

Kenya Local Content Exchanges

Local Content Exchange III: Real-World Approaches and
Strategy for Private Sector-Led Enterprise Development



Kenya Local Content: Real-World Approaches and Strategy for Private Sector-Led Enterprise Development – Brief III

Introduction

On April 3rd, 2018, 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, held the third and final session of a three-part series aimed at facilitating local content discussion amongst key public, private, and civil society stakeholders in Kenya’s petroleum sector. The session, entitled “Real-world Approaches and Strategies for Private Sector-led Enterprise Development”, sought to build on the outcomes of the previous two sessions held in 2017.

The Exchanges initiative is in response to a need, identified by PBO, for open and robust local content discourse following Tullow Oil’s 2012 commercial oil discovery, with the aim of adequately preparing Kenya’s private sector to participate in the oil and gas sector. Oil and gas operators are preparing to move into the development phase of the projects as regional governments work towards export pipeline development. This reinforces the need for a timely, structured and facts-based key stakeholder engagement process, to develop a shared vision for local content in Kenya’s nascent petroleum sector for integration with the country’s broader development strategies.

The “Real-world Approaches and Strategies for Private Sector-led Enterprise Development” Exchange provided a platform for Kenyan stakeholders to share experiences around approaches and strategies from the around the world and to discuss how these experiences can be adapted and applied to the Kenyan context to drive sustainable local content development in Kenya’s emerging petroleum industry.

Opening Remarks and Key Speaker

The Kenya Local Content Exchanges were structured as an integrated three-part series where each session provides the foundation for the next. The first roundtable discussion, held in July 2017, focused on Kenya’s local content positioning to achieve sustainable development and featured Tony

Paul, a world-renowned expert in local content development, of Trinidad and Tobago as keynote speaker. This session sought to establish the key concepts and principles for sustainable local content development and was attended by a mix of private, public and civil society stakeholders. The second session, held in December 2017, focused on the private sector and presented real-world examples of local content in the Kenyan oil and gas supply chain as well as approaches used by global oilfield service companies to promote local content around the world. The keynote speeches were delivered by two African oil and gas professionals, James Mbote and Toks Azeez, who shared the local content perspectives from the view of the Kenyan private sector and the international oil & gas community.

The third event, held in April 2018, continued to build on the private sector theme and brought Christopher MacDonald, a highly experienced global procurement and local content strategy specialist, who shared many examples from his experiences gained during his thirty-six-year tenure at Shell International. During his career, Chris contributed extensively to Contracting and Procurement, Enterprise Development Center design and Human Resources Strategy, while being a lead thinker in the development of Local Content in the Oil and Gas Exploration and Production industry. He was a co-author of the original Kazakh Content Strategy for the Kashagan Oilfield Development in Kazakhstan. Chris is also recognized as being a key architect of the Oman Oil and Gas In-Country Value Strategy and Blueprint. Most recently as the Shell Iraq Local Content Manager, he laid the foundations for a significant mindset change towards local content.

To stimulate a dynamic and productive debate among participants the event was again blessed with the participation of Eng. James Mwangi. Eng. Mwangi is Governor for Energy at Kenya Private Sector Alliance (KEPSA) and CEO of Kurrent Technologies, one of Kenya's leading integrated Engineering and Health, Safety and Environment (HSE) consulting companies.

First Keynote Speech



Christopher MacDonald has vast experience in contracting and procurement, supply chain management and local content. During his 36-year career with Shell International, Mr. MacDonald was instrumental in developing local content strategies for contracting, procurement and human resources while on residential assignments in multiple countries including: Oman, Brunei, Egypt, Tunisia, the Netherlands, Gabon, Bangladesh, Norway, Kazakhstan and Russia. He is retired as of November 2017 and provides consultancy services for procurement, local content and supply chain strategies.

Chris MacDonald's keynote speech took the audience through a series of real-world cases of enterprise development. His direct involvement with the design of enterprise development programs started in Brunei in the early nineties, where he was tasked with initiating a Local Business Development Program. Thereafter, Chris set up five more programs in different countries, including Oman, Gabon and Russia. Through this experience, Mr. MacDonald established a structured approach to successful local content development. It is founded on the principle of inclusive strategy design and collaboration amongst key strategic stakeholders: 1. National Government, 2. International and National Oil Companies (IOC/NOC) and 3. Suppliers of Goods and Services and 4. Local Communities.

The first step of the approach is to understand what local content means to the government and whether it is aligned with broader economic development plans. This step also means recognizing where Kenya sits on the local content maturity curve, which helps key stakeholders to understand Kenya's journey ahead. Understanding the country's current positioning puts the government on track for developing a consistent local content strategy, for which it is important to consider and learn from other countries' experiences. Then, it is imperative to align the interests of the government, oil companies and suppliers and define each player's roles and responsibilities. With clear objectives established, the key stakeholders can begin to collaboratively design a program that is aligned with the country's long-term development plan. Implementing such a program is costly and virtually impossible without collaboration between the key strategic stakeholders. Local content implementation must be seen as an investment in the future that will improve long-term operational efficiency. The government, therefore, must create an enabling environment to promote foreign direct investment that supports this type of pro-efficiency enterprise development.

For oil companies, the benefits of local business development means ensuring continuity of supply through market volatility. Therefore, supplier contribution is vital to the process as they are an indispensable factor for driving the success of the oil and gas industry. The suppliers' role is to meet oil and gas industry standards and become internationally competitive. Fortunately, oil companies are well placed to help local suppliers achieve often challenging technical international standards, however, this takes serious commitment and collaboration of all parties.

An effective tool for raising standards and developing the competitiveness of local suppliers are enterprise development centers (EDC). An EDC must be **fit-for-purpose**, which means the rationale

for its creation must meet government requirements and industry needs. EDC design must be **data-driven**. Data helps players understand the gap that needs to be addressed and sheds light on operational details such as the best location for the center. Another key principle of EDC design is **leveraging local partnerships** for activities required in-country and engaging all key actors to ensure a sense of joint ownership and to leverage the strengths of the various players. Additionally, an EDC must be linked to **country's long-term development and economic diversification plan**, which reinforces the need for a government to have a clear vision that is aligned with those of other key stakeholders. Lastly, an EDC must be **designed for the whole industry** and not just for a specific project. The data shows what sectors need to be developed, so the EDC can take a **targeted approach to supplier development**. Finally, the EDC must be **properly resourced** to ensure it meets the objectives of developing a competent and industry-compliant private sector with all required international standards and business practices. To illustrate these principles, participants discussed various real-life examples of enterprise development centers such as ExxonMobil's Center for Local Business Development in Guyana, Shell's global "Livewire" program and Oman's In Country Value Strategy.

A very recent and pertinent case of enterprise development is Guyana's Center for Local Business Development (CLBD) was designed by DAI's Sustainable Business Group and commissioned by ExxonMobil. The center was purposely set up before the commencement of the project development phase and included an industrial baseline study to determine the needs for the program. The activities were developed in line with the study and aimed to increase local competitiveness and allow SMEs to participate in a sustainable manner. The Center's vision is to drive inclusive economic growth through private sector development in Guyana. Today, along with project-specific local content development, the Center provides capacity building within sectors outside of oil and gas. The training programs provide an array of courses varying from general business development to international HSSE standards. The Center also provides firm-level technical support that includes embedded coaching and technical assistance, matchmaking with Tier One contractors and post-award contract support. Through its Supplier Registration Portal, the Center is also a hub for information and market engagement. The Portal, developed specifically for the Center, facilitates buyer-supplier interactions and connects local suppliers to opportunities in major supply chains in Guyana. For local suppliers, the Portal also alleviates problems of limited information by presenting relevant business and training opportunities through a single, centralized system.

Shell's experience in Oman illustrates many promising examples of increasing local procurement through enterprise development. Shell set up an EDC and leveraged their global "Livewire" program, which focuses on youth development, to deliver a five-stage local program called Intilaaqah. The program design puts young entrepreneurs with a bright idea through business planning workshops, counseling and mentoring, and business management programs. Each phase is supported by a specialist who accompanies entrepreneurs throughout the process. To ensure a positive success rate, the program is designed to provide needed support to graduated businesses in the first year of operation.

Another very informative case is that of Oman. This case demonstrates how alignment and collaboration between national government and international oil companies can lead to the development of a successful In-Country Value strategy linked to impactful implementation through

an ICV Program Management Office (PMO). The PMO acts as an EDC for the Oil and Gas industry in Oman and drives the identification of local content and local business development opportunities. These opportunities are identified through data-driven analysis of the five-year forecast plans of the nine participating oil and gas companies in Oman. The companies all undertook responsibility to fund and lead each opportunity through the process of enterprise development. Local suppliers aiming to be a part of these opportunities were also responsible to assume some level of risk and be ready to invest. The government's role was to provide structured leadership through a government-led ICV committee, with participation of the CEOs of all nine operators and senior representatives of key government ministries. The collaboration between the 3 parties helped to create many Omani companies that now compete with international suppliers.

Oman's approach to enterprise development has recently shifted from a traditional approach that focused on capacity building and supply chain development to build existing capacity to assuming a more future-oriented approach through R&D and innovation centers. Within the framework of this strategy, the Research Council of Oman initiated and funded the Innovation Park Muscat which aims to become one of the region's most innovative resources. The Park provides a well-structured environment to bring to life ideas with the guidance of leading companies in the field. However, it has been found that the model set up by scientist lacks the business program to develop commercial skills of innovators. The knowledge of business management, including the finance, human resources and business development, is an integral part for sustaining the health of a company. Recognizing this need, Oman is looking to design and install an EDC to address the gap identified in the Innovation Park.

Multi-Stakeholder Discussion

Following the keynote speech, Eng. James Mwangi facilitated a discussion amongst participants centered on the following five questions:

1. How can Kenya develop a competitive and sustainable "local content culture"?
2. Is there a need for a structured and targeted approach to enterprise development in Kenya?
3. Enterprise development: private sector-led, public sector-led or a PPP approach?
4. What are the key challenges to enterprise development in Kenya?
5. What lessons from global experience can be adapted and applied to Kenya?

Q1: HOW CAN KENYA DEVELOP A COMPETITIVE AND SUSTAINABLE “LOCAL CONTENT CULTURE”?

The two key adjectives “competitive” and “sustainable” made the question two-fold. Sustainable local content culture suggests that it will last for a long time, therefore it is essential to understand what goods and services will be needed over a longer time-period. To achieve this, operators and government need to collaborate in providing the requisite level of governance and direction for opportunity identification across the entire sector. It is equally important to ensure that the implementation progress is tracked and reported back so that guidance and support is provided to remove any hurdles or blockers to achieve the required results. Once the sustainable opportunities are identified, the second focus then becomes the competitiveness of the suppliers providing the goods and services. To develop competitive local supply chains means investing in capacity building and improving all critical areas including labor skills and quality of products and processes.

Development of a local content culture is an investment and here the experience and expertise of oil and gas companies is critical. However, building the culture takes not only the international oil companies’ shared knowledge but also a commitment from the government and the national private sector to deliver local content with minimal targeted incentives. The commitment should be driven by a collective desire from the key stakeholders while ensuring local companies and communities are given a fair and reasonable opportunity to participate in oil and gas development.

TAKEAWAY: Developing a “local content culture” requires a collaborative effort, sustained commitment and long-term investment from all key stakeholders.

Q2: IS THERE A NEED FOR A STRUCTURED AND TARGETED APPROACH TO ENTERPRISE DEVELOPMENT IN KENYA?

All participants agreed on the need for a structured and targeted approach to develop local suppliers and several reinforcing examples were presented. During one example presented by an international oil company, it was mentioned that when an enterprise development center was set up in an effort to increase local-local (community) participation, it was discovered that the local suppliers couldn’t deliver on even the most basic standards. The company’s approach was to look at capacity building based on different tiers of local supply. While the direct oil and gas services may need technical development, the indirect goods and services suppliers

require more basic training and support (e.g. basic business skills). A participant of another major operator explained a decision behind their targeted approach for partnership with the supported company to achieve long term operational efficiency. They invested in development of SMEs in construction in a different operational zone with the view to use the same suppliers at the time of need. Another participant supported his answer with the reference to a study that showed the gap between the demand and supply. One of the issues was found to be a lack of information available to suppliers. In his view, structured enterprise development could help improve the information flow and ensure transparency around tendering processes.

TAKEAWAY: There is a need in Kenya for a structured and targeted approach to enterprise development. This approach must be fit for purpose (i.e. adapted to the needs of the target sector/region), must be commercially driven (i.e. emphasize long term operational efficiency) and include a significant information and transparency component.

Q3: ENTERPRISE DEVELOPMENT: PRIVATE SECTOR-LED, PUBLIC SECTOR-LED OR A PPP APPROACH?

The question on who should lead the enterprise development resulted in mixed views. Private sector participants believed that the approach should be public sector-led. It was suggested that a good model would include a local content development committee with the lead appointed from the government but supported by the private sector. This model is believed to assure strong government involvement and address national interests. To lead, however, the government must understand what it aims to accomplish, and, if unclear, the government must be open to learn the “good, bad and ugly” lessons from other countries. “The good” lessons help to create an understanding of what success looks like and how to get there, “the bad” provides an opportunity to engage with key stakeholders in that country to see how they would change their approach if they had the chance, and “the ugly” will help to avoid the mistakes made in other places. A public-sector representative, describing a large infrastructure project carried out in Kenya, alluded to a strategy that targets private sector-led local enterprise development. He noted that the government does a lot to create a favorable enabling environment to attract investors, such as creating special economic zones.

TAKEAWAY: Kenya’s approach to enterprise development must combine strong government support and leadership with oil and gas industry know-how and capability. Such an approach should be informed by global cases of success and failure in enterprise development.

Q4: WHAT ARE THE KEY CHALLENGES TO ENTERPRISE DEVELOPMENT IN KENYA?

The question on enterprise development challenges sparked an interesting debate during which participants identified many existing gaps in Kenya. One of the challenges was around the standards that are used nationally. In Kenya, there are several national standards, and none of them are compatible with the international standards used by foreign investors. Lack of a single standard may discourage the workforce to adapt the behaviors that underpin health and safety, hence potentially delay their entry into the industry. Additionally, until there is one standard that meets international requirements of HSE, the industrial sector will not be appealing to talented youth who chose to work in a safe environment over sectors that appear to be disorganized and dangerous. This can be achieved by addressing a different challenge of shifting the perception of TVET in the eyes of the youth. TVET must promote a safe working environment and train youth to comply to international standards. The government, on the other side, must endorse the use of internationally accepted standards and adopt them on a national level. Another gap was found in the lack of joint ventures between the national and local companies. If approached properly, this challenge could turn into an opportunity and become an additional channel for enterprise development. Not knowing the industry's best practices was also identified as an issue. An example was given about insurance companies that do not adjust their policy cap for companies that provide services to the oil and gas industry, therefore creating an obstacle for entry.

TAKE AWAY: To become internationally competitive and create a business environment that is conducive to enterprise development, Kenya must harmonize its national standards and align them with those used by the international business community. TVET has great potential to provide local enterprises with the skilled workforce they require, however, this education/employment route needs to become more attractive for Kenya's youth.

Q5: WHAT LESSONS FROM GLOBAL EXPERIENCE CAN BE ADAPTED AND APPLIED TO KENYA?

To avoid the common pitfall of a cut and paste model, it was suggested by one of the participants to change the question from "what" to "how" lessons from global experiences can be adapted and applied to Kenya. To achieve this, Kenya must understand where it is today and where it wants to be tomorrow. Then it must look at how other countries addressed the same situation and adapt the lessons one that best apply to Kenya's context. Kenya may find that the end-result is a combination of several cases, which together contribute to a well-rounded and coherent strategy.

TAKEAWAY: When it comes to developing a local content model, Kenya should avoid the mistake of copying another country's approach. Rather, Kenya should assess its own context, challenges and objectives and apply and/or adapt only the specific lessons that fit with the Kenyan reality.

Concluding Remarks

Dr. Melba Wasunna, Director of the Extractives Baraza, closed the Local Content Exchange series by highlighting key takeaways including: Understanding what local content means for the government is empirical; with clear local content strategy oil companies will contribute to but not lead the process; the interests must be aligned and the roles must be well defined; enterprise development program must fit for purpose and be data-driven; to not re-invent but adopt an EDC model that has been built and tested elsewhere; and EDC can be a business opportunity; communication between the public and private sectors is crucial for success; communities must be given a fair chance.

Key Takeaway

Petroleum producing countries use local content as a way to achieve their development objectives. Similarly, Kenya must choose what role local content in the petroleum sector will play in supporting the country towards its development vision and goals. Just like any form of economic planning, local content should be approached as a long-term investment that requires strong leadership, collaboration between all stakeholders and effective implementation. A key ingredient is investing in the development of a local content culture that promotes sustainability, efficiency, competitiveness and that is conducive to the attainment of the country's development objectives. Such a culture must emerge from dialogue, alignment of interests and collaboration between all key stakeholder groups. One approach that has delivered positive results in many countries around the world is that of investing in enterprise development to elevate the standards of the local private sector to a level that is internationally competitive. Global experience has shown that such structured enterprise development interventions must be data-driven and designed and delivered in a collaborative environment so that all key stakeholders can contribute with the resources they are best placed to deliver. While such approaches should take into account best practices and cases from other countries, Kenya must create its own approach based on its unique context, strengths and challenges. It is this combination of self-assessment, collaboration and global learning that will produce fit-for-purpose interventions that will make local content an enabler for Kenya's development objectives.

Kenya Local Content Exchanges

