Comparative Study on Local Content and Value Addition in Mineral, Oil and Gas Sectors: Policies, Legal and Institutional Frameworks-Trends and Responses in Selected African Countries

SYNOPSIS JULY 2017

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Comparative Study on Local Content and Value Addition in Mineral, Oil and Gas Sectors: Policies, Legal and Institutional Frameworks-Trends and Responses in Selected African Countries

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Acronyms

**ACET** African Center for Economic Transformation

**ADB** African Development Bank

**AMDC** African Minerals Development Centre

**AU** African Union

**ASM** Artisanal and Small Scale Mining

**BBBEE** Broad-Based Black Economic Empowerment

**COMESA** Common Market for Eastern and Southern African States

**CSR** Corporate Social Responsibility

**ECOWAS** Economic Community for West African States

**EDC** Enterprise Development Centre

**EMDE** Ethiopian Mineral Enterprise Development

**ECMI** Equipment Components Manufacturing Initiative

**EPNGDE** Ethiopian Petroleum and Natural Gas Development Enterprise

**EPZ** Export Processing Zone

**FeMSEDA** Federal Micro and Small Scale Enterprises Development Agency

**FDI** Foreign Direct Investment

**FPSO** Floating, Production Storage and Offloading

**GRN** Government of Namibia

**GDP** Gross Domestic Product

**GNPC** Ghana National Petroleum Corporation

**HDN** Historically Deprived Namibians

**HDSA** Historically Disadvantaged South Africans

**IMF** International Monetary Fund

**JSE** Johannesburg Stock Exchange

**JTTC** Jubilee Technical Training Centre

**JVAC** Joint Value Addition Committee

**LC** Local Content

**LCVA** Local Content and Value Addition

**LNG** Liquid Natural Gas

**MOG** Minerals, Oil and Gas sectors

**MNCs** Multinational Companies

**MQA** Mining Qualification Authority

**NCDMB** Nigerian Content Development Monitoring Board

**NCDF** Nigerian Content Development Fund

**NEEF** National Equitable Economic Empowerment Framework

**NIRP** Nigerian Industrial Revolution Plan

**NOGICD** Nigerian Oil and Gas Industry Content Development

**NORCAT** Northern Centre for Advanced Technology

**NNPC** Nigerian National Petroleum Corporation

**OPEX** Operational Expenditure

**PAYE** Pay As You Earn

**PGEs** Platinum Group Elements

**PMMC** Precious Minerals Marketing Company

**RR** Resource Rich countries

**SADC** Southern African Development Community

**SMEs** Small Medium sized Enterprises

**SOEs** State-owned enterprises

**SSA** Sub Saharan Africa

**STEM** Science Technology Engineering and Mathematics

**Tcfd** Trillion cubic feet

**TEN** Tweneboa-Enyenra-Ntomme

**T&T** Trinidad and Tobago

**TVET** Technical Vocational Education and Training

**UNECA** United Nations Economic Commission for Africa

**VA** Value Addition

**ZAMCSMBA** Zambia Chamber of Small and Medium Business Associations

**ZAM** Zambia Association of Manufacturers

**ZCCM-IH** Zambia Consolidated Copper Mines Ltd – Investments Holdings

**ZMLCI** Zambian Mining Local Content Initiative
Executive Summary

CONTEXT AND OBJECTIVES OF STUDY

1. How can resource-rich countries use their resources to expand job creation, stimulate growth of local enterprises and contribute to broad-based development? The answer is now widely acknowledged: widen and deepen linkages with other sectors of the economy through four main pillars: create local employment opportunities and encourage skills transfer; promote in-country spending and procurement of local goods and services; promote local participation in ownership and management; and promote domestic financing. A fifth pillar, value addition, promotes further opportunities for processing the extracted resource. To these ends, many mineral-rich countries are introducing requirements for local content (LC) and value addition (VA) in their policy, legislative and regulatory frameworks.

2. However, little is known about the nature of these policy, legislative and regulatory frameworks and how industry is responding to them. The strategy is simple and laudable and the focus by governments is understandable because the prize of getting the strategy right is great and the potential benefits to citizens immense. The challenge is in the way governments proceed. The following key questions motivated this study:

   a. Are resource-rich sub-Saharan African (SSA) countries getting the local content and value addition strategy right?

   b. Are local content policies and legislation effective in achieving national development objectives?

   c. Are there ‘best practices’ of sorts? And what lessons can be learnt from country experiences?

3. The two objectives of the study are:

   a. to assess the nature, content and scope of policies, laws, and institutions regulating local inputs into mineral, oil and gas (MOG) sector activities and the responses from both the public and the private sector; and

   b. to identify opportunities and challenges with the view to informing public policy on strengthening local content and value addition in African countries.

SCOPE AND METHODOLOGY

4. The study focused on analysis of national policies and strategies for resource sector development, any legislation that applies to local content and value addition, the institutional framework and guidelines developed to ensure compliance. The study documents the experiences of countries promoting the use of local inputs, deepening linkages along the resource production value chain and adding value to the resources extracted to benefit growth and achieve their development goals.

5. The eight countries selected are Burkina Faso, Ethiopia, Ghana, Mozambique, Namibia, Nigeria, South Africa and Zambia. This is a mixture of mineral-rich and oil- and gas-rich economies, in varying stages of their MOG development, of different linguistic and geographic orientations, and of different socio-economic histories. All these considerations inform their country development strategies. The study was undertaken through collaboration with researchers from the study countries. "Benchmark countries" were also selected, identified as those from which African countries could draw lessons. Trinidad & Tobago (T&T) was selected for its laudable experience with oil and gas sectors, and the Province of Ontario, Canada for its diverse mining sector.

FINDINGS

General Observations

6. Summary of key general findings of the country studies:

   a. Are resource-rich sub-Saharan African (SSA) countries getting the local content and value addition strategy right?

   b. Are local content policies and legislation effective in achieving national development objectives?

   c. Are there ‘best practices’ of sorts? And what lessons can be learnt from country experiences?
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a. Two countries in the study, Nigeria for petroleum and South Africa for minerals, have pursued with varying success local content and value addition longer than most of the other countries.

• South Africa’s relative success in integrating its mineral development with the rest of the economy is due to its historical circumstances of apartheid which compelled some self-sufficiency and propelled its resource-based industrialization.

• Nigeria’s efforts in building resource-based industrialization using its oil and gas have not been as successful. Its recent relative success in pushing local content and value addition points in the right direction and could provide a regional anchor for industrialization in West Africa through the supply of energy from its abundant gas reserves.

• For the rest of the study countries, progress in local content and value addition has been mixed for a host of reasons including the small size of local markets, and relatively paucity of small and medium enterprises capable of satisfying the high standards of industry in the procurement of goods and services.

b. The study also concludes that local content in South Africa and Namibia has become more than a strategy to deepen backward linkages and ultimately maximize the benefits of resource activities to the national economy. For these countries, local content is an instrument to promote the achievement of the constitutional right to equality, bring about socio-economic transformation to enhance equity, social justice and the empowerment of historically disadvantaged majority of the population along racial lines. At the same time, local content policy provides higher economic growth, increased employment and more equitable income distribution in both countries. For these reasons, the pursuit of local content in these two countries has been less than straightforward, mired in industry-government disagreements over standard setting, enforcement of local content requirements, measurement, assessment and compliance.

c. For the rest of the study countries, local content strategy reflects some elements of South African and Namibian objectives except for the aspect of being an instrument for redressing historical disadvantages. The general focus is on promoting employment at national level, empowering local communities where there are such opportunities and increasing local procurement of local goods and services and local participation in general. Emphasis and implementation have varied.

d. From the benchmark countries (Canada, Trinidad and Tobago) to the eight study countries, the evidence suggests there is no “single best strategy” for all resource-rich countries to maximize the local content and value addition opportunities for broad-based growth. But there are some contributory success factors:

• Knowing what you have and the stock of reserves is vital for informed decisions on the scope of local content and value addition policies.

• Size matters and the scope of what is “local” must have some element of spatial elasticity because large markets attract investments that advance local content and value addition strategies.

• Whether it is in skills development or procurement of inputs and financing, broadening local boundaries into expanded regional spaces and supply structures helps to leverage individual country resources for sustainable long-term development.

• Success in beneficiation depends on the particular commodity and its intrinsic characteristics for further end uses.

e. Development planning, industrial policy, local content and value addition go together. Optimizing all local content pillars may not be ideal or possible for every country and optimizing local content within the context of regional integration surmounts several disadvantages.

f. And just as important, the developmental case for local content and value addition strategy may not always align with the business case from the perspective of resource companies.

• Governments may legislate the former. Industry is inclined towards the latter. Government-industry collaboration and consultation early in the formulation of local content and value addition strategy is the cornerstone of ensuring that both cases do not diverge.

• Trinidad and Tobago’s approach is exemplary. Only international oil companies (IOCs) that clearly delivered on building local capacity and developing a diverse gas industry in line with country’s development policy were granted licenses.
Resource companies that can frame their business case to align with host countries’ development needs are likely to secure a comparative advantage. In which case, what countries need may be less rather than more legislation and regulations that may be difficult to enforce.

g. Across the eight study countries, success in beneficiation depends on the particular resource and its intrinsic characteristics for further end uses. Countries must evaluate the value addition potential of each resource as well as the complementary inputs needed for further processing. Having the resource itself is necessary but not a sufficient condition for beneficial value addition. Namibia’s approach of setting up a Joint Value Addition Committee to determine which mineral commodities offer potential for value addition is exemplary.

h. Finally, across the study countries and the benchmark countries (Trinidad and Tobago and Canada), it is evident that local content and value addition strategy must be championed at the highest political level. For the strategy to work, the government needs to play a proactive role in a development-oriented state. The most important foundation is political will, clear vision and sense of purpose, identifying the present and future prospects of the resource, and having a deep understanding of local capacity in human, financial and technological terms. This combination determines the focus of a country’s resource extraction strategy.

i. The convergent commitment of government, industry and business leaders is key and these aspirations must find clear expression in a national development plan, as in the cases of South Africa, Namibia and Ethiopia and, to a lesser extent, Mozambique and Zambia. Collaboration and effective coordination between government and private sector, as well as intra-government coordination and cooperation are vital.

**Specific Local Content Pillars**

**PILLAR 1: Promoting Local Employment and Skills Development**

7. Local content policies and legislation to promote direct employment of locals have become the norm. All the countries studied have preferential provisions for local employment as a fundamental principle, stated as a guideline or in legislation. Of the four pillars, increasing local employment and skills development appears to have been the most successful. In Ghana, employment of locals increased by 65% between 2009 and 2012, driven more by an increase in foreign direct investment (FDI) in mining than by legislation. Employment levels among locals in the South African context is considered to be quite high. Employment gains tend to be higher for low-skilled and mid-lower level technical positions. However, skilled locals are in short supply. Consequently, there are not enough skilled locals to address the high rate of attrition in the resources sector. This is true in Zambia and Ethiopia, and to a lesser extent in Ghana. Even in South Africa, which produces more mining engineers than all other English-speaking countries combined, the limited numbers with the requisite skills and experience remains a concern.

8. A major underlying driver of the skills deficiency concern is that technological innovations are beginning to shape the future of the productive systems of resource extraction companies. The intensification of the application of technology means that direct employment, especially in mining, is sharply on the decline. This makes employment requirements less viable and increasingly difficult to enforce, therefore raising questions about the primacy of the employment objective of local content legislation.

9. The future of employment lies in a new kind of workforce beyond unskilled and semi-skilled operations. This need cannot be left to legislation. Building a local workforce and the technical capacity of local institutions to make them adapt and embrace efficient technological operations requires considerable investment and continuous skills development. These are often beyond the capacity of individual companies, and certainly cannot be left to industry voluntarism.

10. In sum,

a. There are ambitious expectations for the MOG sectors to address unemployment in resource-rich countries. The reality is that the sector can only supply a relatively small amount of direct employment.

b. Automation and technological innovations in the industry are inevitable and thus the labour absorptive capacity of the industry is expected to decrease further.
c. There are several highly educated graduates with skills that are inappropriate for the industry. A technical and vocational education and training system is needed to develop the adaptable and transformative skills that meet industry requirements.

d. Quotas are desirable from a policy viewpoint, but can be problematic for industry and are often ineffectively enforced.

**PILLAR 2: Promoting procurement of local goods and services**

11. Country data suggest that spending by resource companies on local procurement (excluding wages and salaries) represents the largest share of expenditures – 48% in South Africa for the period 2008-2010, and 42.9% in Namibia in 2015. Most countries have enacted provisions for procurement specific to the MOG sectors over and above general country procurement measures. Almost all countries have specific legislation to that effect. Performance in local procurement is mixed. In Nigeria, local procurement of goods and services between 2004 and 2010 increased from 5% to 35%, and to almost 70% by 2015. In 2004, goods and services were described as very low consumables. By 2015, local procurement had moved up into heavy industries and equipment manufacturing. In Ghana’s mining sector, industry expenditure on local goods and services increased from 50.2% in 2013 to 73% in 2014. In Mozambique, the limited data on the performance of local suppliers in the Mozambique SME Linkage Program (MozLink) II (2007-2010) show that local procurement among this group more than doubled.

12. However, Zambia has experienced a decline in the local share of inputs supplied to the large-scale mining companies from 72% in 1966 to an average of 5% in recent times. One major mine stated that 96% of all its inputs are procured from foreign manufacturers. Constraints to Zambia’s local capacity are largely described as structural, including the high cost of inputs, low production capability, adverse tariff structure on imported goods and limitations in access to affordable local finance. In Ethiopia, similar structural challenges have hindered indigenous companies and have contributed to the low procurement of local goods and services – the ratio of local to foreign goods is estimated at 40:60.

13. It is unclear how much of the progress made in Ghana, Nigeria, and South Africa can be attributed to legislation. One thing is certain, procurement should not be left to legislation only. Entrepreneur and supplier development programs have been critical. Seen as a business imperative for industry players, there are efficiency gains to be made since procuring locally reduces logistical costs associated with transportation of goods, people and equipment. Commendable examples of effective supplier development programs include South Africa’s Anglo-Zimele, arguably one of the most effective on the continent, while Mozambique’s MozLink is also widely touted. Ghana’s oil and gas majors in collaboration with the government have established an Enterprise Development Centre in the oil-producing Western Region.

14. For Nigeria and South Africa, the emphasis on local content appears to have shifted from ownership and employment affirmative action to the issue of procurement of domestic goods and services, entrepreneur and supplier development, and fostering linkages to other sectors of the economy. In Zambia, stakeholders see local procurement as the most important of the local content pillars, more so than their counterparts in Burkina Faso, Ethiopia, Namibia and Mozambique. Meanwhile, procurement from foreign companies provides much more opportunity for transfer pricing.

15. In sum:

a. The definition of “local content” in procurement varies from country to country, making data comparisons across countries difficult.

b. Procurement should not be left to legislation alone. It needs an enabling environment in terms of local capacity, access to finance, quality of local suppliers and ability to meet industry quality and safety standards.

c. Lack of country databases and knowledge of the depth of the local private sector can hinder contract awards.

d. Local procurement is often hindered by three factors: the lack of competitiveness of domestic firms, especially in meeting safety and quality requirements; tax exemptions on imports of capital goods; and transfer pricing mechanisms for companies to circumvent local procurement of local goods and services. Even the more advanced South Africa has not been able to deal satisfactorily with the scourge of transfer pricing.
PILLAR 3: Promoting ownership/equity participation and management by locals

- For most of SSA, extractive operations remain largely foreign owned, followed by host state ownership, and very low but increasing local private ownership.

- The state typically has been the main vehicle for local participation in Ghana, Mozambique, Namibia, Zambia and Ethiopia. In Ghana, the government has at least 10% shareholding in all but three of the major mining operations. In Ethiopia, the government has the option of 5% free carried interest in all mining operations.

- Using state participation as an instrument to promote citizens’ participation is the model currently used in Zambia and Namibia. In Zambia, the government, through the Zambian Consolidated Copper Mining Investment Holding (ZCCM-IH) has at least 10% and as much as 20% in all but one of the major mining operations.

16. Local private equity is highest in Nigeria and South Africa. Local private equity in Nigeria has increased by 118% since 1990, with 24 indigenous oil producing companies owning and managing oil and gas production assets, and collectively producing 10% of total output. In South Africa, the state supports local entry into the sector through development-based lending mechanisms but they have not been very successful. Black South African ownership is reported as 26%, however, mining associations suspect this figure is more likely closer to 3-4%.

17. In addition to giving first refusal to locals in allocating projects and in the acquisition of ownership rights, the main intervention to increase ownership includes listing shares on the local stock exchanges. South Africa leads, with a total of 49 mining companies listed on the Johannesburg Stock Exchange. While only a few mining companies are listed on the stock exchanges in Zambia and Ghana, Ethiopia and Burkina Faso do not have stock exchanges. The major challenge for this method of increasing local ownership is a lack of interest in and knowledge of local stock exchanges.

18. The use of minimum quotas appears to have had some impact by increasing the level of local management in MOG operations in Ghana, Nigeria, South Africa, Mozambique and Zambia. In Ethiopia, management by locals in major extractive operations is assessed as moderate. In Nigeria and Ghana, legislation strictly prescribes a time period and maximum limit for management positions held by expatriates. Within this time period, MOG companies must execute a strong succession plan for local management.

19. The enforcement of local ownership by setting quotas and the attempts to comply have often spawned “fronting”, that is the misrepresentation of the facts of a company’s ownership. The most commonly known is collusion between foreigners and local players in order to gain for the foreigners the preferential treatment given to locals through local content initiatives. Most prevalent in Ghana appears to be local companies fronting for local politicians or officials. To some extent, increased local participation has thus detrimentally become operative on a “whom you know basis”.

Fronting undermines the effectiveness of promoting local equity participation, so much so that it is considered a criminal offence in Nigeria, South Africa and recently in Ghana. Burkina Faso, Ethiopia, Namibia and Zambia have no such legislation. In Ethiopia, there is a perception that about 20% of mining companies are not without fronting problems.

20. Finally, ownership matters and may influence the extent of local procurement of goods and services, as noted by Morris et al. But it does not always yield the optimum outcome of job creation and resource-based industrial development. Resource companies may use legal structures to impose limits on profit sharing and effective control of joint ventures through shareholding arrangements. There is a growing recognition that local ownership may not be the most important tool for resource-based industrial development.

PILLAR 4: Promoting participation of local financial institutions

21. Promoting the participation of local financial institutions appears to be the weakest link among the local content pillars. Few countries have requirements for project sponsors to procure finance using local financial institutions. In reality, both state-owned and local private financial institutions are the first to admit that they have weak capacity to conduct the type of financial transactions specific to the extractive sectors. This is largely the reason why in most African countries, there are no concrete requirements for project sponsors to procure finance through local sources.
22. Companies typically obtain financing for projects from retained earnings, investments or from external sources. With the exception of South Africa, in most countries, participation of local financial institutions has been limited to offering related banking services and products. Even this activity is widely perceived as insignificant. In Ethiopia, for example this is only about 30% of their banking operations.

23. South Africa’s local financial institutions are recognized as very capable of playing a meaningful role in the mining industry. For example, in 2011, local financial institutions were able to provide US$25bn in financing to the mining industry. To put this into perspective, this was 10 times the size of the entire loan portfolio of the financial sector in Zambia.

24. On the other hand, there are few other good examples of increasing participation of local financial institutions. In Nigeria, there are two main government initiatives to provide working capital and financing for development and acquisition to Nigerian companies – the Cabotage Vessel Financing Fund and the Nigerian Content Support Fund provide operational and working capital for Nigerian companies to execute oil and gas contracts. Nigeria also has several industry-driven schemes in collaboration with local commercial banks to provide financing to indigenous contractors.

25. In Zambia, local branches of some international banks have successfully syndicated with their regional headquarters to finance mining sector projects, but this practice is not widespread. The only known attempt of local bank syndication in Ghana’s petroleum sector was unsuccessful due to delays in the syndication process and the unfriendly macroeconomic environment.

PROMOTING VALUE ADDITION

26. The vision and sound policies to promote value addition have not been lacking. In Nigeria, value addition has been part of the national vision and policy of successive governments since the 1960s. Ghana’s national mining policy states the desire to promote backward and forward linkages. In Ethiopia, value addition aspirations are part of the national development plan and the national industrial strategy.

27. However, few countries provide examples of concrete initiatives or legislation to implement value addition in the MOG sectors. In South Africa, however, value addition and beneficiation became a national imperative because of the international isolation and the political and economic sanctions imposed on the country during the apartheid regime. Trade barriers compelled South Africa to become almost self-sufficient.

28. There are some good examples of local companies supplying more processed MOG-based goods regionally. In Zambia, El Sewedy Electric Zambia Limited supplies Zambian-made transformers to regional and domestic markets. Nigerian Gas Company Limited provides natural gas and its derivatives to the West African region. South Africa’s comprehensive Beneficiation Strategy for the Minerals Industry (2011) focuses on 10 strategically selected minerals. For 7 of the 10, the key objectives are to strengthen the domestic economy in areas such as upgrading energy supply sources and developing a competitive steel and stainless steel industry. Pigment and titanium metal production is in turn targeted for South Africa’s growing urbanization and personal consumption. The other three minerals – diamonds, gold and platinum group metals (PGM) for integrated jewelry hubs are primarily targeted at the international market. In Zambia, in 2011, less than 5% of total copper production was used downstream in the value chain.

29. A number of subtler forces appear to be hindering value addition on the continent. There are some examples of vested interests opposed to value addition. For example, Ghana’s large-scale gold sector dates back more than 100 years yet the country still exports raw gold. Key international players often have processing equipment in their home countries and so prefer to export the gold in its raw form. There is no real enforcement of government policy or political will to change this.

30. Weak linkages to countries’ overall industrial strategies will continue to hinder efforts at value addition. In Nigeria and Ghana, the poor energy and power situation has critically handicapped private interest in investing in processing industries. In Zambia, there is a perceived absence of linkage between value addition policies and other important policies such as commercial, trade and industrial policy which are critical to effective implementation of value addition.

31. On the other hand, in South Africa, the beneficiation strategy is well aligned with other national development programs such as the
industrialization program, the energy security program and the Advanced Manufacturing Technology Strategy as well as the infrastructure development plan. Unique among African countries, South Africa’s beneficiation strategy has a master plan to address cross-cutting constraints, with clear action items for government and business. The value addition strategy also outlines plans for skills development, training and employment.

32. Country experiences reveal a number of gaps. For example, although local content in Nigeria’s oil and gas has increased, it is not nearly as much as wished for. Local procurement of inputs is reportedly much lower than in countries such as Brazil, Malaysia and Venezuela. Nigerian local content provision has suffered from poor monitoring and supervision, lack of comprehensive legislation and ineffective implementation. The important lesson is that high levels of local procurement may not translate into desired backward linkage effects because in most cases, local sources are merely fronts for the importation of goods and services.

33. For Ghana, local content and value addition challenges have been found to reside more in policy failure than in the lack of opportunities. The absence of explicit strategic policy to leverage extractive activities to advance economic development has not helped. Aspirational signals have been weak. Other key constraints are the lack of competitiveness, low quality standards of local suppliers, weak local entrepreneurial capabilities, poor infrastructure (roads, rail and power), and poor access to finance. For oil and gas, building the capacity of state institutions to monitor and supervise the local content policy remains an important challenge. Other challenges include the quality and extent of cooperation between government, industry, and local businesses; the general capabilities of local businesses in a capital-intensive and high quality standards industry; the coordination of manpower training; and how to minimize fronting to genuinely promote local entrepreneurship and participation in the industry.

34. On the whole, there is low implementation of value addition policies; policy inconsistency hinders local efforts; value addition is energy and technology intensive; in the absence of legislation or enforced policy on value addition, there are challenges in shifting the mindset of foreign investors from exporting raw materials; and likewise, there are challenges in shifting government appetite for immediate fiscal revenue from raw material exports.

RECOMMENDATIONS

The recommendations coming out of this study cover the general and specific local content and value addition provisions and are clustered around their key pillars at continental, regional and national levels.

At continental level, it is important for the African Mining Development Center (AMDC), under the umbrella of the UNECA, to become more engaged in helping resource-rich countries strengthen their local content and value addition strategy.

- For local content, AMDC must help clarify the legislation required for enforcement mechanisms; do country assessments of local capabilities (financial and human resources and skills sets); and provide technical assistance to help smaller resource-endowed economies rationalize their local content strategy.

- For value addition, AMDC must help countries identify beneficiation prospects for their resource endowment; articulate their value chain; define the role of government, business and industry at each point along the value chain; aggregate the requirements of each value chain for purposes of planning; and determine the optimal level of value addition in the commodity value chain.

At regional level, regional economic blocs can play a supporting and coordinating role, and as in SADC, play an instrumental role in advancing regional resource-based development. Specifically:

- Promote the rationalization of the definition of “rules of origin” in local content requirements to include regional neighbors.

- Promote regional economies of scale in the mining, oil and gas sector. The great potential to increase regional local content and value addition opportunities and investment provides yet another reason to accelerate regional integration and trade.

- Promote sharing of regional talent mobility in the development of skills.

- Promote the development of regional centers of excellence in skills development.

- Promote the understanding that strategies to improve local participation cannot be left to country legislation alone. Incentives for skills
development, entrepreneurship development, financing opportunities and sharing experiences are useful complementary tools.

- Encourage regional sharing of experiences in small and medium enterprise development.
- Encourage resource companies to support regional procurement and skills development.

**At national level**, country governments should

- Recognize that the most important preconditions are political will, a clear vision and a sense of purpose which in turn determine strategic outcomes for a country’s extractive resources.
- Promote appropriate policies and decide what aspects of local content and value addition should stand as fundamental principles and how much to legislate because the legislation comes with enforcement and compliance costs. Overly stringent legislation (in Ghana, for example) as a way to promote development is less likely to generate optimal results for all stakeholders.
- Encourage government-industry collaboration and consultation early in the formulation of country resource development strategy as the cornerstone for ensuring convergence of development and business interests.

**Initiatives to address local content and value addition challenges**

**On local employment and skills development:**

- Quotas and targets for local employment should be carefully applied and adapted to suit country circumstances, taking into consideration the reality that technological innovations along the industry chain can “disrupt” stringent legislative requirements;
- There is greater scope for indirect employment opportunities along the industry value chain;
- Investment in training must be strategic to meet the dynamics of industry demand for skills and this needs cooperation between government-industry and educational institutions.

**On procurement**, the scope of local content should be input specific, opening spaces for wider rules of origin depending on the capacity of a national economy to meet industry needs. A tiered approach to local content to include regional and continental participation is worth considering. If local content requirements cannot be met locally (in the area of operations) or nationally, the sub-region should be considered, and then the continent should be considered. Companies that opt for this alternative should be given more incentives than for procuring inputs from elsewhere. Foreign-owned companies that produce locally using a high percentage of national and sub-regional personnel and other local inputs should be encouraged with incentives, rather than focusing on the shareholding in the company. To improve and develop local suppliers, there must be a deliberate industrial policy to build local capacity along the following lines:

- Strengthen support to institutions that build the capacity of suppliers.
- Incubators.
- Develop active partnerships with foreign companies to transfer skill/knowledge and technology over time.
- Increasing access to finance for local suppliers through venture capital, interest subsidies, and a resource development fund financed through royalties.

**On value addition and beneficiation**, except perhaps in South Africa for mining and Nigeria for oil and gas, regionalism can address many of the challenges faced at national level, including:

- Economies of scale for production;
- Small markets.
- Constructing regional infrastructure to share costs.
- Identifying variable geometry across the region; and
- Boosting the number of skilled personnel and specialized skills development institutions.

Financing at regional level will also reduce some of the prohibitive costs involved in extractive industry value addition.

**SADC countries are developing a regional mining vision linked to the regional industrialization strategy. ECOWAS should consider making a similar effort**, recognizing that minerals can be central to an industrialization strategy, but that each country may not have enough of each mineral resource, and enough of all the complementary inputs.
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