DOMESTIC REQUIREMENTS AND LOCAL CONTENT

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Intended learning Outcomes

1. Participants should gain insight into the domestic requirement provision of a PSA
2. Understand the local content provisions and the issues related to them
3. Identify potential risks in these areas
Domestic Requirements

• Government may take part of the crude oil to which the Contractor is entitled for the country’s domestic consumption
• The quantity of crude oil taken maybe capped at a maximum, for example Indonesia and Kenya (using a formula) or unlimited for example Uganda
• Requirement for Government to give advance notice to the Contractor eg Kenya 90 days prior to beginning of calendar year, Uganda 90 days prior to 6 months period
Domestic Requirements

• Government reimburses the Contractor at a pre-determined price for example Indonesia 25% of the average price of oil, Uganda market price taking into account international price of oil

Rationale
To meet domestic petroleum requirements

Issues
➢ Difference between Government and Contractor calculations

Risk
Contractor may not/under deliver the required quantity of petroleum
Local Content

• Focus on the use of local resources and manpower
• Some countries have local content policies, laws and regulations
• Designed to give the host country other benefits in addition to the revenues from petroleum
Training, Research and Employment

• Contractor is required to train and employ (in labour, administrative and management positions) qualified nationals eg Indonesia, Uganda, Kenya
• Government employees maybe seconded to Contractor for on job training
• Contractor to contribute annually to a training/ research fund eg Uganda Contractor to pay to Government;

<table>
<thead>
<tr>
<th>Period</th>
<th>Amount</th>
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<tbody>
<tr>
<td>First Exploration Period</td>
<td>USD 200,000 per 12 months.</td>
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<tr>
<td>Second Exploration Period</td>
<td>USD 200,000 per 12 months.</td>
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<tr>
<td>Third Exploration Period</td>
<td>USD 200,000 per 12 months.</td>
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<tr>
<td>Development Period</td>
<td>USD 300,000 per 12 months.</td>
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<tr>
<td>Following commencement of production</td>
<td>USD 400,000 per 12 months, per Licence.</td>
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Training, Research and Employment

• Training costs are considered contract expenses and therefore recoverable

Rationale
❖ Develop the country’s human resource
❖ Create jobs for the citizens

Issues
• Provisions do not set targets to be met (eg percentage of workforce per category
Training, Research and Employment

- Absence of sanctions for non-compliance
- Requires extensive follow up and coordination by government agencies

Risks

- Contractor may employ expatriates in high paying positions and recruit nationals for low paying positions
- Trained nationals may not be absorbed by the contractor(s)/industry
Local goods and services
Local goods and services

- Some countries have regulations that govern procurement in the oil and gas industry eg Uganda
- Requirement for Contractor to utilise local goods and services (goods, services, businesses, suppliers, contractors, etc)
- Contractor to ensure that sub-contractors fulfil this obligation
- Condition that goods/services offered at conditions equally advantageous as other goods/services on the market (quality, price, availability, time and quantity)
Local goods and services

• Contractor to provide periodic reports to Government on its use of local goods and services

Rationale
➢ Enable local businesses to gain skills and experience
➢ Support local businesses to become competitive on the international market

Issues
• Definitions not clear:
  a) national/local companies (registration vs shareholding)
  b) local goods/services not clear (manufactured within vs in the country at the time)
Local goods and services

Issues

• No targets set therefore difficult to evaluate performance eg Kenya ‘to the satisfaction of the Authority’
• No sanctions for non-compliance

Risks

➢ Contractor may procure goods/services from companies that are 100% foreign owned
➢ Goods maybe supplied by local businesses, but imported
Assignment

Share your experience of local content audit:

a. Findings

b. Challenges
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