li>• Loss of control of sales strategy and after-sales service</li><li>• Limited quality control in operations of local firm</li><li>• License can be withdrawn</li></ul>	<b>Cons</b> <ul style="list-style-type: none"><li>• Less incentive for either party to invest in long-term relationships</li><li>• Can lead to poaching of best staff of local sub-contractors by foreign companies</li></ul>

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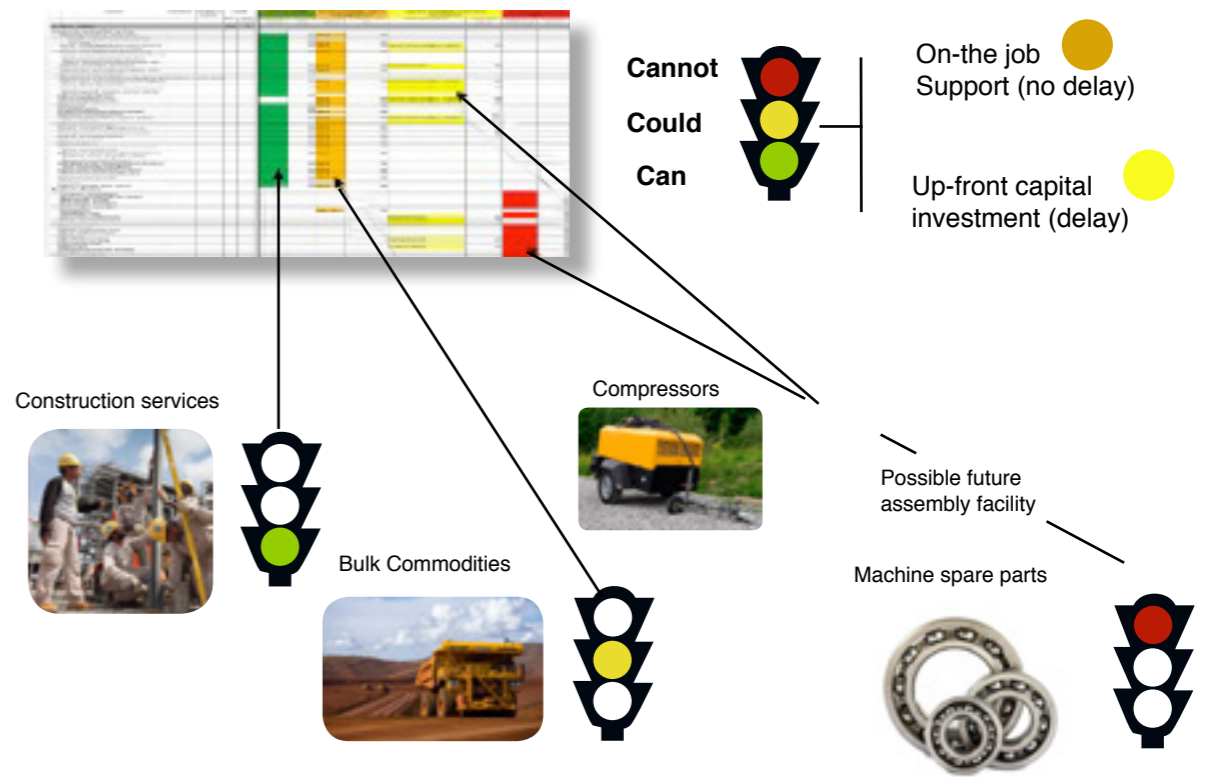
Procurement-driven solutions to increasing local content

Dr. Warner then discussed procurement-driven solutions to increase local content. He described various tools and activities that government authorities can use to identify and assess the capability of the local market to supply companies operating in the oil and gas and mining sectors, and to improve the chances of local suppliers to win tenders, including local content forecasting and joint supplier registration. He also highlighted the need for local suppliers to have the necessary skills and systems in place to win competitive tenders and to leverage local content in major contract tenders.

Local content forecasting

Forecasting is common activity undertaken by foreign companies to assess the capability of suppliers in the local market to win a competitive tender. One forecasting method uses “traffic lights” to categorize what can be done presently by local firms (green light), what could potentially be done with either on-the-job or upfront capital investment (orange or yellow light), and what cannot be done (red light). Figure 4 illustrates a hypothetical scenario.

Figure 4: Forecasting the capability of local suppliers



In this example, several local companies within the country have the capability to provide construction services for projects in the mining or oil and gas sectors. Hence, the domestic construction sector can be expected to submit competitive bids and can be given a green light. However, additional on-the-job support would be required for local firms to produce bulk commodities of sufficient volume (orange light) or up-front capital investment would be needed for a local joint venture to be able to manufacture more complex equipment for operations, such as compressors (yellow light). Lastly, with respect to spare parts to repair and maintain mining machines and equipment, local industry does not have the capability to produce these inputs at the requisite quality standard and/or on time. Hence, a red light would apply to local suppliers in this sub-sector, i.e., machine spare parts cannot be sourced in-country so purchase would necessarily be made from foreign suppliers.

Forecasting can be performed at all points along the value chain for extractive companies. Opportunities for local suppliers to provide goods and services can be identified along with the potential value of each opportunity over the lifetime of mining projects. In turn, these assessments can be used to inform decisions by government as to whether and to what degree public investments should be made or regulations put in place to improve local supplier capability and increase local content (see Figure 5).

Figure 5: An illustrative example of value chain forecasting for various products

PRODUCT	STAGE#1	STAGE#2	STAGE#3	STAGE#4	STAGE#5	STAGE#6
	SALES	OPERATIONS	SERVICE CENTRE	ASSEMBLY	PRODUCTION	OEM
	SALES AND TECHNICAL ADVISORS	WAREHOUSE STORAGE, SPARES, INSTALLATION	INSTALLATION. TECHNICAL SERVICES. REPAIR SHOP. TRAINING CENTRE	ASSEMBLY/ BLENDING. FULL SERVICE OPERATION	SIG PRODUCTION CAPABILITY, LOCAL SOURCING OF SOME COMPONENTS	ENGINEERING AND DESIGN. FULL PROD TESTING AND CERT. FACILITIES
CEMENT PRODUCTS	3 x LRI			?		
ELECTRICAL CABLES	2 x D	?				
TYRE RETREADING	1 x LRI				?	
MINING CHEMICALS	3 x D			?		
GRINDING MEDIA	2 x LRI				?	
STEEL PRODUCTS	2 x LRI/D JOINT VENTURES			?		
MINE EXPLOSIVES	5 D	?				

Notes: LRI = locally registered international suppliers; D = > 50% domestically-owned supplier

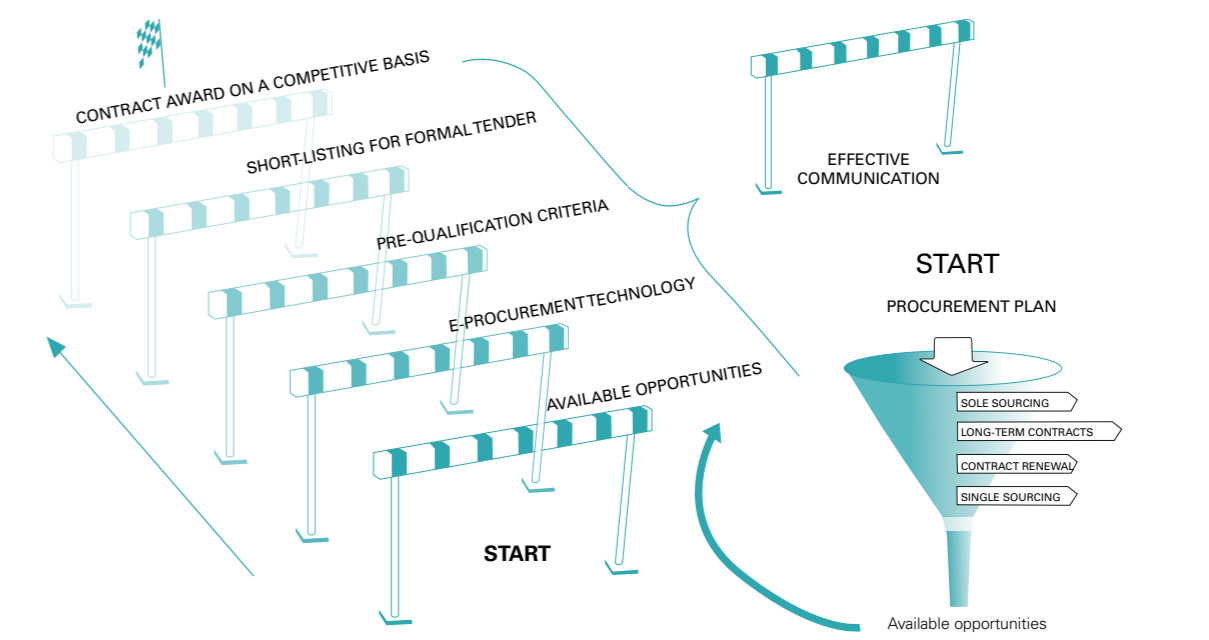
Joint supplier registration and pre-qualification systems

To eliminate the need for suppliers to register separately with each oil and gas or mining company operator, countries can opt to put in place a single system for the registration and/or pre-qualification of domestic suppliers. In this way, local companies are registered and validated in a common pool. Examples include the NipeX Joint Qualification System (NJQS) in Nigeria and the Joint Supplier Registration System (JSRS) in Oman. In this way, operators in the extractive sectors can more quickly and confidently identify and select local suppliers that have a realistic prospect of meeting the specifications and pitching the right price for the product or service needed.

Preparing local suppliers to win competitive tenders

However, Dr. Warner counseled that local suppliers need to be educated that to win competitive tenders in the extractive sector is extremely hard. Many companies in the extractive sector may already have long-term purchasing deals and/or sole- or single-sourcing in place for significant procurement items. As such, only a fraction of a foreign company’s total procurement may be available for tender in the domestic market. To capture a slice of what remains, local suppliers need to ensure that they have all of the necessary skills and systems in place to effectively and efficiently tender for the work available.

Figure 6: Illustration of hurdles to clear for local suppliers win competitive tenders in the extractive sector



**Sole sourcing** - no options, only one possible vendor  
**Single sourcing** - options, but tender is non-competitive due to demonstrably superior quality

As Figure 6 illustrates, local suppliers must clear a series of hurdles to win work. Of note, the lack of e-procurement technology can represent a significant barrier to entry for suppliers in a domestic market such as Tanzania. Dr. Warner further highlighted the importance of standardized systems and rigorous cost-benefit analysis to leverage local content in major contracts in the extractive sector, as done very successfully in Oman.

*Monitoring and reporting of local content*

Dr. Warner then turned his attention to the critical importance of implementing a robust monitoring and reporting system for national governments to track progress in local content. He reminded this audience of the adage that successful corporations and forward-thinking government authorities have long known that “What gets reported gets done”. He enumerated several key reasons for mandatory reporting of key metrics for domestic participation. Monitoring and reporting is:

- ♦ A relatively low-cost regulatory instrument to drive domestic participation
- ♦ A valuable tool for companies to understand their internal strengths and weaknesses in local content, and communicate successes to stakeholders
- ♦ An essential tool for evidence-based policy formulation
- ♦ A means for civil society to hold policy makers and companies to account

Dr. Warner related the example of the local content scorecard system established in Sierra Leone which went “live” in 2017. This online, multi-user, real-time reporting platform measures the compliance of 30 of the largest foreign entities operating in the country with local content requirements. It not only captures data on companies in the oil and gas, and mining sectors but also in the banking, manufacturing and agricultural sectors. Metrics reported include nationals in the workforce, procurement from local suppliers, in-country value of goods and services, supplier development, technology transfer and training. Perhaps, most importantly, the system shows the companies’ reporting status—i.e., whether companies have submitted data in compliance with reporting regulations—which further promotes timely disclosure. Over time, the information collected will provide a powerful tool for appraising and improving benchmarks for local content at different levels (district, regional/provincial and national) for individual operators, for sectors, and for countries overall.

**Conclusion:**

**In conclusion, Dr. Warner reiterated the central message of his presentation. The question for Tanzania—for the government, for investors, for international and domestic suppliers, for civil society, for donors, and, most importantly, for local communities and citizens—is less how can local content be maximized but rather how local content can be optimized? To do this, the country will need to work collaboratively with stakeholders to strike a balance of policies and regulations, public investment and other instruments to enhance local expertise and capabilities and sustainably increase domestic participation in the extractive sectors.**



3.

Panel discussion: Implementation of local content—  
Experiences from different African countries



Panel discussion on the experiences of different African countries in implementing local content

Panellists:

1.
- Mr. Nhlanhla Gumede, Managing Director, South African Farmers Development Agency, Durban Area, South Africa
2.
- Dr. Akanimo Odon, Non-Resident Research Fellow, African Centre for Technology Studies (ACTS), Nairobi, Kenya
3.
- Mr. Emmanuel B. Konjoh, Director General, Local Content Agency, Sierra Leone
4.
- Ms. Neema Lugangira, Head of Policy, Southern Agricultural Growth Corridor of Tanzania (SAGCOT)
5.
- Eng. Ali Said Bakar, Petroleum Engineer, Ministry of Land, Water, Energy and Environment, Zanzibar

**Moderator:** Dr. Gwamaka Kifukwe, UONGOZI Institute

The Experiences of Local Content in Different Countries

In this first discussion, the participants shared their experiences of designing and implementing local content policies in Sierra Leone, South Africa, Tanzania, Nigeria and Zanzibar. This section begins with edited highlights from the opening comments by each panellist on their particular jurisdiction. The moderator then invited questions and comments from the floor. Key issues raised during the open discussion are also summarized below.



Sierra Leone

**Mr. Emmanuel Konjoh** related that, unlike other countries, Sierra Leone is implementing a local content regime that is not specific to the extractive sector but applicable to all sectors of the economy. The policy was adopted in 2012 with a three-year roll-out period. Based on the country’s experience and the significant events over that period, including the Ebola epidemic from 2014-2016 and the global slump in commodity prices, the government has now decided to move to the legislative stage and enact a new Local Content Agency Act. Given the changes internationally and domestically, the government’s focus is on attracting inward investment as the necessary precursor for local content.

He advised that the key to developing the appropriate local content regime is extensive consultation so as to ensure the complete buy-in of all stakeholders. Mr. Konjoh said that the biggest challenge in local content is managing expectations and how you navigate those pathways. The various stakeholder groups—the politicians, the private sector, the locals—all have their own expectations. So designing the appropriate local content mechanisms is akin to “balancing a pendulum...without ruffling the feathers of anyone in particular”. Importantly, the government has purposefully brought the private sector into the discourse so as to move forward together.

The government has two key objectives; first to create an enabling environment for local content, and, second, to identify national development priorities over the short, medium and long terms. He further counselled that optimizing local content will require a change in mind set and behaviour in African countries. Based on his analysis across the continent, all parties need to rethink local content. For example, politicians need to rethink and recognize that local content is not a panacea to solve unemployment problems. The private sector needs to rethink and realize that the old business model “of just coming into a country, doing what it wants and then leaving” no longer applies. And people in local communities need to rethink and acknowledge that just because they have grown up in an area where the mines are now located, does not make them eligible to work in the mines if they do not have the requisite qualifications, skills or expertise.



South Africa

**Mr. Nhlanhla Gumede** said that South Africa is a mineral-rich country, known for its production of diamonds, gold, platinum, iron ore and other minerals, but it is not blessed with oil and gas. With respect to developing local content, he related the particular challenge that faced South Africa due to the system of apartheid in the country until its abolition in 1991 and election of the African National Congress to power in 1994. As a consequence, the country did not start by focusing on local content per se rather on black economic empowerment (BBE). Starting in 2003, the government started promoting the participation of previously disadvantaged groups in the economy. Over time, the BBE program included a supplier development arm.

Mr. Gumede cited the success of Norway, which has strategically used its water resources (for producing hydro-electricity) and, later, its offshore oil reserves to industrialize. African countries can learn from Norway’s experience of using their available resources, especially in oil and gas, to industrialize. In particular, he highlighted the passage of the Royal Decree of 1972 which legislated for local content in Norway. Article 54 of the decree directed the government to give preference to the procurement of Norwegian goods and services. As a result, by 1992, over 70% of all goods and services consumed upstream were from Norway. Similarly, Malaysia’s industrialization success story is also based on using what resources the country had (including palm oil, rubber and tin) to become a diversified and highly industrialized country.

Based on the model of the National Minority Suppliers Development Commission in the United States, the government created the South African Suppliers’ Development Agency with the aim of ensuring more inclusive participation in the economy. However, to date, this initiative has not proven to be very successful as the government initially focused the program on oil and gas, a sector which the country has little stake or control in compared with mining. The program also focused on equity ownership but this had little political support so the country did not invest.



Tanzania

As a leading advocate for local content in Tanzania, **Ms. Neema Lugangira** related that the country has made important strides in establishing local content measures. Informed by international experience as well as lessons from the domestic mining sector, the government put in place the Local Content Policy in May 2015 and provisions of the policy were incorporated into the Petroleum Act (PA) 2015. However, Tanzania is yet to finalize the regulations governing local content. Here, Ms. Lugangira emphasized the critical importance of getting the regulations right. For this the government needs to be well informed so that appropriate metrics and realistic targets for local content are established.

*If we are not informed, we can put in targets that are either unachievable or create reporting which is not relevant.*

For example, she cited the experience of Angola, which put in place the regulation that 70% of employees in the oil and gas sector had to be Angolan. The government found that companies were indeed complying with the regulation, but they were achieving the 70% almost exclusively by hiring nationals for only the lower-skilled, lower-paid positions, such as labourers, drivers, tea ladies and gardeners. Hence, the definition and wording of targets must be carefully set. In addition, the country must take care to set competitive targets based on knowledge of international conditions and the regulations of close competitors.

Most importantly, she counselled that Tanzania cannot champion local content for the extractive sector in isolation from the rest of the economy. Rather, as created in Sierra Leone, Tanzania needs to put in place a multi-sectoral local content regime, which has been acknowledged by the government through the establishment of the Local Content Department at the National Empowerment Council under the Prime Minister’s Office.

In particular, Ms. Lugangira highlighted the importance of creating linkages between the mining sector and the agriculture sector. Thousands of construction and mining workers will need to be fed, therefore, companies will need to be encouraged to procure locally-produced food. For example, the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) is not

*“We will be knocking on the doors of the BGs and the Shells to see how they are planning to ensure that [their workforces] are going to eat locally produced food here in Tanzania.”*  
—Ms. Neema Lugangira

only working to promote more investment in the agricultural value chain but also to ensure that more Tanzanians such as smallholder farmers and youth are able to participate and benefit. In turn, agricultural value chain improvements can tap into the hotel and tourism sectors. By linking the different sectors, much added value can be achieved. Hence, she commended Sierra Leone for taking this initiative which Tanzania can learn from.



Nigeria

**Dr. Akanimo Odon** related that in terms of the oil and gas industry, Nigeria is the “old kid on the block.” However, he added that the country had explored for and produced oil and gas for 30 years before the idea of local content came onto the national agenda. Various aspects of local content were scattered throughout legislation and regulations governing the sector but the core logistic approaches to local content were only developed decades later. Then when local content came on to the table, it created such waves of opposition in the industry that it effectively stopped some operations for a number of years.

He then related that the government’s first efforts to introduce local content was to establish a unit responsible for local content within the Nigerian National Petroleum Corporation, the national oil company, which adopted a prescriptive approach to local content, i.e., a series of directives and targets were developed that all oil and gas corporations had to comply with but without due consideration of the availability of local suppliers to meet those targets. Of further note, the government itself was a shareholder in all of these oil and gas blocks. Hence, by placing the mandate for designing and implementing local content within a government parastatal, it became a case of the government governing itself. As a consequence:

*It was easy to kind of go out the back door if you like, and say, well, for the purpose of costs, delivery and schedule, let us just kind of go over it.*

So, what the government had to do was begin the process of establishing an independent agency to monitor local content. And, by implication, that means that if the government has a share in ownership, it now actually has to pay. Not surprisingly, Dr. Odon remarked that: “It hasn’t been an easy ride.” Ultimately, the Nigerian Oil and Gas Industry Content Development Act was passed in 2010. Once again, the Act was initially quite prescriptive. But, upon realizing that the country did not have



Dr. Odon

*“Get the picture that [over 30 years] most of these international corporations, contractors, and the government settle down to business as usual. So I can tell you for a fact that there was a huge opera when local content came on the table”*  
—Dr. Akanimo Odon

sufficient capacity to meet local content requirement with respect to local suppliers, the government negotiated local revisions with different operators.

Dr. Odon then identified several lessons from the Nigerian experience in implementing the Act. First of all, when designing the legislation, it is extremely important to that due consideration be given to implementation of the Act afterwards, i.e., developing guidelines for interpreting and translating the law into practice. Otherwise, the process can be carried away by the political agenda and community expectations surrounding implementation.

*“What happens is, the communities, the people, everyone certainly goes, “Oh! Fantastic! The Act has been passed, so that means next we are all going to be rich!” But that’s not the case. So there was a big political dimension around passing the Act into law, but there was, if you like, minimal management of perception and expectations from the public.”*

Therefore, Nigeria is now going through a process of engaging stakeholders and developing guidelines to implement the Act in different segments. Clearly, big challenges remain but there is also clear evidence that local content in the country does well. For example, before the Act, Nigerian ownership of assets...XX...was around 5% now it is 40%.



Zanzibar

**Eng. Ali Said Bakar** related that since the passage of the Petroleum Act 2015 by the Tanzanian parliament, managerial procedures for oil and gas are now separated between the mainland and Zanzibar. One of the first actions of the government in Zanzibar was to conduct a gap analysis to identify what was needed on the ground and at what quality, not only to support the oil and gas industry but also other sectors of the economy, including the hotel and construction sectors. This is very important as there is no confirmation as yet that sufficient reserves of gas will be discovered for commercial exploitation. Zanzibar must prepare for both scenarios. Gas or no gas, the government needs to determine what human resources and infrastructure are required to support all of the country’s different sectors. To this end, a policy and act for the oil and gas sector have been drafted and only await the signature of the President. The government, in consultation with a wide range of stakeholders, is also in the process of developing a local content policy with reference to existing LC policies in other African countries and internationally. He stressed the importance of engaging local stakeholders—communities and institutions—so that they are aware of the requisite knowledge, skills and qualifications for future work opportunities. All too often, local content policies are designed and implemented between governments and outside parties without local participation.

Key issues raised during the Q&A session

On managing stakeholder expectations through openness and transparency

**Dr. Alhassan M. Alolo, Executive Director of the Institute of Energy and Climate Change Policy in Ghana** asked **Mr. Konjoh** how the government in Sierra Leone had managed to balance the expectations of different stakeholders in developing an effective and efficient local content policy. In response, Mr. Konjoh said that “The balancing act is not an event, it is an ongoing process.” Most importantly, the government opened up the space for civil society engagement so that everybody was able to contribute and tell their story. In addition, the government requires that all stakeholders involved in local content, including companies and communities, submit periodic reports on the status of implementation and these reports are made available to everyone. Later in the discussion, he stressed that local content “has to translate to the ordinary man in the street. If it does not translate, then there is no local content.”

Later in the discussion, **Ms. Lugangira** said that one of the biggest challenges in managing public expectations is the misalignment of the messages communicated by different stakeholders in the oil and gas sector. Different ministries, regulatory bodies, companies and politicians all tend to make conflicting statements that can result in a lot of confusion. At times, the mixed messages create loopholes for one party or other to take advantage of. Therefore, she recommended that the government as a whole and other key stakeholders put in place a communication strategy so that messages are both consistent and timely. She said:

*“There is a huge negative cloud over the extractive sector. Generally, it’s seen to be a very secretive sector. When there is no information and people are in the dark, people will always assume the worst and that creates a loophole for people instigating and raising false expectations etcetera. So I think it is very important to have communication strategies that are aligned amongst the key stakeholders.”*

On strengthening linkages between the extractive sector and the rest of the economy

**Mr. Konjoh** also said that governments have to work to diversify their local content policies and strengthen/leverage linkages between the extractive sector and supply chains in other sectors of the economy. For example, companies in the oil and gas sector can procure locally produced rice to feed their workforces. Or perhaps, a mining company may have excess power that could be passed on to a processor in the local area.

In his later comments, he stressed three key things in the country’s development of local content: employment, procurement and capacity development. The government in Sierra Leone worked to identify the potential drivers for local content and on what sectors to focus public investment. The

country analyzed all sectors of the economy in addition to the extractive sector. These included agriculture, ICT, hospitality and health. For example, looking at the health sector, Sierra Leone has a population of 7 million but only has 350 doctors, which is unacceptable. To sustainably improve the health sector will have to be local content driven. And for local content to be successful, the transferability of skills within and between sectors will be vitally important.

On this issue, **Dr. Odon** mentioned the Nigerian Institute of Welding which provides training and certification in advanced and specialized welding processes. Why welding? Because skills in welding can not only be used in the oil and gas sector, they can also be used in manufacturing, in engineering, in fabrication, in agriculture, etc. So, upon completion of their training, if there are no current positions available in the oil and gas industry, graduates can readily transfer their skills to other industries.

**Ms. Lugangira** agreed that a multi-sectoral approach is critical in relation of skills development so that the competencies gained can be transferable to other sectors. To this end, the government needs to outline priority areas for training. And to identify those priorities, countries will need to be well informed. Governments will need to conduct robust studies and IOCs and mining companies will also have to be willing to provide information if local content is to be successfully implemented.

*“At the end of the day, if you want local content to be successful, it needs to be a win-win situation on both sides.”*  
— **Ms. Lugangira**

On an export-oriented approach to local content

**Mr. Gumedé** recommended that African countries take an export-oriented approach to local content. The continent could usefully follow the example of South Korea, which successfully transformed and grew its economy by adopting the approach of “First, you copy. Secondly, you deepen your skills. Then, thirdly, you innovate.”

He felt that:

*“The problem with how we have looked at local content in Africa in general [is that] it is inwardly focused rather than export oriented. So, we should be looking and say. ‘In what areas do I develop certain skills... and then I can use [those skills] to export services in other sectors to other countries. So that’s how you grow the services sector and that’s how you grow the goods and services that your country produces.’”*



Mr. Gumedé

Later in discussion, **Dr. Odon** remarked that a country can have different performance metrics around local content such as the number of hours and value added. But for him the ultimate metrics for successful local content are actually international. He said that:

*When a local supplier in Nigeria can comfortably bid for a job in the UK, then you have delivered local content. So, in a sense, that’s the point where localization meets globalization.*

On the governance of local content

**Eng. Bakar** emphasized that strong institutions, free from any corruption, are required for the success of local content measures. Good governance depends on building the capacity of the country’s regulatory agencies to supervise the implementation of the terms and principles of the local content laws and regulations by IOCs and ensure that the rights of the people are upheld.

Institutional coordination between the different regulatory agencies responsible for enforcing local content is also essential. **Mr. Konjoh** highlighted the importance of putting in place mechanisms for different government ministries and agencies to work together to ensure that local content requirements are harmonized with other national laws, policies and regulations, for example, employment, immigration, etc.

Moving beyond compliance: Promoting the business case for local content

From her extensive experience, **Ms. Lugangira** remarked that local content makes business sense for IOCs. If you are going to operate in a country for 30-plus years, it makes sense to be able to procure goods and services locally.

*So there is no question that if you have local content, you are going to deter investment in one way or another. I don’t think that’s true. I think what matters is what type of local content do you have in place? What are your requirements? To me, I strongly believe that it is very important to make sure that your requirements are very well informed and they need to be realistic and progressive over time.*

However, one audience member was doubtful that the IOCs were willing to implement local content strategies. He gave the example that companies in Nigeria and Angola used to spend a lot of money employing foreign firms to provide security for their offshore rigs but when the proposal was made to purchase special ships and provide security using army personnel, the companies changed their tune and said that there were no longer security risks at sea. He added that:

*..the real issue is that they [the companies] would even risk to operate without security rather than paying for the local content. So, my feeling is, yes, we can have good strategies but if they are not really willing to share the cake with you, there will always be some way to get around about that. How do we tackle that?*

In response, **Eng. Bakar** reiterated that competent authorities will be essential to ensure that IOCs adhere to regulations, especially given that these companies have 100 or more years of industry experience and will know all the strategies for minimizing their compliance from their activities in other countries.

**Dr. Odon** was more optimistic about the participation and compliance of foreign companies so long as they are actively engaged in developing a national framework for local content and economic development that benefits all parties. He considered that up until now, governments have just acted to impose policies without the right engagement, hence, IOCs can be resistant to the terms. He agreed with **Eng. Bakar** that competent authorities must be in place to monitor and enforce compliance by IOCs and policies need to include appropriate penalties for non-compliance. However, he also strongly affirmed the view of **Ms. Lugangira** that it is best when the governments signals a strong business case for local content as this gives room for innovation.

*In Nigeria, I can give you a lot of examples how IOCs have been incredibly innovative in local content to the surprise of the government...because there was proper engagement pre-Act, and [also] because there was a clear sense of a business case in local content.*

He added that with so much emphasis on local content, governments can actually forget that, by default, it also means there is foreign content. For example, if the schedule to the Nigerian Local Content Act shows that some specific work scope in oil and gas supply chain must be given to Nigerians, say 40% Nigerian content, that means, by implication, that 60% foreign content is allowed. Hence, it is vitally important that the foreign companies that will feed the local content framework are effectively engaged.

*Ultimately, if you don't have enough capacity to meet the local content obligations, you will require foreign content even if it is at the first approach.*

In his closing remarks, **Mr. Gumedede** stressed that local content should not be about complying with a piece of law, it should be about development. Second, local content should be about developing certain skills that will carry you through once the exhaustible resource is exhausted. Third, a country's local content should not be about sharing the existing cake, it should be about growing the cake; it should not be about import substitution, it should be about export orientation. Hence, countries should look at their available commodities as platforms for developing skills that can be exported. However, he counselled that government should take care not to narrowly focus on the income generated from a specific commodity like gas. He said that:

*The value does not necessarily lie in just that main value chain...So when you look at an economy, yes, everybody wants to participate and have a share of the large stock [the trunk of the tree] when in actual fact the value lies in the branches and the leaves.*

In her closing remarks, **Ms. Lugangira** emphasized that local content costs money. Hence, the biggest question that IOCs have is: "Who is going to pay for this local content?" Therefore, governments must put local content on the table during negotiations with companies and ensure that the negotiation team has local content expertise because IOCs will definitely use local content as a negotiation tactic.



Ms. Lugangira

On regional integration

All of the panellists agreed on the importance of countries pursuing a regional approach to local content. For example, **Ms. Lugangira** mentioned that the East African Community (EAC) has already started working on a regional industrialization strategy, which aims to leverage the specific industrial development ambitions of its member countries. The development of an EAC local content framework is also on the agenda. However, understandably, individual countries cannot wait until the regional framework is in place to develop domestic local content policies and regulations, when, on the ground, your industries are moving forward and IOCs are knocking on the door.

4.

# Presentation: Key findings from the Local Content Benchmarking Study (LCBS) commissioned by the Oil and Gas Association of Tanzania (OGAT)

Dorival Bettencourt, Senior Oil and Gas Advisor, DAI Energy and Resource Group



Mr. Dorival Bettencourt

## About OGAT and the present study

Formed in 2009, the Oil and Gas Association of Tanzania (OGAT) is an industry group of 12 companies which either hold or are joint ventures in a Production Sharing Agreement (PSA) with the Government of Tanzania. The Association seeks to promote open dialogue and knowledge exchange between government, industry, civil society (including local communities) on issues of common interest in the Tanzanian oil and gas sector so as to enable informed decision making by all stakeholders and enhance

the contribution of the sector to national development. It operates through four committees that report to the OGAT Board of Directors: Legislative Framework Committee, Tax Committee, External Communications Committee and the Local Content Committee.

The Local Content Benchmarking Study (LCBS) was carried out to promote collaboration between OGAT member companies, the Tanzanian government and wider civil society to develop an enabling environment for local content. The study’s immediate objective was to encourage pragmatic dialogue around key issues related to local content regulations. The research, which was undertaken from March to September 2016, analyzed local content policies across a cross-section of five different countries—Angola, Brazil, Ghana, Nigeria and Mozambique—and their applicability to the context of Tanzania. This presentation summarized the findings.

## The Scope of the Study

The study analyzed local content policies in the selected case countries across the following six areas:

- The degree of alignment between the country’s broader development objectives and its local content policy.
- How local content is defined in each country and what the definition means in terms of the country’s regulatory approach.
- The scope of a country’s economic policy and where local content in the oil and gas sector fits in. For example, local content policies may be narrowly sector-based or more broadly applicable across various economic sectors.
- The information base in each country with respect to its industrial capacity, the competitiveness of domestic small and medium-sized enterprises (SMEs), and national labour

profile and skills, whether there are data gaps that need to be filled, and how this information can be used in the development of a local content policy, particularly regulations.

- The various institutional structures that govern local content
- The degree to which the oil and gas industry is brought in and considered to be a partner in the process of developing local content policy.

## General development characteristics and a brief history of the oil and gas sector in the five case countries

Table 2 provides a summary of the characteristics of the five case countries with respect to three important criteria: i) maturity of their oil and gas industry; ii) their development status compared to Tanzania; and iii) their local content approach.

Table 2: Characteristics of the case countries

	ANGOLA	BRAZIL	GHANA	NIGERIA	MOZAMBIQUE
Maturity of oil and gas industry	Mature industry and exporter of LNG	Mature industry	Nascent industry producing commercial quantities and exporting	Largest oil producer and second largest gas producer in Africa	Similar stage of maturity to Tanzania Sole competitor for East Africa LNG
Development status compared to Tanzania	Similar development stage	Significantly more developed	Slightly higher development stage	More industrialized but similar human development	Lower development stage
Local content approach	Promoted LC assertively for over a decade	Different LC approach from other comparator countries	Moved swiftly to put in place an assertive LC policy framework	Highly assertive LC policy	Regulatory framework for LC under development

In **Angola**, oil exploration began early in the 20th century (1910) and oil production commenced in 1956. In 1991, the country started deep offshore exploration. Compared with Tanzania, Angola is at a similar development stage. However, manufacturing has had a big impact on the country’s GDP. Angola is the second largest oil producer in Africa, producing 1.7 million barrels per day in 2015. Several international oil companies (IOCs) are operating in the country, including Chevron, Total, BP, Maersk and Exxon. The government has been assertively promoting local content since 2001.

**Brazil** is significantly more economically developed than Tanzania and has a mature oil and gas industry. The country’s first oil discoveries were made in the 1930s and offshore exploration commenced in 1968. By 2008, 22% of all deepwater production was being operated by Petrobras, the Brazilian Petroleum Corporation. Laws governing oil exploration and production were enacted in 1997. In 2007, regulations were stepped up to include local content but requirements were recently relaxed

following the discovery of huge pre-salt offshore reserves.<sup>3</sup> The country has a different local content approach from the norm across African countries.

**Ghana** is slightly more economically developed than Tanzania and has a budding oil and gas industry. Oil exploration started as early as 1896 and the first off shore exploration began in 1970. The country moved expeditiously to develop a local content framework and policies following the discovery of the Jubilee oil field in 2007. Oil production commenced in 2010. The country is producing commercial quantities for export, presently around 100,000 barrels per day. LC laws were developed in 2011 and 2013.

In **Nigeria**, exploration for oil started in 1908 with the initial discovery in 1958. The first local content provisions were introduced in 1969. The country has a mature industry with 37 billion barrels of proven oil reserves. It is the largest oil producer and second largest gas producer in Africa. Nigeria is more industrialized than Tanzania but with a similar level of human development. It has a highly assertive LC policy.

Extensive exploration has been carried out in **Mozambique** since the 1940s. Gas was discovered onshore at Pande in 1961 and nearby Temane in 1967. Production began at these sites in 2004 and 2010, respectively. Offshore drilling began in 2009 which led to a string of discoveries between 2010 and 2013. The country has a similar stage of industrial development to Tanzania. It is the sole competitor for East Africa LNG. A regulatory framework for LC is being developed.

Key insights from the study and how they apply to Tanzania

The following 5 key insights with regard to the design of a local content policy in Tanzania emerged from the OGAT study. Each is discussed in turn.

**Insight 1:** When shaping a local content regime, host governments need to consider external factors, such as global economic conditions and the evolving price dynamics in the oil and gas market, as well as internal (domestic) factors, such as the country’s experience in the oil and gas sector, its industrial supply base and national workforce.

In designing the country’s local content policies and regulations, the Tanzanian government will need to factor in the prevailing global economic conditions, with a particular focus on the evolving demand and supply dynamics in the oil and gas industry. In turn, commodity prices will keenly influence the extent and timing of investment decisions by companies in the extractive sector. For example, Angola started expanding LC in 2001 due to an increase in the number of IOCs seeking to invest in the country

at that time, which helped the country to develop a different type of muscle. Domestically, the size and experience of the oil and gas sector, the country’s industrial supply base and the skills level of the national workforce will all have significant impact on the optimal local content regime to put in place.

The current global economic climate is one of slow overall growth (estimated at 3.4% in 2016) with depressed oil and gas prices. Unlike Angola, Brazil or Nigeria, Tanzania has a small, nascent oil and gas industry with limited midstream and downstream infrastructure. Exploration commenced in 1952 but the first gas was found at Songo Songo in 2004 and the first offshore discoveries were made in 2012. The country now has around 57 tcf of proven reserves but present gas production is low and no LNG is exported. Tanzania’s industrial supply base is characterized by limited availability of certified goods and limited fabrication capacity, low productivity, limitations in terms of quality and supply chains, and a challenging business environment. In 2015, manufacturing accounted for only 5.2% of GDP. The workforce profile is heavily skewed towards unskilled labour (over 83%). Only around 14% of the workforce are middle-skilled.<sup>4</sup> In addition, the country has low upper secondary enrolment and inadequate provision of technical and vocational education and training. This means that most graduates are not “job ready” for work in the LNG sector. Key shortages are in crafts and related trade workers and technicians.

**Insight 2:** Local content policy objectives should be aligned with, and contribute to, a country’s broader development objectives.

Tanzania’s Development Vision 2025 sees Tanzania as a middle-income country (MIC) by 2025 characterized by a semi-industrialized and competitive economy with an educated society and high quality livelihoods. To realize this vision, the government has put in place a series of three Five-Year Development Plans (FYDPs). FYDP II for the period 2016/17 to 2020/21 aims to nurture industrialization to transform the economy. The present study recommends that any local content regulations need to be closely aligned with FYDP II and Vision 2025.

**Insight 3:** Most of the African countries examined by the study emphasize local participation in the form of equity ownership by nationals. However, the link between equity ownership and the country’s development objectives is generally weak.

Angola, Nigeria and Ghana have all adopted an **equity ownership approach** for local content. However, there is only limited evidence that local companies in these countries have increased the technical skills of the domestic workforce. Joint ventures also tend to work only when there is a structure in-country that becomes the vehicle for capacity building and technology transfer until the local counterpart becomes a fully-fledged independent company.

<sup>3</sup> For further information on pre-salt in Brazil see <http://www.petrobras.com.br/en/our-activities/performance-areas/oil-and-gas-exploration-and-production/pre-salt/>

<sup>4</sup> Middle-skilled jobs are typically defined as positions that require more than a high school diploma but less than a four-year college degree.

In contrast, Brazil and Oman use the **in-country value approach** to local content, i.e., they measure local content as the value of goods and services that are actually produced in their countries as a result of the external investment. This latter approach is more effective in terms of structural development.

In Tanzania, Section 219 of the Petroleum Act 2015 states that “licence holders, contractors and sub-contractors should give preference to goods which are produced or available in Tanzania and seek services from Tanzanian companies or citizens. Where such services or goods cannot be locally sourced, they must be sourced from a company in a joint venture with a local company.” Section 219 (3) then states that the “local company must own at least 25% of the joint venture.” A local company is defined at Section 219 (9) as one which is either (i) 100% owned by Tanzanian citizens or (ii) a company which is in a joint venture with a Tanzanian citizen or citizens “whose participating share is not less than 15%”.

**Insight 4:** The availability of robust data and information plays a critical role in underpinning successful local content legislation

It is very important to gather data and information on all aspects of local content prior to finalizing legislation and regulations. Local content can drive change towards national growth and development, but credible evidence is needed to identify the country’s needs and priorities and how the oil and gas sector can contribute in development goals. Valuably, the Tanzanian government can leverage the existing information base, including a number of recent studies on key aspects of local content.

- ♦ *Pathway to vocational employment in the emerging Tanzanian gas sector: A collaborative assessment of vocational and educational training needs.* A 2014 study by VSO, VETA and the Tanzania LNG Plant Project, which includes BG Group, Statoil, Exxon Mobil, Ophir Energy and Pavilion Energy
- ♦ *Mapping and analysis of the needs for petroleum related education in Tanzania.* A 2013 study by the Norwegian Agency for Development Cooperation
- ♦ *Tanzania oil and gas industry training needs analysis* (British High Commission and DfID)
- ♦ *Leveraging a large capital investment to develop local value chains* (World Bank)

However, it is also important to acknowledge that when LC regulations are very descriptive, resources may be drained in producing the data and in receiving and analyzing the information to identify and measure what proportion is local content and what is not. Therefore, an efficient and well-coordinated monitoring and reporting system is needed to ensure compliance with regulations but one that is not overly complex, cumbersome or costly.

**Insight 5:** The institutional structure and level of governance must be commensurate with the extent of compliance required by a local content regime.

In Tanzania, two regulatory agencies have been earmarked to be in charge of local content. The Petroleum Act 2015 provided for the establishment of the Petroleum Upstream Regulatory Authority (PURA) and the Energy and Water Utilities Regulatory Authority (EWURA) for downstream regulatory oversight. However, regulations will need to clarify the institutional structures for PURA and EWURA and clarify their roles in local content management, enforcement and promotion.



5.

## Presentation: Breaking the resource curse—Harnessing extractive investments for economic development by fostering linkages and regional integration

Mark Beare, Principal Consultant, Oxford Policy Management



Mr. Mark Beare

This presentation covered two important issues with respect to resource-led growth: 1) How to strengthen linkages between the resource extraction sector and the rest of the economy; and 2) The potential of regional integration to increase the value harnessed from national resource extraction.

### The role of extractives in national development

To start, Mr. Beare emphasized that natural resources are a means to an end but not the end in and of themselves; they have the potential

to accelerate the achievement of development goals but not to replace those goals. Rather, natural resources should be leveraged throughout the economy to maximize their potential to contribute towards realizing the country’s overall development vision.

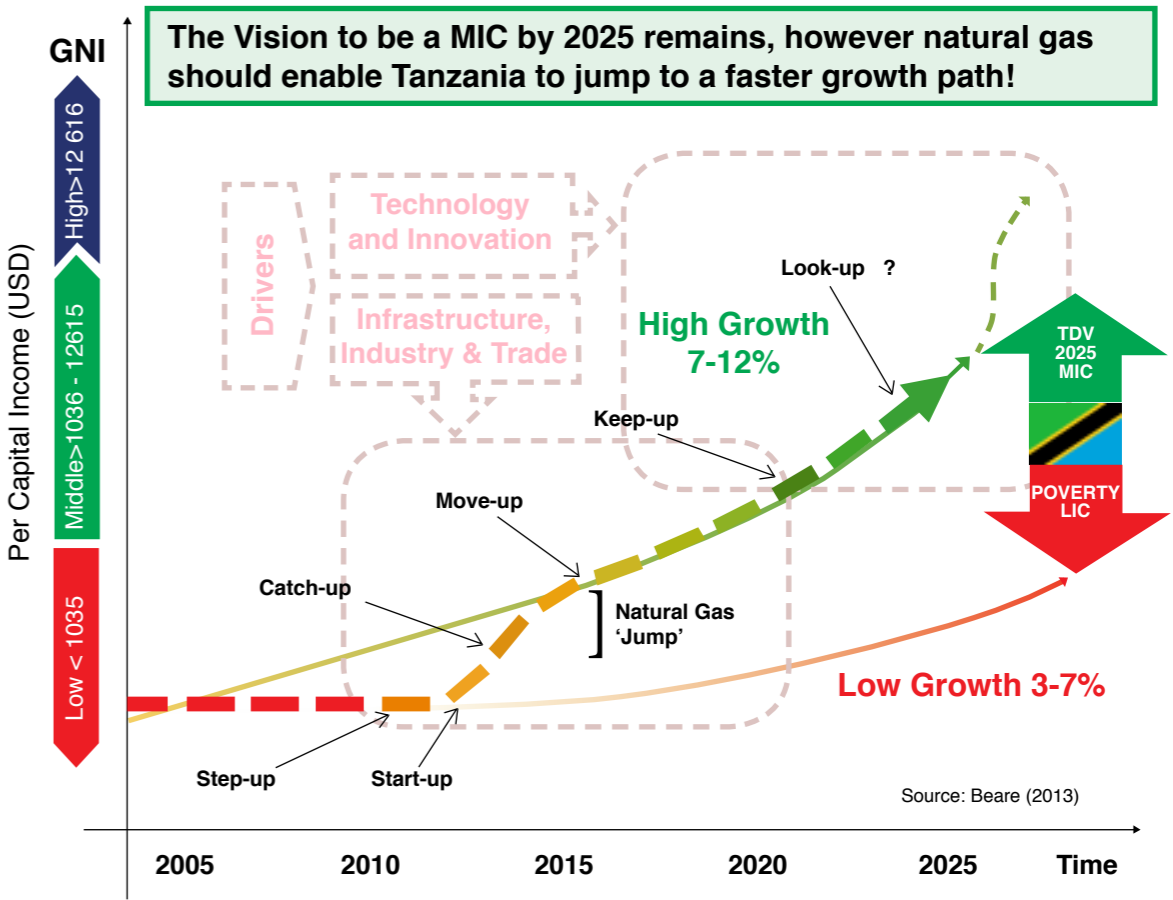
Mr. Beare assumed that all in the audience would be in agreement that merely collecting revenue from natural resources investments would have the least benefit for developing economies. Indeed, experiences in developing countries have proven that a simple revenue stream is not as valuable as leveraging resources at every stage of operations, and, where possible, using locally available raw materials for in-country value addition. This is what can lift citizens out of poverty. Therefore, strengthening linkages between the extractive sector and the rest of the economy is critical. Hence, governments, as custodians of natural resources, have the responsibility to develop approaches that maximize these linkages and to put in place policy, legislative and regulatory frameworks that are not only pro-growth but also pro-development.

Most governments are committed to using new revenues from natural resources to improve the quality of life of their people in terms of better health and education, and access to quality social services in general. They are also working to ensure that the discovery of natural resources translates into more and better employment and local business opportunities. At the same time, delivering on these commitments requires tough policy choices to ensure a balance between social sector investments and investments in other sectors across the economy, between transparency and careful management of citizens’ expectations, and between the adequate distribution of benefits to local communities in mining areas and the rest of the country on the one hand, and between current and future generations on the other.

### Broadening and deepening and the impact of natural resources

The need to deepen and broaden the impact of resources is well known and a lot is happening in Tanzania in this regard. The role of natural resources to underpin industrialization and transform the economy is clearly stated in the *Tanzania Development Vision 2025* as well as the *Integrated Industrialization Development Strategy 2025*, which was launched in 2011. The oil and gas sector could well be a game changer for Tanzania and the region. In particular, the exploitation of natural gas should enable the country to jump to a faster growth path (Figure 7). The question is how to increase the economic linkages to the extractive sector not only in terms of ‘breadth’ (number of linkages) but also in terms of ‘depth’ (local value added).

Figure 7: Realizing Tanzania’s vision to be a middle-income country (MIC) by 2025: The effect of a “natural gas jump” in growth



The African Mining Vision: A blueprint for sustainable, beneficial mining development

The African Mining Vision (AMV) adopted by the African Union in 2009 provides a blueprint for mining development on the continent. The AMV advocates for a holistic approach to achieve the “transparent, equitable and optimal exploitation of mineral resources to underpin broad-based sustainable growth and socio-economic development”.<sup>5</sup> It not only advocates for optimizing tax revenues derived from the extractive sector and that this income be appropriately spent but also seeks to fully integrate mining into development policies at local, national and regional levels. To achieve this goal, the AMV promotes a knowledge-driven African mining sector by strengthening linkages, fostering mutually beneficial partnerships between the state, private sector, civil society and local communities, and ensuring that countries have comprehensive knowledge of their mineral endowments.

Types of linkages to strengthen to increase economic opportunities

If prudently managed, the exploitation of natural resources can significantly increase the economic opportunities available to citizens in host countries. These include direct employment and supply chain opportunities as well as fiscal opportunities through increased government spending from taxes and royalties collected from companies. To leverage these opportunities, different types of linkages between projects in the extractive industries (EI) sector and the broader economy need to be developed or strengthened (see Table 3).

Table 3: Types of linkages

TYPE OF LINKAGE	DEFINITION
Production linkages	Refer to all of the goods and services that can be produced as a result of the EI operations. These linkages can be further categorized into <b>upstream, downstream and horizontal</b> linkages.
Upstream (or backward) linkages	Relate to the procurement of goods and services that EI projects need to operate, for example, welding services to repair mining equipment
Downstream (or forward) linkages	Relate to the beneficiation (or improvement in the economic value) of the extracted commodities through further processing—e.g., refining, concentrating, and/or smelting—of the commodity before it reaches the final consumer.
Horizontal (or lateral) linkages	Relate to the development of new industries using the capabilities of the EI-related supply chain. For example, mining trucks could be re-engineered and adapted to service in the logging industry.
Consumption linkages	Related to the demand for goods and services resulting from the spending of earnings derived from the EI sector. For example, when a truck driver employed at a mine site spends his salary on buying construction materials to builds a family house.

Source: Columbia Center of Sustainable Development (CCSI). (2016). Linkages to the Resource Sector: The Role of Companies, Government and International Development Cooperation. Eschborn, Germany: GLZ. p.13.

Knowledge and technology linkages	Related to the transfer of knowledge and technical within the EI value chain. For example, the mining operations may require IT services of higher expertise, which may benefit other sectors in the economy.
Spatial linkages	Relate to the benefits associated with the shared use of infrastructure developed for an EI project. For example, if granted access, non-mining sectors can benefit from the use of rail or road infrastructure that is built to service mining areas.
Fiscal linkages	Refer to payments—such as royalties and taxes—that EI companies make to governments in order to extract and sell the resources

The spending of EI companies on suppliers dwarfs royalty and tax payments, hence creating and/or strengthening backward linkages, i.e., those that involve extractive companies purchasing locally supplied goods and services for their operations, will be extremely important. However, local content (LC) and supplier development (SD) policies take time to have effect. For example, Norway took 20 years to establish a sovereign wealth fund and 30 years to leverage meaningful local procurement of goods and services.

Three key policy areas—capital, innovation and research, and skills development—are regarded as critical to the initiation of gas projects and the leveraging of their long-term benefits for economic growth and development at national, regional and local levels. In Tanzania, major gas production is not expected until 2022 but skills development is already in full swing. On this score, the government needs to ask some key policy questions, e.g., What skills should be developed locally? When should skills be imported?

Developing forward linkages to enhance the value of the commodity extracted will also help to ensure that more of the resource wealth remains in-country. As one moves down the value chain, the developmental impacts increase as operations are more labour intensive. The manufacturing sector has the greatest potential for rapid job creation. The most important mineral-based inputs for industrial operations are steel/alloys, polymers, base metals, fertilisers and cement.

Infrastructure investments to enable the extraction and transportation of natural resources can also offer significant benefits for local communities and the broader economy. Through the shared use of infrastructure, these spatial linkages can be vital for improving public and commercial services in mining areas as well as access to basic utilities such as water and electricity, and be a catalyst for local industrial development. For example, the Tenke Fungurume Mine in Katanga province of the Democratic Republic of the Congo resulted in the renovation of a large section of the regional highway and the building of a hydro power station.

New technology, innovation, and research and development (R&D) introduced by extractive companies is another essential input into the country’s industrial growth. These knowledge linkages facilitate skills development and technological innovation. Governments are typically slow to foster knowledge linkages as they are less tangible and hence less politically visible and beneficial. However, these

<sup>5</sup> African Mining Vision, p. v. accessed on 29 March 2017 at [www.africaminingvision.org/amv\\_resources/.../Africa\\_Mining\\_Vision\\_English.pdf](http://www.africaminingvision.org/amv_resources/.../Africa_Mining_Vision_English.pdf)

linkages can be particularly powerful if the vocational knowledge, skills and expertise developed have strong inter-sectoral applications. Conversely, the absence of these linkages can come at great cost to host countries. If countries delegate responsibility for developing projects to foreign investors, there is a much greater likelihood that mining operations will operate as “enclave” economies with only limited linkages with the rest of the economy.

There are two ways that governments can avoid this outcome. First, they can require that firms spend a certain percentage of turnover on domestically-based R&D and applied innovation, as done in Malaysia and Brazil. Alternatively, governments can initiate and coordinate collaborative interventions that combine R&D with human resource development.

The importance of regional integration to optimizing local content

Regional integration will be crucial for leveraging natural resources development potential and optimizing local content in Africa. For example, if countries seek to strengthen downstream linkages, i.e., improve the value of the extracted commodities through further processing, markets of sufficient size will be needed for the intermediate products. The production of intermediates is often a game of scale but national markets are often too small. Exports are, therefore, a critical factor underpinning the downstream. In turn, developing regional strategies and strengthening regional markets and trade becomes vitally important.

Supporting regionalization will require political will, a harmonised regulatory environment and significant improvements in trade-related infrastructure. To date, in many African countries the struggle is not about promoting integration and trade, but more about dismantling the effects of the colonial era during which trade and supply chains were designed to extract wealth from Africa and export it out of the continent with little if any benefit to the African people. Even now, decades after the majority of African countries gained political independence, the situation is little changed. With reference to the book “The Looting Machine” by Tom Burgis which examined the extractive sector in Africa, Mr. Beare related that the wholesale expropriation of resources during colonial times has barely slowed through the post-independence era, albeit with new beneficiaries.

Challenges to regionalization

Mr. Beare identified a series of significant challenges that will need to be addressed to accelerate regional integration. These included:

- ♦ Energy constraints in almost all countries in the Southern African Development Community (SADC) and a lack of a regional electricity supply strategy
- ♦ Multilateral and bilateral trade agreements (e.g., World Trade Organization, European Union,

- Economic Partnership Agreements) that constrain or prohibit interventions to grow the national and regional mineral value chains (MVCs).
- ♦ Poor intra-regional trade infrastructure, which translates into high logistics costs, especially for land-locked SADC countries
- ♦ Poor minerals technology capacity. Almost no R&D is done in the region outside of South Africa, where it has dramatically contracted over the last two decades
- ♦ Lack of fiscal alignment, especially regarding linkages and conditionalities in mineral rights agreements and licenses
- ♦ Limited market sizes to achieve economies of scale for many backward and forward linkages industries
- ♦ Lack of regional strategies/instruments to address “variable geometry”, i.e., the varying stages of economic development in individual countries
- ♦ Lack of coherent regional MVC development strategies
- ♦ Weak education systems, particularly in STEM (science, technology, engineering, maths) subjects

Leveraging Africa’s potential through regional mineral value chains (MVCs)

SADC produces over 100 minerals/metals and compounds. Hence, putting in place a regional MVC strategy that focuses on strategic downstream mineral feedstocks could strongly underpin national and regional economic growth, development and industrialization. SADC has all of the inputs for manufacturing, energy, infrastructure, agriculture and power production (see Table 4).

Table 4: Strategic mineral feedstocks for key economic sectors

SECTOR	REGIONAL STRATEGIC MINERAL FEEDSTOCKS
Manufacturing	Steel, polymers (from coal and hydrocarbons), base metals (Cu, Al)
Energy (electricity)	Oil, coal, natural gas (and CBM, shale gas), limestone (emissions, S removal)
Infrastructure	Steel, copper, cement (from limestone, gypsum, coal)
Agriculture	Nitrogen (from coal, gas), phosphate, potassium, conditioners (e.g. limestone)
Producer power	Where SADC has potential producer power, there could be increased downstream (beneficiation) potential: e.g. platinum group minerals (PGMs), diamonds, cobalt

The manufacturing sector has the greatest potential for rapid job creation and its most important mineral-based inputs are steel and alloys (derived from iron ore and coking coal), polymers (derived from hydrocarbons and coal) and base metals, including copper (Cu), Aluminium (Al), Zinc (Zn), Lead (Pb), Nickel (Ni), etc. Globally, steel and polymers are far and away the most important feedstocks into economic activity, and many intermediates are tradable. Linking agriculture to extractives also holds enormous potential in Africa.

Host countries also need to understand their own strategic value chains so that they can develop and link better. Botswana and South Africa have adopted strategies to move up the value chain rather than just export raw materials. For example, Botswana leveraged its wealth in diamonds to develop a high-skills cutting and polishing facility rather than export raw diamonds overseas for processing. This has created jobs and helped to retain value in-country, turning around decades of exporting diamonds for cutting and polishing in Europe.



Overcoming the barriers to regional economic integration

A number of regional natural resource integration strategies can be pursued as both precursors and catalysts to stronger regional economic ties, for example, a regional agreement on common minerals and intermediates. Historically, the European Coal & Steel Agreement (ECSA), a regional agreement on steel and coal, preceded the European Union.

African countries also need to urgently address intra-regional logistics costs and pursue the development of regional power strategies. The first steps of the minerals value chain, such as smelting and refining) are very energy intensive and are currently severely constrained by power shortages and rising power tariffs in most African countries. Energy integration will necessarily be underwritten by improvements in infrastructure.

If African countries can ensure affordable and reliable transport and power, reduce trade barriers, and harmonize financial systems, regional and continental supply chains could be drastically improved. And, in turn, the economic and human development outcomes across the continent will be enhanced.

6. Panel discussion: Ease of doing business—The business environment for domestic participation in the value chain



Panelists from L-R: Mr. Bernard Ongodia, Hon. Abdul Ignosi Koroma, Hon. Adam Mutawakilu (MP), Mr. Benjamin Boakye, Dr. Mohammed Khalfan and Dr. Gwamaka Kifukwe (not seen: Ms. Esther Mmbaga)

Panellists:

- 1. Ms. Esther B. Mmbaga, Ag. Director of Local Content, National Economic Empowerment Council, Tanzania
- 2. Hon. Abdul Ignosi Koroma, Deputy Minister, Ministry of Mineral Resources, Sierra Leone
- 3. Hon. Adam Mutawakilu (MP), Vice Chairman, Committee for Mines and Energy, Parliament of Ghana
- 4. Mr. Bernard Ongodia, Head of National Content Unit, Ministry of Energy, Uganda
- 5. Mr. Benjamin Boakye, Deputy Executive Director, Africa Centre for Energy Policy, Ghana
- 6. Dr. Mohammed H. Khalfan – Chief Consultant, Zanzibar Business and Academic Consultancy (ZABACCO)

Moderator: Dr. Gwamaka Kifukwe, UONGOZI Institute

In this second panel discussion, the participants discussed what steps can be taken to improve the business environment for domestic firms to participate and compete for the opportunities provided by foreign companies operating in their countries. Key issues raised during open discussion are also summarized below.

Improving the business environment for domestic firms

Sierra Leone

The **Hon. Abdul Koroma** began his comments with a brief background on the situation in his home country. In post-conflict Sierra Leone, mining activities have rapidly expanded into areas previously unknown for mining. Between 2012 and 2014, the sector contributed over 21% to GDP. The government quickly realized that the country would gain more from mining through local participation in the value chain, and it embarked on a series of regional and institutional reforms to enhance the ease of doing business. Improvements were made in three major areas.

First, the process for business registration was made simpler and faster by establishing a one-stop-shop for registering new businesses. Unnecessary bureaucratic procedures were removed. Now local businesses can be registered in just 24 hours and foreign companies can be registered within a maximum of 7 days. Consequently, the number of registered small businesses participating in supplying mining companies has increased. Second, the government reformed the banking system to improve access to loans for small businesses, including providing seed loans to small and medium-sized enterprises (SMEs).

Third, through broad-based infrastructural development, the government is working to reduce the costs of doing business and improve the participation of local operators. Most trunk roads have been paved which has reduced travel time and brought down transport costs for goods and services. Freight clearing and forwarding at the country’s main seaport at Freetown have been privatized, and significant investment has been made to expand container handling facilities to make the port a regional shipping harbour for West Africa. Security and cargo procedures at the Freetown airport have also been greatly improved.

In addition, the country’s power sector has been reformed through the creation of a public-private partnership. The private sector now generates power and sells to government for transmission and distribution, which has significantly increased power supply around the country. Electricity is now available in major mining districts. With respect to ICT, the government is encouraging the private sector to take advantage of the country’s fibre optic connection to spread internet connectivity across the country. Access to safe drinking water continues to be a challenge but treatment plants are being built in towns to complement the new system. Lastly, there is increased private sector support in education and training so that locals can acquire skills in demand in the extractive industries as well as other sectors. Overall, Sierra Leone has a strong commitment to ensure local participation and economic growth.



Ghana

The **Hon. Adam Mutawakilu** related that Ghana has been mining solid minerals for over a century, while oil and gas reserves were only discovered in commercial quantities in 2007. Oil production started in 2010. The Local Content and Local Participation Bill was passed in November 2013 and the country has started implementing the legislation. However, a number of challenges have been encountered. These include: 1) Access to market and information; 2) Financing and capital requirements; 3) Capacity gaps; 4) Tax regime; 5) Transparency and corruption; and 6) the Work ethic of local enterprises. He then discussed the government’s response to a number of these issues.



Hon. Adam Mutawakilu

Access to information was quite a challenge to local operators. IOCs and other multinationals indicated that they were not able to easily identify local companies with proven track records, and on the other side, local companies lacked timely access to information on contract opportunities. If they did find out, it was often too late to submit a bid. To overcome these information deficits, the Ghanaian government established the Petroleum Commission so that local companies can call for contract information. The Commission also registers local companies and catalogues their specific field of operations and relevant experience and qualifications. In 2010, the government also set up the Enterprise Development Centre (EDC) which has two main functions. First, to provide access to market information on opportunities in the oil and gas sector, and, second, to provide services to SMEs, such as business training, capacity building programs and advisory services, and bring together local businesses with IOCs and their contractors.

To increase access to finance and capital for local companies, the government embarked on several reform initiatives. To start, the Borrowers and Lenders Act, 2008 made it possible for banks to give loans to SMEs using movable assets as collateral. Second, the 2016 Petroleum Exploration and Production Law (Act 919) includes specific local content provisions with respect to providing financial capital for local companies in the sector. IOCs are also required to submit their procurement plans as well as their annual recruitment and training programs to the Local Content Committee as well as the EDC for monitoring and compliance purposes.

For overcoming the huge capacity gaps between Ghanaian companies and IOCs, the government is instituting several strategies, such as joint ventures and other partnership arrangements between local businesses and the oil companies to enable domestic companies to broaden their knowledge of the oil and gas industry and promote technology and skills transfer. The EDC also works to identify and fill capacity gaps, either through capacity building programs run by the Centre or by linking local companies with IOCs. The Supply Chain Development Program is another initiative aimed at training local companies to meet the specific needs of operators in the sector. About 160 companies have been registered and half of these have secured contracts with IOCs.

Hon. Mutawakilu added that building local content and local participation takes time. But he said that Ghana had made good progress. In his State of the Nation address in 2016, the President said that 6,940 jobs had been created in the upstream sector of the oil industry, of which 5,590 (or 80.7%) were filled by Ghanaians. Out of the 474 companies registered with the Petroleum Commission, 321 are indigenous companies and 46 are joint ventures. Out of the total value of \$US 6.3 billion of contracts awarded over the period from 2010 to 2015, over \$1 billion went to indigenous companies. And in the first three quarters of 2015, \$201 million (or 41%) of the \$793 million worth of investment for the year had been awarded to indigenous companies.<sup>6</sup>

<sup>6</sup> For the full text, see <http://agricinghana.com/wp-content/uploads/2016/03/state-of-the-nation-address-2016.pdf>



Zanzibar

**Dr. Khalfan** also offered a brief history of economic development in Zanzibar. In the mid-1980s, responding to global political changes, especially the collapse of the Eastern bloc in Europe, and the decline in the price of cloves, the commodity on which Zanzibar depended heavily for foreign revenue, the government embarked on a program of economic liberalization. It decided to welcome foreign direct investment (FDI) as well as allow businesses to engage more in the importation and export of commodities with the exception of cloves, which remained under government control. There was an influx of foreign investment into Zanzibar particularly in the tourism sector. To support this investment, the government took significant steps to improve infrastructure, especially roads and communications. As a result, the majority of big hotels in Zanzibar are owned by foreign businesses. This is largely because local investors in the hotel industry were not able to secure capital through commercial banks. However, tour operations are exclusively devoted to the local population. The 2004 Zanzibar Investment Policy aims to promote the domestic production of goods and services for export, to optimize FDI that will complement the local sector, to mobilize investments that are socially and economically beneficial and environmentally sound to protect the national and environmental heritage, to encourage and facilitate the adoption of new technologies and to reform the public administration as a way to establish efficient operations. This will help to lay the necessary ground to encourage investors while ensuring that local content is taken into consideration. With all these efforts, there have been significant increases in trade and investment. However, despite the increased GDP of the country, the overall economic conditions for the common person have not improved correspondingly with the GDP. Income that is earned is largely distributed to company shareholders. The cake has not been shared fairly. Small and medium enterprises which are mostly managed by women and youth need proper funding so that their skills and knowledge can be improved. Foreign businesses can be encouraged to purchase local products. Unfortunately, local SMEs have not been empowered to benefit from the mushrooming hotel industry. For example, the country has great potential for the production of many different tropical fruits but agro-processing facilities are presently very limited. Much could be done to link agriculture with hotels but production will have to better meet the standards demanded by hotels.



Uganda

**Mr. Ongodia** described that in the mid-1990s foreign investors like Shell sought to acquire acreage in Uganda. But, at that point, the President found that not a single Ugandan in the government had the capacity and knowledge in the oil industry to negotiate with these companies. So, the government put in place a capacity building policy and a legal policy and framework for the sector. He added that Uganda also has a national oil policy with six objectives, most of which are geared toward building



Mr. Bernard Ongodia

the capacity of Ugandans in terms of enterprise development, procurement of goods and services, technology transfer and other areas. However, the country faces similar challenges to other African countries in entering the petroleum industry. Critical constraints include high energy costs, poor infrastructure and limited finance. Interest rates on loans to local businesses are extremely high.

The government is trying to address some of the barriers by establishing a one-stop centre for business registration. However, corruption remains a bottleneck when doing business in Uganda. Most companies do not want to register as legal businesses, and, those that do, do not want to keep books of account. In general, implementation of policies has been poor. The government is looking to develop ICT to go the e-market way, although the question is how the local person will be impacted by this move.

Beyond a business-friendly environment: Empowering Tanzanians to participate

Asked by the moderator, what extra steps were needed to empower the participation of Tanzanians, **Mrs. Mmbaga**, began by giving the definition of “economic empowerment” from the Tanzania Economic Empowerment Act of 2004. It states that *“economic empowerment” is the “deliberate and affirmative actions and measures and actions undertaken by the government for promoting and enhancing the knowledge, skill, economic prowess, and financial prudence of Tanzanians to enable them meaningfully participate in economic activities, and includes all plans, strategies and policies to achieve that goal, be it by public or private sector.”* Therefore, economic empowerment is a broad concept. But at the same time, specific strategies have to be put in place by both the public and private sectors to ensure that a large part of the society can participate effectively in the economy.

The National Economic Empowerment Council (NEEC) is mandated to implement the National Empowerment Policy (also of 2004) and that policy identifies nine pillars which are important to ensure that Tanzanians are economically empowered. Amongst those pillars is *“creating a favourable business environment for investment and growth.”* Other pillars include improving the legal and regulatory framework, raising skills and knowledge levels, infrastructure, and privatization, enhancing markets, cooperatives and land reforms. In turn, there are 76 strategies which are aim to ensure that these pillars are implemented. The NEEC is mandated to ensure that these the pillars are incorporated into the plans and strategies both by private and public sector institutions to ensure that a large part of society is economically empowered, including marginalized groups such as women, youth and people with disabilities.

The critical importance of building indigenous capacity to retain value in country

Asked what is the major hindrance to the successful implementation of local content policies, **Mr. Benjamin Boakye** said that Africa has the resources but lacks the financial capacity to exploit those resources. That is why the continent needs to attract foreign investment. But, in attracting investment,

the continent needs to be careful not to lose ownership of its resources and the benefits that they can bring. He said that what is frustrating is that countries are told to create investor-friendly conditions to become more competitive but the act of being competitive is overriding every sense of getting what we require or what we deserve as a continent.

He added that upfront investments in the extractive sector are huge for developing countries and the payback may be long into the future. Therefore, countries need to make deliberate and conscious efforts to recoup their initial investment and more, so that is why local content is extremely important. Governments will need to help indigenous businesses to build capacity over time and get local businesses to team up together so that they can actively and effectively participate in the extractive sector.

Right now Africa is trying to compete with foreign companies in exploration for oil and gas reserves. But Mr. Boakye counselled that countries should rather focus on activities that can generate revenue, go back to basics and see what builds more value. However, most of these things are focused on politics and built around election cycles. He concluded his remarks by saying that the continent must realize that no one will help African countries to develop their resources. The oil and gas sector is a highly-skilled industry and countries cannot impose upon businesses to employ locals who do not have the required qualifications. Governments, therefore, need to require foreign companies to invest in capacity building with the costs deducted from royalties. Officials need to make smart decisions that will benefit our countries in the long run.

**Hon. Koroma** strongly agreed with Mr. Boakye that building the capacity of nationals to occupy senior positions in the oil and gas and mining sectors is a fundamental aspect of local content. Countries will need to attract investment but, at the same time, citizens must be empowered to participate. The revenues that are generated from resources can be utilized for infrastructural development and to improve the lives of the people.

Later in the discussion, **Mr. Boakye** reiterated the critical importance of moving away from a focus on laws to make conscious efforts to truly build local capacity. That is only way that African countries will be able to retain/recoup the value of the huge upfront investment to enter the sector. Otherwise, the resources will effectively be spent before they are extracted. It is not enough to protect some businesses or set aside some proportion for locals. He cautioned that: If you get overly protectionist, you will end up encouraging fronting because the capacity doesn’t exist. It will only result in locals partnering with foreign businesses and since the latter have the financial muscle, they will control the businesses. It will be ‘business as usual’.

He added that African countries are ranked every year on “ease on doing business”. And every country wants to jump to number one, so as to be seen to have the easiest platform for companies to do business. However, a much better system of ranking would focus on “beneficiation”, i.e., which country

is benefiting most from the extraction of its resources. Indeed, the World Bank should help countries to research and compete on beneficiation, compete on how to retain value in our countries. Of equal importance, conscious political decisions are required to building stronger institutions that can work independently without the usual political interference. That is where we need to strengthen ourselves as a continent.

**Mr. Ongodia** said the Government of Uganda is actively involved in building the capacity of its entrepreneurs as well as enterprise development but it cannot do it alone. The participation of the private sector will be critical. It is also looking to recapitalize the Uganda Development Bank to provide lower interest rate loans to indigenous companies and to establish a national content development fund for businesses that have submitted tenders with the oil industry. So it is taking a holistic approach of building the capacity of its people and seeking ways to finance their investments.

**Mrs. Mmbaga** said that the National Economic Empowerment Council in Tanzania is currently carrying out a situational analysis to examine how various sectors, such as agriculture, construction and manufacturing—can participate in the oil and gas sector. It is assessing what skills are available and what are the gaps. It is also collecting evidence from studies that have been carried out by other government institutions, development partners and other players in the oil and gas sector. The aim is to have a single document to inform the government on what skills are needed and to come up with clear targets and capacity building and financing strategies to ensure that there is effective local participation. What we want to do is to understand what are the standards, what are the skills that are required for as many Tanzanians, including women, youth and the disabled, to be employed and/or provide goods and services not only to the oil and gas sector but in all investments that are going to be taking place in the country.

Increasing participation in the value chain of the extractive sector: What lessons can be learned from the experience of the tourism sector in Zanzibar?

**Dr. Khalfan** said that Zanzibar is very good at laying down the necessary policies, legislation and regulations, but implementation is lacking. The local people are not prepared to take advantage of future opportunities in the sector. Moreover, local non-state actors have not been fully equipped to raise awareness among the people on how they can prepare to benefit from the exploitation of these resources. The government and development partners—and colleagues like UONGOZI—will be needed to build the capacity of civil society institutions to support locals through education and skills development.

He considered that the private sector in Zanzibar is very vibrant with very talented people but they lack the capacity to borrow funds to invest take advantage of opportunities in the sector. Therefore, specific funds will need to be set aside to enable local investors and local communities to participate. The role of women and youth in the equation cannot be over-emphasized. These groups comprise

two-thirds of the labour force in Zanzibar, but surveys indicate very low representation in the non-agricultural sector. Deliberate efforts will be needed to generate inclusive opportunities so that all people benefit. Otherwise, once again, the benefits will only flow to foreigners.

Is there a problem in how African countries attracts investment? Is there an overemphasis on attracting FDI?

Asked if African countries were overlooking their own companies in the pursuit of foreign investment (and therefore hindering local participation in the extractive sector), **Hon. Mutawakilu** said that certain fundamental factors needed to be in place for any country to take advantage of the oil and gas sector and local content. These requirements include an existing and robust manufacturing sector and fabrication industry, infrastructure, and professional, technical and financial capabilities and capacities. But, in most of the developing economies of Africa, many of these requirements are not yet in place. It will take some time to build the continent’s capabilities.

That is why FDI is still required but countries must ensure that local content is part of those investments. Building capability often needs to be on the job or in partnership because that is the means whereby knowledge, skills and expertise are transferred to local companies, as well as the entrepreneurship to take advantage of opportunities. And regulations must be in place for transparent, competitive tendering as well as beneficial ownership disclosure for all companies. In addition, during registration, companies must disclose any political association so as to prevent corruption. In closing, he said that countries like Ghana will need to take calculated risks to become a successful oil-producing nation and take the challenges as invaluable experience to improve over time.

The African Mining Vision: Optimizing local content for the whole continent

In his closing remarks, **Hon. Koroma** strongly recommended that for Africa to solve the issue of local content, individual countries should seek align their mining policies with the African Mining Vision developed by the African Union. This document speaks to all of the issues raised in the current forum to address and mitigate the challenges of managing our resources and drive the development of people in all African countries. Adhering to the principles of the African Mining Vision will contribute to optimizing local content throughout the continent.

7. Closing speech by Hon. Salama Aboud Talib, Minister of Land, Water, Energy and Environment, Zanzibar

On behalf of the government of Zanzibar, the Hon. Talib expressed her sincere gratitude to all presenters and delegates for their active participation and candid contributions during the two-day forum. In particular, she thanked the keynote speaker Dr. Michael Warner for expanding participants’ understanding and knowledge of the concept of domestic participation in the extractive sector. The lessons learned will be valuably incorporated into national policies and strategies. She also thanked the UONGOZI Institute and members of her Ministry for organizing the event from its conceptual design to successful execution.



Hon. Salama Aboud Talib

The Minister than highlighted some of the key issues discussed. She observed that many African countries that have discovered valuable extractive resources, particularly non-renewable resources, such as minerals, oil and gas, have found that they have been a curse rather than a blessing. Instead of fuelling economic growth as they should, possession of these resources have tended to lead to worse development outcomes.

Yet, if exploited prudently, extractive resources present ample economic and social opportunities for domestic participation in the value chain, through demand for domestic products, through the transfer of international business knowledge and skills to local firms, and through direct employment. Even if the local labour force does not have the skills to be directly employed by extractive companies, there is likely to be demand from the industry workforce for local goods and services, for example, produce, catering, accommodation and other services.

She reiterated the role of the government to implement policies that provide a general enabling environment for business, develop the skills of the national labour force, and assist local enterprises to effectively engage with the extractive industries. The need to build the capacities of local suppliers came out very strongly from the discussion. Without the necessary capacities, domestic firms will continue to miss out on available opportunities. Therefore, the government will need to ensure that local content initiatives facilitate the transfer of technology and skills from extractive companies and their international suppliers to local business. Training facilities and investment in research and development will also be vital to enhance local business capacity to meet the needs of extractive projects. Substantial benefits can be realized from close collaboration with companies.

Addressing her colleagues from Zanzibar and the Tanzania mainland, she urged them to think critically about how to make local content work. She hoped that they would use the network established by the roundtable and the extensive knowledge and experience of other African countries in the extractive industry to successfully implement local content policies for the benefit of our people.

# Appendix A: List of Participants

**Raphael B.T. Mgaya**  
Ministry of Energy and Minerals  
*Senior Legal Officer*

**Yusuph J. Mwenda**  
TRA  
*Manager*

**Saidi M. Kalunde**  
AT Chambers  
*Senior State Attorney*

**Haji Kali Haji**  
Zanzibar Utilities Regulatory Authority  
*DG*

**Sheha Mjaja Juma**  
ZEMA  
*Director General*

**Alpha M. Honest**  
Ministry Of Land  
*Legal Officer*

**Aloyce H. Kway**  
PMO  
*Principal Economist*

**Seleman H. Chombo**  
MEM  
*Petroleum Engineer*

**Sanawa James**  
T.P.D.C  
*Manager*

**Alfred R. Mapunda**  
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**Gerson J. Mdemu**  
Attorney General's Chambers  
*Deputy Attorney General*

**Michael Muhoja**  
TRA  
*Manager*

**Khamis A. Fakh**  
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*Health, Safety and Environment*

**Ali S. Bakar**  
Ministry of Lands, Water, Energy and Environment  
*Petroleum Engineer*

**Norbert A. Kahyoza**  
EWURA  
*Zonal Manager*

**Oswald Mbunda**  
Tanzania Revenue Authority  
*Principal Tax Officer*

**Hamza H. Juma**  
House of Representatives  
*Chairperson of the Committee*

**Athuman M. Kwariko**  
Ministry of Energy and Minerals  
*FOR. Commissioner for Minerals*

**Julius P. Mjelwa**  
VETA  
*Senior Labour Market Analyst*

**Antelimi D. Raphael**  
TPDC  
*Engineer*

**Thobias P. Rwelamila**  
EWURA  
*Natural Gas Distribution Manager*

**Ahmad K. Haji**  
Second Vice President's Office  
*Deputy Principal Secretary*

**Makame K. Makame**  
Disaster Management Commission  
*Operation Officer*

**Suleiman K. Ali**  
Occupational Safety and Health  
*Director*

**Dr. F.M. Mhilu**  
Ministry of Finance and Planning  
*Commissioner*

**Vuai Y. Lada**  
ZIPA  
*DHRF*

**Juma A. Khamis**  
Ministry of Finance and Planning  
*Deputy Principal Secretary*

**Faraji Y. Abass**  
Ministry of Lands, Water, Energy and Environment  
*Officer responsible for Energy Sector*

**Juma B. Alawi**  
Ministry Of Land, Water, Energy and Environment (Pemba)  
*Officer in-Charge*

**Hashim C. Muumin**  
Department of Fisheries  
*Chief Fisheries Officer*

**Mohamed A. Mohamed**  
Department of Energy and Minerals (Zanzibar)  
*Director*

**Wellington Hudson**  
TPDC  
*Director Downstream Operations*

**Dr. Charles E. Mhina**  
PO-RALG, Dodoma  
*Assistant Director*

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**Gevaronge J. Myombe**  
Ministry of Industry  
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# Appendix B: Roundtable Program

Extractives for Human Development: Maximizing Domestic Participation along the Value Chain Regional Roundtable in Zanzibar, 27th -28th October, 2016

## DAY 1 – 27<sup>th</sup> October

08.00 - 08.30	Registration	11.00 - 12.00	Moderated Panel Discussion (I):  Implementation of Local Content: Experiences from Different Countries  Mr. Nhlanhla Gumede, Managing Director, South African Farmers Development Agency, Durban Area, South Africa Dr. Akanimo Odon, Non-Resident Research Fellow, African Centre for Technology Studies (ACTS), Nairobi, Kenya Mr. Emmanuel B. Konjoh, Director General, Local Content Agency, Sierra Leone Ms. Neema Lugangira, Head of Policy, Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Eng. Ali Said Bakar, Petroleum Engineer, Ministry of Land, Water, Energy and Environment, Zanzibar
08.30 - 08.40	Introduction Mr. Dennis Rweyemamu, Head of Research & Policy, UONGOZI Institute		
08.40 - 08.45	Welcoming remarks Mr. Ali Khalil Mirza, Principal Secretary, Ministry of Land, Water, Energy and Environment		
08.45 - 08.50	Welcoming Guest of Honour Hon. Salama About Talib Minister of Land, Water, Energy and Environment		
08.50 - 09.15	Opening Address - Guest of Honour <b>H.E. Dr. Ali Mohamed Shein,</b> President of Zanzibar and Chairman of the Revolutionary Council		
09.15 - 10.30	Maximising Domestic Participation: Why is it important and how can it be achieved? Keynote Presentation: Dr. Michael Warner Director - Local Content Solutions Ltd.	12.00 - 13.00	Presentation Harnessing extractives investments for economic development: Fostering linkages and regional integration Mr. Mark Beare Principal Consultant - Oxford Policy Management
10.30 - 11.00	<b>Tea/Coffee Break &amp; Group Photo</b>		

## DAY 1 – 27<sup>th</sup> October

13.00 – 14.30	<b>Lunch Break</b>	15.30 – 16.30	Results of the Local Content Benchmarking Exercise (Tanzania) Oil and Gas Association of Tanzania (OGAT) with Dorival Bettencourt DAI Consultancy (USA)
14.30 – 15.30	Moderated Panel Discussion (II):  Ease of Doing Business: The Business Environment for Domestic Participation in the Value Chain  Ms. Esther B. Mmbaga, Ag. Director of Local Content, National Economic Empowerment Council, Tanzania Hon. Abdul Ignosi Koroma, Deputy Minister, Ministry of Mineral Resources, Sierra Leone Hon. Adam Mutawakilu (MP), Vice Chairman, Committee for Mines and Energy, Parliament of Ghana Mr. Bernard Ongodia, Head of National Content Unit, Ministry of Energy, Uganda Mr. Benjamin Boakye, Deputy Executive Director, Africa Centre for Energy Policy, Ghana Dr. Mohammed H. Khalfan – Chief Consultant, Zanzibar Business and Academic Consultancy (ZABACCO)	16.30	<b>End of Day 1</b>

## DAY 2 – 28<sup>th</sup> October

08.30 - 09.00	Registration	11.30 - 12.00	Group Presentations
09.00 - 09.15	Recap of Day 1 Moderator	12.00 - 12.30	Wrap Up – Statement from the Forum Moderator/UONGOZI Institute
09.15 - 11.00	Group Work Suggestions on what should be done (by Government, local & foreign companies) to maximize participation.	12.30 - 13.00	Closing Remarks Hon. Salama About Talib Minister of Land, Water, Energy and Environment
11.00 - 11.30	<b>Tea/Coffee Break</b>	13.00 – 14.30	<b>Lunch</b>
		15:00 – 17:00	<b>Visit to Zanzibar Town</b>

## **UONGOZI Institute**

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