

AFRICAN YOUTH DEVELOPMENT LINK

YOUTH OPPORTUNITIES IN THE OIL AND GAS SECTOR IN UGANDA

ISSUE PAPER
DECEMBER **2017**

TABLE OF CONTENTS

1. INTRODUCTION

1.1 BACKGROUND

2. NATIONAL AND LOCAL CONTENT

2.1 LOCAL CONTENT REQUIREMENTS IN THE OIL AND GAS SECTOR IN UGANDA

2.2 THE CONTEXT OF LOCAL CONTENT IN THE OIL AND GAS SECTOR IN UGANDA

3. CHALLENGES

3.1.1 SKILLS GAP

3.2 LESSONS FROM OTHER COUNTRIES IN RESPECT TO NATIONAL CONTENT IN EXTRACTIVES

3.3 IS THERE A NEED FOR LOCAL OR NATIONAL CONTENT POLICY?

4. MULTI-STAKEHOLDER ROLES

4.1 ROLES OF CIVIL SOCIETY AND LOCAL COMMUNITIES

4.1.1 CIVIL SOCIETY

4.1.2 LOCAL COMMUNITIES

5. FINANCING OF THE POLICY

6. RECOMMENDATIONS

7. CONCLUSION

REFERENCES

1. INTRODUCTION

This is an issue paper on the opportunities and challenges for youth in Uganda in the Oil and Gas Sector in the country. The intent is to highlight the emerging opportunities and challenges therein and make recommendations on how the current state of affairs can be improved to give Ugandan youth more latitude in this nascent and emerging sector. The paper will be shared with different policy actors.

1.1 Background

The discovery of oil has caused excitement among Ugandans, and rightly so, especially the youth who constitute 78 per cent of Uganda's population, according to the 2014 population census results, adjusted to 2017 projections. This is because of the enormous potential and opportunities that the oil industry presents. These range from direct and indirect employment opportunities and possibility for skills transfer that can kick-start other sectors of the economy.

2. NATIONAL AND LOCAL CONTENT

Many countries engaged in oil and gas production or mining are introducing requirements for participation commonly referred to as 'Local Content' or National Content as is interchangeably used. This is increasingly so in the developing world mainly in Africa, Asia and Latin America. For a more practical definition, one could say that local content is building a workforce that is skilled and building a competitive supplier base while "National Content" is defined as the value added or created in the Ugandan economy through the employment of Ugandan workers and the use of goods produced or available in Uganda and services provided by Ugandan citizens and enterprises .

National content refers to the share of labour, services and goods for the petroleum sector being provided from within the country and constitutes the added value to Uganda from these activities .Local content requirements are mainly in form of policy and regulatory measures that focus at increasing use of the locally available labour, technology and other resources in the oil and gas sector .Local content involves the development of local skills, oil and gas technology transfer, and use of local manpower and local manufacturing.

These above two phenomena have become very important due to the fact that in this day and age, every country would like its citizens to capture the commanding heights of its economy and thus assist to keep its wealth within its borders, as well as providing jobs to the ever increasing population. This is achieved through capacity building, creating SMEs as well as offering products and services locally by citizens.

2.1 Local Content Requirements in the Oil and Gas Sector in Uganda

Given the fact that Uganda's oil and gas sector is still growing, there is need for exerting more deliberate efforts to ensure that citizens competitively take part in the sector through exploitation of the existing opportunities. One of the ways through which government has been providing for Ugandans to take part in the sector is local content. Government has been in the process of making policies and laws that will ensure citizens take part in the oil and gas sector .

The Petroleum (Exploration, Development and Production) (National Content) Regulations 2016 came into force on 6th May 2016 and are intended to ensure participation of indigenous Ugandan entities in the oil and gas sector. In brief, the regulations require any licensee, contractor and sub-contractor to give priority to goods and services that are produced and available in Uganda and which are rendered by Ugandan citizens and companies during procurement. In addition, they are required to reserve the contracts for ring fenced goods, and services like security, foods and beverages, hotel accommodation for supply by Ugandan citizens and companies .

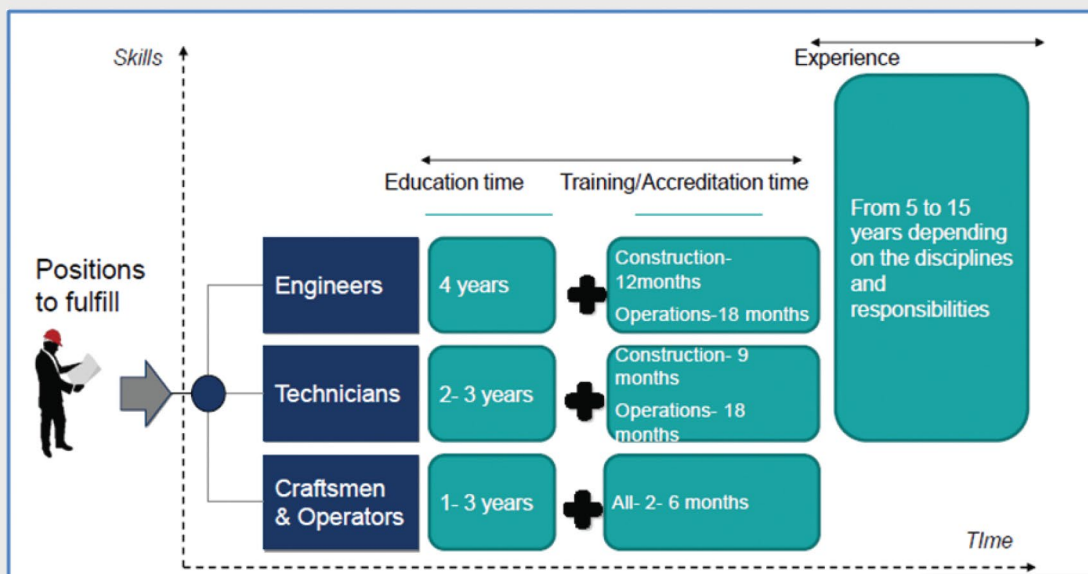
A Ugandan company is defined as a company incorporated under the Companies Act No. 1 of 2012 and which provides value addition in Uganda, uses available local materials, employs at least 70% Ugandans and is approved by the Petroleum Authority of Uganda. Several concerns have been raised regarding this definition of a Ugandan company as it does not guarantee that indigenous Ugandan companies will benefit from the sector. In effect, the definition seeks to suggest that a fully owned foreign owned entity incorporated in Uganda but employing 70% Ugandans would qualify as a Ugandan entity. This may mean that locally owned companies could be outcompeted by the foreign owned entities when it comes to bidding for contracts and confirming capacity and experience.

The regulations were recently discussed at the 4th National Content Conference on Oil and Gas held in Kampala. The major sentiment at this conference was the need to amend the regulations and ring fence more goods and services for local contractors.

2.2 The Context of Local Content in the Oil and Gas Sector in Uganda

The Government of Uganda is undertaking several initiatives to ensure direct and indirect participation of Ugandan citizens and enterprises in the oil and gas subsector so as to contribute to achieving lasting benefits for the country. These initiatives include capacity building, employment of Ugandan citizens, enterprise development, the use of locally produced goods and services and transfer of knowledge and technology.

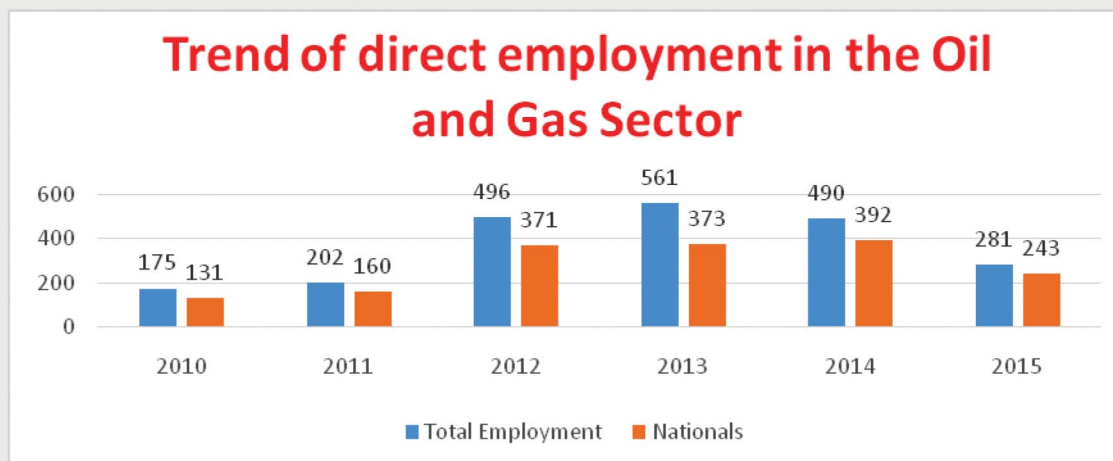
Employment Opportunities available in the Oil and Gas Sector in Uganda



Source: Ministry of Energy and Mineral Development, Uganda

Government adopted the National Oil and Gas Policy (NOGP) for Uganda in 2008 as a key document to guide the development of the petroleum subsector. Objectives 7 and 8 of the NOGP, lay emphasis on the need to ensure optimum national participation in oil and gas activities and support to the development and maintenance of national skills and expertise as key strategies in achieving National Content in the country's petroleum subsector .

Indeed some progress has been made regarding employment of nationals and supply of goods and services locally.



Source: Ministry of Energy and Mineral Development, Uganda

In terms of Employment, the trend of direct engagement of locals has been seen to rise from 131 out of 175 (75%) in 2010, peaked at 373 out of 561(66%) in 2013 due to high activity in the sector and reduced in to 243 out of 281 (86%) in 2015. The majority of these jobs however were at middle and lower levels (1-3) . The Ministry of Energy however does not give an age and gender disaggregated breakdown of its employment figures, thus making it difficult to assess the extent to which the youth and women are employed by the sector.

However, enabling Ugandan citizens and enterprises to participate in the provision of goods and services to the desired levels requires significant effort, support and collaboration amongst the relevant stakeholders.

3. CHALLENGES

Despite the employment opportunities that the Oil and Gas sector present, a number of challenges have been identified which must be addressed in order to close the gap created by the skills requirements. A review of the existing literature and the various studies undertaken by Government indicate that the barriers for Ugandan firms to get involved in the oil industrial supply chain are mainly related to the country's current levels of skills, industrialization and the relationship between Ugandan companies and foreign companies in the procurement process.

The Supply of Goods and Services in the Oil and Gas Sector in Uganda



Source: Ministry of Energy and Mineral Development

The relationship between International Oil Companies (IOCs) and Ugandan enterprises is mainly constrained by lack of information on future tenders which reduces the planning horizon for local firms, globalized and standardized pre-qualification processes, contractual structures that prevent small firms from participating in tendering, financial constraints, cost disadvantages due to lack of experience among others.

The oil and gas industry in Uganda is therefore finding it challenging to develop a local supply industry at the pace, size, and quality necessary to satisfy the demand from petroleum projects. The local enterprises have only been able to participate in the supply of lower value contracts in transport, logistics, food supply, clearing and forwarding, crane hire, waste management, lifting, camp management, road construction and security among others.

On the other hand, the high value contracts and specialized goods and services have been awarded to foreign companies. This is mainly because the IOCs use international procurement and tender procedures which are complex and require high levels of organization and management capacity. In addition, the tenders are most often configured in very large bid lots that disadvantage Ugandan enterprises because of the large financial resources required for working capital, purchase of inputs, and performance guarantees.

3.1.1 Skills Gap

Owing to the limited understanding of the existing capacity of the country's human resource pool and the requirements for citizen's participation in petroleum activities, Government commissioned a capacity skills needs analysis study for the sub-sector with the aim of developing a Workforce Skills Development Strategy and Plan (WSDSP). This study identified the skills gaps at all training levels.

The gaps identified are as a result of many factors including: the quality of country's education system, which is not adequate to generate local supply of workers with the necessary knowledge and skill; the pace of exploration, which may be too fast to permit the development of local skills; lack of internationally recognized and accredited oil and gas training institutions; lack of capacity amongst the existing vocational training institutions to provide technical skills for various oil and gas activities and; the proliferation of training institutions billing themselves as "petroleum" training providers, which raise expectations and capture student fees without generating qualifications leading to realistic prospects for employment in the industry. The low levels of skills and industrialization within the economy attest to why most of the goods, services, technical and managerial workforce within the petroleum sub-sector have been offered by foreign firms and expatriates.

The recent studies commissioned by both government and the private sector, including the Industrial Baseline Survey (IBS), 2013 and the Capacity Needs Analysis Study, 2015, highlight capacity gaps in some of the aspects which are necessary for Ugandans to participate in the country's petroleum subsector. It was estimated that the workforce requirement during the peak period of field development together with the construction of pipelines and the refinery will be 161,700 jobs of which 14,000 would be direct jobs, 42,700 indirect jobs and 105,000 induced jobs. Of this work force, 15% are estimated to be professionals (engineers and managers), 60% technicians and craftsmen and 25% unskilled laborers. The numbers of direct jobs are however, expected to taper off and/ or drop to a plateau of the 3,000 during the operations and production phase.

In general, therefore, Uganda does not yet have enough professionally skilled workers whose qualifications meet internationally recognised standards. In fact, in 2015, the consultancy firm Mott MacDonald produced a report called 'Capacity Needs Analysis for Oil and Gas Sector Skills in Uganda'. The report notes that the main impediment to employing a larger share of Ugandans in the sector is a shortage of personnel with adequate practical experience and skills. According to the study, more than 1,800 professional drivers of large commercial vehicles will be required only in this sector over the next 10 years. So, as much as the current generation of youth are said to be the most educated in the historical context of Uganda, there is a mismatch between the education curriculum and the requisite skills needed in the Oil and Gas Sector due to the capital-intensive nature of the industry. In terms of competence, whereas the passed upstream and mid-stream oil laws 2013 indicate the obligations of the oil companies to have plans for employment of Ugandans in the sector, the issue of competence, particularly of the youth, should be addressed.

3.2 Lessons from other Countries in respect to National Content in Extractives

The Ghanaian policy is more prescriptive and stipulates that 80% of Ghanaians should be involved in the oil and gas industry; in addition the law is very aggressive in the sense that it attempts to divide all sectors in the industry and give percentage of local participation now, in 5 years, and in 10 years. In some instance the law requires that in 10 years, 100% of certain products and services should be provided by Ghanaians, which is a bit unrealistic given that Ghana is pumping oil for the first time and the fact that it doesn't have the capability to meet the requirements of the industry, then 80% of local participation is unrealistic, these are the political expectations that I'm alluding to.

Zambia offers an extreme case in which national content if not well managed can be disastrous. In 1970's Zambia decided that from an equity perspective the country was going to nationalize and take over the assets in its copper mineral industry, the results of which was that 30 years later the mining sector has all but collapsed. Zambia was at the same level in terms employment and production as Chile, today Zambia produces about 800,000 tonnes of copper annually while Chile produces about 5.5 Million tonnes and employees a hundred times more than Zambia.

Interestingly, the best case available is a country that doesn't have law on Local content but simply says, we encourage you to procure as much as possible from the locals but we recognize that your commercial success has to do with us not interfering with the industry and that is the government of Botswana. The results are that the industry is able to pace its self towards achieving the desired targets. This does not entirely mean that the government of Botswana goes without interest, in fact they engage with the industry very frequently to make sure that progress must be made.

What is important for policy makers especially those in East African countries to note, is that Botswana is mindful and understands that the success of the mining industry lies in making sure that open market conditions prevail, and thus in a bid to narrow the diversions between what policy makers expect and what industry is realistically able to deliver under the circumstances, partnership and a lot of engagements is required. There must be away through which National and local content should be realized but care should be taken when realizing this, especially in regard to policy and law around this subject matter.

3.3 Is there a need for Local or National Content Policy?

Laws are an important aspect in Oil and Gas industry more so because they look to contain those in this case (extractives companies) that may be reluctant to capture other interested parties and therefore you have an instrument that you can use in case a company does not comply. Primarily the reason why most African Countries push in towards a law is because there is a lot of political pressure not just for purpose of competing between parties, but also because the general populace wants governments to demonstrate somehow the issues have been addressed, and therefore the easiest and simplest way on the part of government is to pass the law.

However, governments need to appreciate what genuine constraints are facing the industry and for the industry to understand what genuine pressure the government is operating under, and for them to work together as partners in narrowing this .

However, without uniform procurement laws and guidelines tailored to oil and gas, the existing legislation is open to various interpretations, which may not favour local participation hence undermining local content .

4. MULTI-STAKEHOLDER ROLES

The National Content Policy for petroleum in Uganda stipulates the roles of different stakeholders in a coordination and implementation framework of the sector to include government and all its relevant MDAs, the Private Sector, Civil Society, the Media and Local Communities . This is mainly aimed at implementing the commitments of the sector, while holding mutual accountability for effective achievement of the sector goals. We only choose to highlight the roles of Civil Society and local communities.

4.1 Roles of Civil Society and Local Communities

4.1.1 Civil Society

The roles of Civil Society Organizations (CSOs) in the implementation of this Policy shall include:

1. Promote advocacy, mobilization and dialogue with communities, licensed companies and the Government on aspects of National Content.
2. Create awareness and disseminating information on available opportunities related to oil and gas activities.
3. Implement social or industry-focused programs funded by oil and gas companies.
4. Hold Government and other stakeholders accountable with regard to National Content in the country.
5. Participate in capacity building, research and training of local communities.

4.1.2 Local Communities

1. Learning, acquiring skills, knowledge and capabilities to enhance their participation in the petroleum subsector and related sectors.
2. Seeking and making use of information related to the oil and gas subsector.
3. Safeguarding the integrity of oil and gas installations and infrastructure within their localities.
4. Participating in the provision of goods, services and human resources in the oil and gas industry.
5. Ensuring effective and efficient use of facilities, goods, services and other items provided for by the oil and gas industry.
6. Creating enterprise clusters in order to benefit from industry projects.

5. FINANCING OF THE POLICY

The financial resources required for implementation of the local content Policy are based on what the public sector and private sector will spend on this initiative. In view of this, the Policy recognizes the need for alignment and harmonization of the different activities undertaken by the various stakeholders that relate to the National Content development.

The overall cost of implementing this Policy over the next ten (10) years is estimated to be **USD 319,949,000**. The public and private sector current initiatives have provided funding amounting to **USD 95,900,500** and the funding gap is **USD 224,048,000** over the next 10 years. Most of the costs (83%) for developing National Content will be incurred in building the capabilities of Ugandan human resources and competitiveness of Ugandan enterprises as suppliers.

6. RECOMMENDATIONS

1. The Ministry of Energy and Mineral Development should put in place regulations for oil laws that were passed in 2013, as this will provide for the implementation of these laws, operationalisation of the Petroleum Authority of Uganda, as well as the National Oil Company. This is the only way the youth can benefit from the oil sector for socio-economic transformation of society and their livelihood.
2. It is the responsibility of government to ensure Ugandans, especially the youth, get the required skills and expertise to access the available opportunities in the sector and contribute to local participation.
3. It is important for the Ministry of Energy and mineral development and all other actors in the sub-sector to report gender and age disaggregated data to track the employment of nationals who are youth and women.
4. On the other hand, the youth must also be aggressive and ensure that they maximise the benefits from oil.
5. Likewise, the government should provide a conducive competitive environment for Ugandans, which is already reflected in our legislation but should be enforced.
6. The government of Uganda should provide the necessary funding to implement the Local content policy.

7. CONCLUSION

While Uganda waits with abated breath for its first drop of oil in 2020, it is under scrutiny over how it will handle a natural resource that is both considered a blessing and a curse. The question whether Uganda will use its "black gold" to propel her economy to a much desired middle income status by 2020 depends largely on GoU's commitment to among other things prioritize national participation, promote environmental sustainability especially in ecologically sensitive exploration areas and the strategies in place to avert the oil curses that has struck other oil rich nations .

Government and the oil companies have made positive efforts to promote national content. However, the overall management of national content by the Ministry of Energy and Mineral Development (MEMD) has not been adequate and as a result, there are challenges in realising the national content objectives of the Oil and Gas Policy (NOGP), 2008 . There are still several areas with clear potential for enhancing national content, such as: establishment of a clear regulatory framework, performance targets and indicators for national content; determining the level of state participation; local supplier development; employment and training of Nationals by the oil companies and government; ensuring gender parity and involving host communities. As government finalizes the development of the national content policy and regulations, the Ministry should take advantage of this opportunity to address the above challenges.

References

ACODE 2014, Local Content in the oil and gas Sector, An Assessment of Uganda's Legal and Policy Regimes.

Ampaire Evas 2016, Train Youth for Oil Sector Jobs, Daily Monitor July 2016

EALS 2017, The State of Oil and gas in East Africa: A situational Analysis, July.

GoU 2017, National Content Policy for the Petroleum Sub-sector in Uganda 2017

GoU, 2015, Office of the Auditor General Value for Money Audit Report on the Implementation of the National Content in the oil and Gas Sector.

GoU, 2017, Ministry of Energy and Mineral Development Presentation on Opportunities in Oil and Gas Sector through the National Local Content Policy for Petroleum, October 2017.

<http://thenerveafrica.com/7630/national-local-content-policy-dilemma-extractive-industry-east-africa/>

<https://www.oilandgasiq.com/strategy-management-and-information/articles/local-content-in-the-oil-and-gas-industry>.

Rwothungeyo, Billy 2017, Uganda failing on oil and gas local content, New Vision, February 2017

Schnurre, GIZ in Uganda, Daily Monitor, Monday October 16 2017