

KENYA LOCAL CONTENT EXCHANGE: VISION TO IMPLEMENTATION

INTRODUCTION

On July 4th, 2017, the World Bank Group, within the framework of the Petroleum Business Opportunities (PBO) project, in partnership with Strathmore University Extractive Industry Center (SEIC), Extractives Baraza, and DAI Global, launched the “Kenya Local Content Exchange: Vision to Implementation,” a roundtable discussion addressing local content in Kenya’s emerging petroleum sector. The event was the first of a three-part series aimed at facilitating local content discussion amongst key public, private, and civil stakeholders in Kenya’s petroleum sector.

The need for open and robust local content discourse within the Kenya petroleum sector has been necessitated by Tullow Oil’s 2012 commercial oil discovery, which resulted in initial estimates of up to 750 million barrels of oil, and has generated significant expectations across Kenya’s various stakeholder groups, particularly its private and civil sectors. Thus, as operators prepare to move into the development phase of the projects, and regional governments work towards export pipeline development, there is an urgent need to begin a structured and facts-based engagement process to bring together key stakeholders from all sides of the Kenya local content debate in order to form a shared vision for local content in both the country’s petroleum sector as well as the country’s broader development strategy.

The “Local Content: Vision to Implementation” roundtable provided one such platform for Kenyan stakeholders to move towards positioning local content as a vehicle for Kenya’s sustainable development.

OPENING REMARKS AND KEY SPEAKERS

David Bishop, Local Content Specialist and in-country lead of the World Bank’s PBO project, opened the event by highlighting the importance of the initiative’s multi-stakeholder assembly and targeted discussion of specific issues within the broader local content debate. He explained that the purpose of this first event was a higher-level discussion centered on the principles of local content in order to create a common understanding from which discussion in future local content events can drill down on specific topics.

Engineer James Mwangi, Chairperson of the Energy and Extractives Board at the Kenya Private Sector Alliance (KEPSA), Kenya’s largest private sector association, facilitated the event. Eng. Mwangi is also CEO of Kurrent Technologies, one of Kenya’s leading integrated Engineering, Health, Safety and Environment (HSE) consulting companies, and has over twenty years of experience in the oil and gas industry, both in Kenya and internationally.

Mr. Anthony Paul, an oil and gas strategy consultant and world-renowned expert on local content development from Trinidad and Tobago, was featured as keynote speaker. Mr. Paul has held senior technical and leadership positions in the petroleum sector, including within the Ministry of Energy and the National Oil Company of Trinidad and Tobago, as well as with major multinational corporations such as BP, and has advised clients across the globe on local content policy, strategy, business development

and governance. Mr. Paul was invited to speak due to both his extensive local content expertise, as well as his specific insight into Trinidad and Tobago's 100 years of experience with petroleum sector development and local content development, which has many parallels to the emerging petroleum industry in Kenya today.

KEYNOTE SPEECH

Mr. Paul began by sharing the case of Trinidad and Tobago, a small country that has managed to leverage the oil and gas industry to deliver significant value and development for its citizens. He described Trinidad and Tobago's focus on stimulating operations and safeguarding the interest of the nation throughout its' evolution from a resource-driven economy to an innovation-driven economy. This did not happen overnight but took several decades of commitment, coordination and focused engagement with industry experts, civil society, private partners, and the public sector. The result of this long-term and gradual process was a strong local content policy founded on expert industry knowledge and strengthened by the government's commitment to interlink sector-specific local content policy with larger national socio-economic development strategies.

Mr. Paul stated that oil, gas and minerals are assets under the ground that have intrinsic value but do not realize any actual value until they are extracted. This value is contingent on creating sustainable systems that support sustainable economies, communities, environments, and governance. Oil and gas has the potential to improve a country's economy, environment, and quality of life of citizens and communities. Yet, policies and regulations must be guided by an understanding of the country's current development status and future aspirations, coupled with a flexible development strategy that accounts for change and a governance structure embedded with monitoring and reviewing systems.

Mr. Paul emphasized the importance of linking sector-specific development plans with the country's national development plans. The question, "what are we going to do with the petroleum sector to support national development?" should drive the policy development discussion. Then, through democratic process, transparency, and public engagement, the government can develop local content strategies, policies and regulations that align sector and national development strategies.

Mr. Paul's key message was there are no easy choices; local content is not simple; it is not quick. He emphasized the need to focus on capacity-building (of companies and people) and to take a strategic approach to "capture more value in the future." Mr. Paul also emphasized the need for a business-friendly approach with strong public accountability. Mr. Paul's concluding message was that oil and gas does not belong to the government nor does it belong to the international company; it belongs to the people. Thus, engaging civil society at the beginning and throughout the development process is critically important to local content success, sustainability, and positive impact.

MULTI-STAKEHOLDER DISCUSSION

Following Anthony Paul's keynote speech, Eng. James Mwangi facilitated an interactive discussion amongst participants centered on five pre-determined questions:

1. What do you understand by local content?
2. What is local content trying to achieve?

3. How does the size and competitiveness of this industry affect the decisions around local content policy?
4. How can local content in the petroleum sector contribute to Kenya's broader development strategy?
5. How do you leverage local content in the petroleum sector to develop Kenya's priority/strategic centers?

The purpose of this multi-stakeholder discussion was to use Mr. Paul's insights and the structured questions as a springboard to generate a conversation amongst the participants geared towards actual action, change, and impact.

Q1: WHAT DO YOU UNDERSTAND BY LOCAL CONTENT?

Participants presented multiple understandings of "local content," reflecting the challenge of creating local content policies and strategies due to the diversity of definitions. At the same time, participants agreed that the wording used to define "local" and "content" is extremely important because it will drive policy.

Most participant definitions centered on the idea of utilization of local human capital and materials at all stages of the value chain. One participant emphasized that local content is building on existing local capacity and capability – it is not starting at zero. A common understanding was that local content is not a static concept; it is something that is ongoing and adaptive. Moreover, it transcends value in a single sector and is linked throughout the entire economy. Thus, the focus should be to build capacity beyond the extractive sector and open up the extractive sector to not only create value in terms of retaining capital within the country, but also create sustainable participation of local people, local capital, local management and local materials and goods in a sustainable manner.

Q2: WHAT IS LOCAL CONTENT TRYING TO ACHIEVE?

Ultimately, local content seeks to achieve value: value to the operator, the government, and the citizenry. Yet, specific participant answers greatly varied and included: employment, diversification of skills, business, revenue, ownership, gender equity, competitiveness, value addition, industrial and internationally-competitive supply chains, infrastructure, and poverty eradication.

Participants approached this question from both the macro and micro levels: At the macro level, participants identified economic development as the ultimate goal of local content. They assessed local content in terms of how it contributes to aggregate economic development and its ability to lift people out of poverty. At the micro level, participants focused on individual capacity development, revenue, and social equity.

Participants agreed that, regardless of the means by which different stakeholders seek to meet their short and mid-term objectives, their long-term objective for local content is aligned. One participant claimed that ultimately there should be no misalignment between the interest of the government, the company, and the communities, so that all players look at local content as shared value. This shared value does not mean it is the same dollar amount or take the same form for every stakeholder, but instead balances facilitating private sector success while allowing the public sector to capture the positive impact.

Q3: HOW DOES THE SIZE AND COMPETITIVENESS OF THIS INDUSTRY AFFECT THE DECISIONS AROUND LOCAL CONTENT POLICY?

The key insight centered on the principle that you want to maximize competitiveness, productivity, and profitability, and to do that you need to have the requisite skills and capacities developed in-country to enable you to achieve that outcome. This requires a systematic and deliberate collaboration between the government, the international oil companies and the international service providers.

Some participants claimed that size and competitiveness of the industry should not affect decisions around capacity development because skills developed in the oil and gas sector are easily transferable to other sectors, such as construction, and can act as a catalyst for the development of other sectors of the economy. However, other participants asserted that size and competitiveness must be central to development of local content policy, because it will determine which specific skills and capacities are most advantageous to develop.

Anthony Paul asserted that the size of the resource is important to understand how much you have, yet the key decision underscoring local content policy is to understand the technicalities such as the activity level and duration of investments and operations. The decision of where to focus capacity development is quite important depending on the size and competitiveness of the industry because you can (i) focus on what you already have in place, make it better, move it up to international standards; (ii) expand into new areas; (iii) expand to become globally competitive. Based on this diversity of options, Mr. Paul described the need to think regionally: no one country in East Africa has either the demand or supply to provide everything. However, by aggregating demand and supply, the region can create a dynamic and attractive market. Through regional collaboration that promotes pooling of investment, sharing of human resources, technology, educational institutions, and other assets such as processing centers and fabrication facilities, countries can prevent value from leaving the region.

Q4: HOW CAN LOCAL CONTENT IN THE PETROLEUM SECTOR CONTRIBUTE TO KENYA'S BROADER DEVELOPMENT STRATEGY?

One participant responded that the Kenya Vision 2030, Kenya's long-term development policy aimed at transforming Kenya into a newly industrializing, middle-income country, recognizes that the current structure of Kenya's economy, which is focused around agriculture, can no longer sustain the country. He described the need to move Kenyans out of low production, small agriculture into highly productive industries such as oil and gas, and he saw local content policy as the catalyst for this movement.

Participants rallied around the idea that focusing on capacity development within the oil and gas sphere will provide sector-specific value as well as multi-sector value through development of cross-sectoral skills that can be utilized to drive the competitiveness of Kenya's broader economy and ensure sustainability beyond oil and gas. That said, Kenya's oil and gas sector was identified as a key pillar in structural transformation of the greater economy in the Ministry of Industrialization's 2015 Industrial Transformation Program.

Q5: HOW DO YOU LEVERAGE LOCAL CONTENT IN THE PETROLEUM SECTOR TO DEVELOP KENYA'S PRIORITY/STRATEGIC CENTERS?

The final discussion opened with the assertion that oil and gas is an enabler, it is not a means to an end; meaning that the government and additional stakeholders should focus on how local content activities within the petroleum sector can permeate other sectors and strengthen the broader economy. A participant expressed his view that many governments, particularly in developing countries where the need for the monetary gain is great, tend to narrowly view oil as merely a means for revenue generation as opposed to it being an accelerator to other aspects and sectors of the economy. Another participant supported this statement claiming one of the mistakes that governments make is to look at local content as a stand-alone issue that is isolated from the rest of the economy. Instead, local content feeds into the overall macro agenda for the country through employment creation, wealth creation, and industrialization.

Most participants agreed that it was necessary to first define the development objective before trying to leverage local content in petroleum sector development.

Anthony Paul concluded the discussion with a few words about local content strategy and policy. He stated that: legislation gives you a sense of where you want to go; regulation a sense of how to get there, and the permits/licenses provide specific requirements. Mr. Paul added that consistency in decision-making is paramount in order to create strong legislation with sound procedures that allow for transparency and accountability of regulators. He ended by suggesting that when Kenyan stakeholders formulate local content policy, they should consider three separate ideas: (i) local capacity building, (ii) local content and (iii) local value addition, because they are connected but they must be treated differently depending on their unique characteristics. The relationship between these three concepts can be understood through the following illustration: if 100 locals are trained in welding (local capacity building) and the oil and gas sector employs 10 of these trained locals (local content) the other 90 can be employed in other sectors of the economy (local content value addition).

CONCLUDING REMARKS

Dr. Melba Wasunna, Director of Extractives Baraza, closed the event by highlighting the following key takeaways: the necessity to create a national vision (the anchor upon which to develop strategies and programs); the need to differentiate between local content, capacity building, and value addition, interrelated yet distinct topics that must be approached differently; the importance of a broader local content strategy that transcends national borders and creates a regional market; the necessity of public-private partnerships and open channels of communication; and the need to ensure a system of accountability.

NEXT ACTIONS

The next action is to build on the dialogue and take-aways of this event and organize the second local content exchange, to be held following the national elections on August 8th, 2017. This second event will hone in on a more specific topic and reflect a wider range of civil society and government stakeholders, as requested by the first event's participants.