Is Ghana Ready for More Local Content?

Lessons from Eight Comparator Countries in Five Sectors

Presented by Barbara Andoh, IMANI

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Coconut Grove Regency Hotel
Local content—what it is and why it is important

- An intricate concept which is highly contextual

- Interpreted differently in different countries based on national goals

- The crux of local content is to allow countries the opportunity to build capacity in economic sectors where they would otherwise have limited opportunity

- Generally require foreign investors to purchase domestic goods and services, employ and train citizens, transfer technology and know-how and to contribute to research and development.
Objectives of local content broadly include:

➢ Industrial and Technological development
➢ Indigenous Ownership
➢ In-Country Value Creation or Addition
➢ Local Procurement
➢ Employment Creation
➢ Development of local Capacity
➢ Forward and Backward Linkages
Definitions of Local Content

“a set of policy instruments instituted by national governments to ensure that a certain share of factors of production (such as labour, supplies, technology and knowledge) required at each stage of the value chain is sourced from the domestic economy”. (Ramdoo 2016, Kuntze & Moerenhout 2013)

“policies that are imposed by governments that mandate foreign firms/Multinational Companies (MNCs) to use domestically manufactured goods or domestically supplied services in order to operate in the focal economy.” (OECD, 2016)
Definitions cont.

• “a composite value contributed to the national economy from the purchase of bought-in goods and services, and includes wages and benefits, materials, equipment and plant, sub-contracts and taxes.

It also includes:

1. first-order, **direct economic impacts** on the national employees of contractors and suppliers,

2. second-order, **indirect impacts** on their suppliers and subcontractors,

3. and third-order, **induced impacts** arising as the income earned by nationals and resident workers are spent in the wider domestic economy”(Warner, 2011)
Oil and Gas Sector:

Local Content (Ghana):
“...the quantum/percentage of locally produced materials, personnel, financing, goods and services used in the oil industry and which can be measured in monetary terms....”

Local Participation:
“...the level of Ghanaian equity ownership in the oil and gas industry...”

Local Content (Nigeria):
“...the quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilisation of Nigerian human, material resources and services in the Nigerian oil and gas industry...”
Local Content Versus Local Participation
Two distinct concepts
• Local content is specifically focused on increasing the use of domestic resources
• Local Participation is focused on ownership usually through equity

Protectionism and Import Substitution

• **Protectionism**: Intended or unintended economic policy of restraining trade between countries through methods such as tariffs (taxes) on imported goods, or restrictive import quotas and regulations designed to discourage imports.

• **Import Substitution**: A national policy or legislation which requires the substitution of imports for locally manufactured goods using trade and non-trade barriers.

Indigenisation
• A national policy or legislation which deliberately involves citizens of a particular country in the economic activities of the country so as to ensure equitable ownership of the nation’s resources.
Arguments For Local Content

• Economic Benefit: That countries with Local Content requirements have larger GDP on average and depend less on trade and investment as a share of GDP

• Fosters the attainment of short term objectives→job creation and long term objectives→Growth

• Increases tax base for government due to larger local manufacturing industry

• Allows infant industries to become internationally competitive

• Technology and Knowledge transfer

• Diffuse Market Power of foreign suppliers
Arguments Against Local Content

• Reduces international competitiveness of a country’s economy

• Creates unnecessary delays and raises cost of products and services

• Undermines economic diversification by reducing input availability

• Inefficiencies in the allocation of resources as LCPs work against comparative advantage

• Industries built up with local content policies often cannot survive in the absence of government assistance

• LCPs introduce distortions in trade
Alternatives to Local Content Policies

- Promoting a Business-Friendly Environment; stimulates investment and creates more sustainable jobs

- Education and Training; delivers long term benefits of employment and growth

- Improving logistics; deliberate government efforts to improve the quality of infrastructure and efficient management of its borders (trade facilitation). Boosts merchandise exports and improve growth rate
Purpose of the Study

- Motivation for the application of distinct local content policies in several sectors of the Ghanaian economy

- However local content application in the oil and gas sector has not been without issues. Local content requirements in the mining sector of Ghana also have not yielded optimal results

- Issues in the oil and gas sector include:
  - Inadequate local capacity; skills and expertise
  - Focus on “content levels” rather than the development of capabilities
  - Fronting
  - Inadequate monitoring and evaluation
Purpose of the Study

• Examine the motivation for distinct local content policies

• Assess the successes and challenges of comparator countries in the application of LCPs

• Extricate key thematic issues across countries and sectors

• Draw out key lessons and recommendations as to how Ghana can move forward and enjoy the benefits of effective LCPs
Methodology

• Qualitative Analysis

• Adopts personal interviews with key stakeholders and the use of secondary data

• Conducts a comparative analysis across eight countries for five sectors

Comparator countries were selected based on:

○ Commonality of the economic sectors
○ Existence of local content policies or requirements
○ Position of the country in relation to the global industry
Challenges and Limitations of the Study

- Difficult to establish direct impact of LCPs on micro and macro-economic indicators such as employment due to inappropriate tracking and measuring of local content.

- Sparse nature of data on local content achievements, difficult to measure impacts overtime (Year on year).

- Paucity of comprehensive statistics for measuring local content levels across countries.
Local Content in Ghana-General Outlook

Local content requirements have been present in many forms:

- Minerals and Mining Laws since 1986, PNDCL 153
- Minerals and Mining Act 703 2006
- Trade and Investment laws since 1992, LI 1547

Local Content requirements contained in key legislative documents:

- Public Procurement Authority Act 2003 (Act 663)→ preferential treatment for local suppliers
- Ghana Investment Promotion Center (GIPC) Act 2013 (ACT 865)→ 10% local participation
- Petroleum (Local Content and Local Participation) Regulations 2013 LI2204→ varied
- Minerals and Mining Act 2006 (Act 703)→ preferential treatment for local suppliers
- Minerals and Mining (General Regulations) 2012 LI2173→ training and employment of Ghanaians in the mining sector

Ghanaian flag on the right side of the slide.
Local Content in Ghana cont.

• Only the Petroleum Regulations, LI2204 clearly defines local content

In general, local content requirements in Ghana cover:
○ Building industrial capacity through equity participation
○ Local procurement of goods and services
○ Employment and training
Targeting Sectors for Local Content

No particular laid down procedure, in Ghana and across countries studied

However, there is the idea of a national local content policy that will allow the mainstreaming of local content across sectors.

Possible targeted sectors include:
- Power
- Agriculture
- Cosmetics
- Pharmaceuticals

Criterion:
- High demand for products
- High potential for growth
## Local Content and Foreign Investment in Ghana

- **GIPC Act 478 (1994) versus Act 865 (2013):**

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Capital Requirements</th>
<th>Local Participation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholly foreign</td>
<td>$50,000</td>
<td>$500,000</td>
</tr>
<tr>
<td>Foreign with local participation</td>
<td>$10,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Wholly foreign, Trade</td>
<td>-</td>
<td>$1,000,000</td>
</tr>
</tbody>
</table>
Local Content and Foreign Investment in Ghana

• Expatriate Quotas; GIPC ACT 865 (2013)

<table>
<thead>
<tr>
<th>Paid Up Capital</th>
<th>Expatriate Quota</th>
</tr>
</thead>
<tbody>
<tr>
<td>$50,000-$250,000</td>
<td>One person</td>
</tr>
<tr>
<td>$250,000-$500,000</td>
<td>Two persons</td>
</tr>
<tr>
<td>$500,000-$700,000</td>
<td>Three persons</td>
</tr>
<tr>
<td>&gt;$700,000</td>
<td>Four persons</td>
</tr>
</tbody>
</table>
Local Content and Foreign Investment in Ghana

• 10% Local participation and the expatriate quotas are to apply to all sectors within the Ghanaian economy including the oil, gas and mining sectors.

• Oil and Gas sector according to the LI2204 has a stated local participation requirement of 5% for exploration and production.

• Lack of harmonization
Local Content and Foreign Investment in Ghana

- General sentiment of apprehension among foreign investors in Ghana, however, FDI has not declined
- After passage of ACT 865, foreign investment increased by 56.25% over the period 2013-2017
- It remains to be verified if investment could have increased by a greater percentage within the period
- However, Increase in quantum of investment is not seen to have commensurately led to appropriate linkages within the economy
Local Content and Foreign Investment in Ghana

For the oil and gas sector;

• Geological prospects and sound fiscal provisions attract investment, despite local content provisions

• Since implementation of LI2204, foreign investment to the sector has not declined (E&P)

• However, for the **provision of services**, the mandatory incorporation of joint ventures with indigenous companies causes investors to pull out at tender stage

• Reduces competitiveness of the tender, best price may not be obtained, increases cost of operations
Local Content in Ghana and Foreign Investment

- Data from GIPC indicates that investments in the **oil and gas services sector** declined sharply after 2014

- The decline although correlated with the implementation of the law, does not suggest a direct causation, as other macro level factors may have contributed to the decline
SECTORAL AND COMPARATIVE ANALYSIS

Local Content in Mining
Botswana, Zambia, Zimbabwe, Ghana
<table>
<thead>
<tr>
<th>Mining</th>
<th>Botswana</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Framework</td>
<td>- No distinct LCP</td>
<td>- Citizens Economic Empowerment ACT 2006</td>
<td>- Indigenization and Economic Empowerment Act 14 of 2007</td>
<td>- No distinct local content policy</td>
</tr>
<tr>
<td></td>
<td>- Competition ACT 2009</td>
<td>- Statutory Instrument No. 84 of 2008</td>
<td>- Finance Act 2018</td>
<td>- Minerals and Mining (General) Regulations 2012 LI2173</td>
</tr>
<tr>
<td></td>
<td>- Procurement and Asset Disposal Act</td>
<td>- Mineral Resources Development Policy</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td>- Economic Diversification Drive</td>
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</tr>
</tbody>
</table>

**Botswana**

- No distinct LCP
- Mines and Minerals ACT 1999
- Competition ACT 2009
- Procurement and Asset Disposal Act
- Economic Diversification Drive

**Zambia**

- Citizens Economic Empowerment ACT 2006
- Mines and Minerals ACT 2015 No. 11
- Statutory Instrument No. 84 of 2008
- Mineral Resources Development Policy

**Zimbabwe**

- Indigenization and Economic Empowerment Act 14 of 2007
- Mines and Minerals Act 21 05
- Finance Act 2018

**Ghana**

- No distinct local content policy
- Minerals and Mining Act 2006, Act 703
- Minerals and Mining (General) Regulations 2012 LI2173
<table>
<thead>
<tr>
<th>Mining</th>
<th>Botswana</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Ghana</th>
</tr>
</thead>
</table>
| Forms of Local Content | - Key focus on developing local capacity in value addition, creating linkages  
-JV, minimum target of 15% local processing  
- Preferential treatment for goods and services provided by locals  
- Exclusive mining rights to locals for industrial minerals  
- Employment and training | - Enforcement of CEE to promote Zambian ownership in mining  
-Artisanal mining reserved for citizens  
-Small scale mining; only by citizen owned, influenced or empowered company  
- Preferential treatment for local goods and services  
- Training programs for transfer of technical and managerial skills | - Indigenization in all productive sectors, emphasis on the mining sector  
- Increase participation of previously marginalized Zimbabweans  
- Key focus on local participation and resource ownership (51%);  
- Controlling stake in foreign owned companies | - Training and employment of Ghanaians towards eventual replacement of expats  
- Preference for locally manufactured goods and services  
- Small scale mining is reserved for citizens |
<table>
<thead>
<tr>
<th>Mining</th>
<th>Botswana</th>
<th>Zambia</th>
<th>Zimbabwe</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation:</td>
<td>- High degree of localisation in diamond cutting and polishing</td>
<td>- No legal definition for local content</td>
<td>- Only one mining company has been able to comply with the IEE ACT as at 2016</td>
<td>- Insufficient integration of mining into the local economy through linkages</td>
</tr>
<tr>
<td>Successes and</td>
<td>- 16 local cutting and polishing factories</td>
<td>- Low levels of local linkages</td>
<td>- Lack of institutional capacity for implementation of the IEE</td>
<td>- Not much attention given to value addition</td>
</tr>
<tr>
<td>Challenges</td>
<td>- 97% of local employees at Debswana</td>
<td>- Local suppliers engaged in low value activities</td>
<td>- Government unable to compensate foreign companies for shares ceded to locals</td>
<td>- Inadequate capacity of local firms</td>
</tr>
<tr>
<td></td>
<td>- 46% of cutting and polishing wage bill goes to locals</td>
<td>- Highly uncompetitive</td>
<td>- Hostile environment for foreign investment</td>
<td>- Magnitude of backward linkages unclear</td>
</tr>
<tr>
<td></td>
<td>- Diamond hub, technology park, diamond office; transfer of technology</td>
<td>- LCPs offset by other policies - Sector codes to facilitate CEE not yet formulated</td>
<td>- IEE Act amended in 2018 to remove requirement of 51% local ownership in all sectors except diamond and platinum mining</td>
<td>- However, a number of mining and equipment service companies employ Ghanaians</td>
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<tr>
<td></td>
<td></td>
<td>- Locally owned companies have become increasingly marginalized</td>
<td></td>
<td>- up to 20% aggregate spend on local purchases in 2008</td>
</tr>
<tr>
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<td>- 73% of local purchase target achieved in 2015</td>
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SECTORAL AND COMPARATIVE ANALYSIS

Local Content in Oil and Gas
Nigeria, Brazil, Ghana
<table>
<thead>
<tr>
<th>Oil and Gas</th>
<th>Nigeria</th>
<th>Brazil</th>
<th>Ghana</th>
</tr>
</thead>
</table>
| Legal Framework | -Nigerian Oil and Gas Industry Content Development Act 2010 No. 2 (NOGICD) | -Local Content Requirements embedded in oil and gas contracts  
-Benchmarks for local content requirements are contained in the Model Concession Contract | -Petroleum (Local Content and Local Participation) Regulations 2013, LI2204 |
<table>
<thead>
<tr>
<th>Oil and Gas</th>
<th>Nigeria</th>
<th>Brazil</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forms of Local Content</td>
<td>- Increase indigenous participation (E&amp;P, goods and services)</td>
<td>- Preferential treatment for local goods and services</td>
<td>- Local Participation through equity ownership (5%) in E&amp;P</td>
</tr>
<tr>
<td></td>
<td>- Increase employment</td>
<td>- Technology transfer; 1% of gross revenue must be spent on R&amp;D and direct investment in technological innovation for suppliers</td>
<td>- Local procurement including in-country spend</td>
</tr>
<tr>
<td></td>
<td>- Domiciliation of oil and gas activities</td>
<td></td>
<td>- Employment</td>
</tr>
<tr>
<td></td>
<td>- Detailed local content targets</td>
<td></td>
<td>- Transfer of skills &amp; Expertise Development</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Transfer Technology and know-how</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>- Active research and development</td>
</tr>
<tr>
<td>Oil and Gas</td>
<td>Nigeria</td>
<td>Brazil</td>
<td>Ghana</td>
</tr>
<tr>
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</tr>
<tr>
<td>Implementation: Successes and Challenges</td>
<td>-10% of total oil production by indigenes</td>
<td>-Domestic industrial sector participation increased from 57% to 75% (2003-2010)</td>
<td>-200% increase in number of indigenous oil and gas service companies</td>
</tr>
<tr>
<td></td>
<td>-Fabrication, most developed manufacturing area</td>
<td>-Capacity development</td>
<td>-56% of workers on the SGN FPSO are locals</td>
</tr>
<tr>
<td></td>
<td>-87% of total oil contract won by indigenous oil companies</td>
<td>-Established research and development centers</td>
<td>-320 contracts worth $1.8 billion awarded to locals</td>
</tr>
<tr>
<td></td>
<td>-Unattainable targets due to inadequate capacity</td>
<td>-Lack of implementation plan</td>
<td>-75-78% share of local employees-junior and midlevel roles along the value chain</td>
</tr>
<tr>
<td></td>
<td>-Corruption; diluted quality and quantity of goods and services, manipulated bidding process for contracts</td>
<td>-No consideration of in-country capacity</td>
<td>-Ambitious and unrealistic targets, unattainable within the timeframes specified</td>
</tr>
<tr>
<td></td>
<td>-Fronting</td>
<td>-High cost of compliance</td>
<td>-Inadequate technical and financial capacity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Heavy penalties for non-compliance</td>
<td>-Difficulty in obtaining requisite international certifications</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-Unrealistic targets</td>
<td>-Employment at junior level roles, fewer in technical roles</td>
</tr>
</tbody>
</table>
SECTORAL AND COMPARATIVE ANALYSIS

Local Content in Downstream Oil and Gas
South Africa, Ghana
<table>
<thead>
<tr>
<th>Downstream Petroleum</th>
<th>South Africa</th>
<th>Ghana</th>
</tr>
</thead>
</table>
| **Legal Framework**  | - Liquid Fuels Charter (LFC), 2000  
- The Broad-Based Black Economic Empowerment Act (B-BBEE), 2007. | - National Petroleum Authority (NPA) Act of 2005 (NPA Act 691)  
- Draft Policy, Local Content and Participation for the Petroleum Downstream |
| **Forms of Local Content** | Motivation - to correct racial imbalances in South Africa  
Elements of Local content considered;  
- Ownership (25% ownership by HDSAs)  
- Management Control  
- Capacity Building – among others | According to the draft policy;  
- 90% local content within 10 years of the commencement of activities of PSP.  
- 51% equity participation  
- 100% equity participation for Goods and Services  
- 98% local employment within 5 years |
| **Implementation: Successes and Challenges** | Overall compliance level of the LFC and B-BBEE between 2000 and 2010 were 62% and 70% respectively.  
Most successful elements are Managerial Control and Ownership  
However, transformation within the liquid fuels industry was slow - few HDSA entrants struggle to increase their market share  
Also, compliance in most elements was below 40%. For instance, skills development which is a very important element in achieving sustainable development achieved a compliance level below 40%. | From 2005, the deregulation regime, the need to minimize cost and NPA licensing requirements facilitated the attainment of about 70% local participation without local content provisions.  
From about 20 local companies to over 100 local companies.  
Market share however remains fragmented which affects profit margins |

**GENERAL CONCERNS**  
- Are local companies over time able to operate at optimal efficiency and remain competitive?  
- Possible merger of fragmented local players.
SECTORAL AND COMPARATIVE ANALYSIS

Local Content in Construction
Kenya, Nigeria, Ghana
<table>
<thead>
<tr>
<th>CONSTRUCTION</th>
<th>Kenya</th>
<th>Nigeria</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Framework</strong></td>
<td>No distinct Local content laws</td>
<td>No distinct local content laws</td>
<td>No distinct local content laws</td>
</tr>
<tr>
<td><strong>Forms of Local Content</strong></td>
<td>Preferential procurement based on local participation</td>
<td>Preferential treatment</td>
<td>Preferential treatment</td>
</tr>
<tr>
<td></td>
<td>Exclusive Preference System</td>
<td>Asks procuring entities to allow a margin of preference for domestic bidders</td>
<td>Goal: achieve about 70% local content</td>
</tr>
<tr>
<td></td>
<td>Selective Preference based on % of local participation.</td>
<td>Draft policy to about 60% local content.</td>
<td>10% margin of preference for domestic contractors</td>
</tr>
<tr>
<td><strong>Implementation: Successes and Challenges</strong></td>
<td>Limited financial capacity of local contractor</td>
<td>Criticism of Draft Local Policy</td>
<td>Capacity concerns</td>
</tr>
<tr>
<td></td>
<td>Foreign firms still dominate the Kenyan Construction industry even with the LC preferential treatment.</td>
<td>Lacks clarity</td>
<td>Financial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Does not fully reflect the characteristics of the Nigerian construction industry</td>
<td>Raw Materials</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Services</td>
</tr>
<tr>
<td></td>
<td></td>
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</tr>
<tr>
<td><strong>Timelines</strong></td>
<td>15% - 1st year</td>
<td>35% - 3rd Year</td>
<td>70% - 6th Year</td>
</tr>
</tbody>
</table>
SECTORAL AND COMPARATIVE ANALYSIS

Local Content in Coastal and Inland Water Trade (Cabotage)
Nigeria, India, Ghana
<table>
<thead>
<tr>
<th>Cabotage</th>
<th>Nigeria</th>
<th>India</th>
<th>Ghana</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal Framework</td>
<td>Coastal and Inland Shipping (Cabotage) Act (2003)</td>
<td>Merchant Shipping Act, 1958</td>
<td>Draft Domestic Cabotage Bill</td>
</tr>
<tr>
<td>Forms of Local Content</td>
<td>Local Participation - Wholly Owned - Wholly Manned - Wholly Built</td>
<td>only Indian flag vessels to trade within Indian maritime jurisdiction</td>
<td>Local Participation - Wholly Owned - Wholly Manned - Wholly Built</td>
</tr>
<tr>
<td></td>
<td>Exemptions in the presence of limited local capacity.</td>
<td>Exemptions in the presence of limited local capacity.</td>
<td>Exemptions in the presence of limited local capacity.</td>
</tr>
<tr>
<td>Implementation: Successes and Challenges</td>
<td>weakly implemented Cabotage Act</td>
<td>- Successful to a point</td>
<td>Critical Considerations or questions:</td>
</tr>
<tr>
<td></td>
<td>After 13 years, still a significant number of foreign owned, manned, and built vessels operating in Nigeria’s Maritime Jurisdiction</td>
<td>- India’s competitiveness in Maritime trade reduced with cabotage.</td>
<td>- Are there enough professional ship builders and ship building and repairs companies wholly owned by Ghanaians?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- In 2011, Indian parliament relaxed Cabotage Law to accommodate foreign flag vessels</td>
<td>- Was a capacity audit the basis for the targets in the bill?</td>
</tr>
<tr>
<td></td>
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<td>- Are there clear plans to bridge the capacity gap?</td>
</tr>
</tbody>
</table>
KEY THEMATIC ISSUES

Lesson One

Local Content

Doesn’t just mean The written word
• Inclination towards local participation or ownership across countries and sectors, except Botswana

• For countries that pursued strict indigenisation and forced local participation and ownership, the results in the long term were rather counterproductive.
  ➢ Zimbabwe-only one company was able to comply
  ➢ Zambia-botched implementation
  ➢ South Africa-Undermined compliance with other elements of local content
  ➢ Nigeria-Coastal shipping still dominated by foreign vessels

• Very little progress was achieved in attaining local participation levels

• Conversely, where ownership was not the focus, quick gains were made; Botswana-strategic focus on increasing employment in value addition
Can there be local participation without adequate capacity?

A critical prerequisite for local participation is the existence of in-country capacity in terms of financial resources, skills, technology and infrastructure.

In most of the countries studied, local participation was undermined by inadequate local capacity;

- Nigeria-Limited capacity for coastal and inland water shipping-ship building and repair yards
- Kenya-Lack of financial capacity rendered local construction firms uncompetitive
- India-Limited capacity led to relaxation of cabotage restrictions
- Ghana-limited financial and technical capacity for local participation in upstream oil and gas
Local Participation and Adequate Capacity

The quest for increased local participation in the midst of limited capacity can yield two main outcomes – an industry with a high foreign presence even though local content legislation indicates otherwise (as is the case for cabotage in Nigeria) or an industry dominated by local players that remains uncompetitive (as is the case for cabotage in India and in oil and gas for Ghana.

To attain true participation or ownership, there is the need to ensure adequate evaluation of existing local capacity to handle or manage the requirements of local participation for the industry in question.
Capacity Audits and Attainable Local Content Targets

- Capacity audits are a starting point in capacity development
- They provide information on already existing capacity and that which is required
- They allow for the attainment of measurable targets
- Lack of or inadequate capacity auditing prior to formulation of local content policy leads to the setting of unrealistic targets
- For Nigeria, Brazil and Ghana in upstream oil and gas, some local content targets are deemed unrealistic and unattainable
- No evidence of capacity audits prior to the setting of targets
- No comprehensive framework across countries for carrying out such audits
Capacity Audits and Attainable Local Content Targets

- Capacity Audits should answer the questions;
- Why local content is needed
- Whose capacity needs to be developed
- How the capacity will be developed
- What capacity already exists
- How the capacity will be used once developed
- (empirically assessed-metrics and a specialized model)
- These will inform local content targets
Who pays more for local content? Who bears the economic and other associated costs of local content implementation?

How do those costs affect attainment of local content objectives?

How do those costs affect macroeconomic indicators and the economy as a whole?

Brazil—High cost for investors, heavy penalties for non-compliance. Costs passed on through the supply chain.

Ghana—Local content associated expenditures may be cost deductible, reduced petroleum revenues to government.
If petroleum revenues are expended this way, yet the objectives of local content and participation are not fully achieved over time, then petroleum revenues are virtually being wasted increasing the socio-economic cost to the government and to the country.

Short Term Costs vrs Long Term Benefits;

Argument: Local content is absolutely necessary, even if the costs far outstrip the benefits in the short term, benefits will be realized in the long term

Assumption: LCP implementation process is robust; but this has not been observed over time and across countries

Difficult then to tell how the long term benefits will accrue
Given the costs imposed by local content, LCPs must be effectively monitored and tracked to ensure that benefits that accrue overtime outweigh costs.

Across countries and sectors studied, measurement and tracking of local content is seen as a non-deliberate, non-comprehensive activity.

Ghana; According to LI2204, local content is measured on a field by field basis, from the time of award of contract. Data is sparse and it is difficult to appreciate a year on year trend for attainment of targets.

Nigeria; the NOGICD ACT specifies percentage targets but no timelines.

Brazil; Weighted percentage targets for items on the local content table, however uncertainty the subsequent bid rounds will have the same metrics.
Local content policies have the tendency to send negative signals to investors that may eventually inform their decision to carry out business within the country.

Local content policies introduce uncertainty into the investment environment and affects future investment decisions.

Zimbabwe—Foreign companies stopped operations, investor flight. IEE was amended to attract and retain foreign investors.

Ghana—Investors currently uncertain about the direction of local content policy.
Harmonization of the Local Content Agenda

General lack of coherence in policy implementation across regulatory institutions for some countries studied

Contributed to inconsistency, unpredictability and reduced transparency, affects investor confidence

Zimbabwe-existence of different licensing bodies created inefficiencies which affected compliance

Zambia-LCPs were offset by other government policies

Ghana-misalignment and lack of cohesiveness among key stakeholders that carry local content mandates
Consequences of breaching international trade agreements as a result of local content policies are dire.

In the Case of India, it shut down its local content policy on solar energy in 2017, after seven years of its adoption.

Some of the biggest module producers in India faced possible shut down.

Though Ghana has not faced these trade challenges yet, has Ghana in the formulation of its local content policies, both old and new, considered the effect on international trade agreements?

Ghana has been a member of the World Trade Organisation since 1995, and as such is subject to the Trade Related Investment Measures (TRIM), which has provisions to restrict local content.
Recommendations

Develop comprehensive metrics and frameworks to appropriately track year on year achievement of local content targets or improvements in local content levels.

Bolster monitoring of both local entrepreneurs and foreign investors in light of local content partnership to ensure compliance.

Invest into the design of a capacity audit system for sectors of the economy.
Recommendations

Cost-Benefit analyses of local content to ascertain whether benefits outweigh costs

Local content application should be guided by a long-term development strategy, identify critical gaps in the economy to be filled

In sectors where local capacity is identified as inadequate (short, medium and long term), focus local content efforts on attaining higher levels of employment and training
THANK YOU