Document name: Local content in Ghana’s oil and gas sector
Document date: 2018
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OpenLearn course Rising China and Africa’s development: oil
OpenLearn url: https://www.open.edu/openlearn/society-politics-law/rising-china-and-africas-development-oil/content-section-overview

Local content in Ghana’s oil and has sector

IMANI (2018) *Is Ghana Ready for More Local Content? Lessons from Eight Comparator Countries in Five Economics Sectors* [Online]. Available at https://imaniafrica.org/wp-content/uploads/2018/09/Imani-Report-Ghana-2.pdf (Accessed 2 February 2019).

The provisions for attaining local content in the upstream oil and gas industry of Ghana are set out in the Petroleum (Local Content and Local Participation) Regulations 2013, LI 2204. The GIPC Act 2013 which contains local content requirements for foreign investors is also applicable to the oil and gas sector.

After about four years, the greatest success attained from the implementation of the LI2204 as revealed by the Petroleum Commission is in the area of the number of Ghanaians employed in the sector as well as the value of services or the value of contracts that have been awarded to indigenous Ghanaian companies. At the commencement of implementation of the LI2204, less than 100 Ghanaian firms were registered and operating in the country. As at 2017, there were over 300 indigenous Ghanaian companies (per the Registrar General’s records) registered and providing goods and services to the industry.

From the TEN and Jubilee fields, total value of services procured from locals increased by almost 200% from US$169 million in the third quarter of 2015 to US$489 million in the third quarter of 2016. In terms of localisation or employment, the PC records significant improvement. The share of indigenous employees in the sector is currently 75-78%, mainly in junior and middle level and managerial roles. Implementation of the LI2204 has not been without constraints. For the upstream petroleum sector of Ghana, the Petroleum Commission indicates that, in the formulation of the LI2204 currently being implemented, there was a study on in-country capacity based on consultations with key stakeholders. However, an in-depth capacity audit was not carried out. The Petroleum Commission admits that, because of the lack of a thorough capacity audit, most of the targets within the LI2204 were highly ambitious and unrealistic. In light of this, some of the targets remain unattainable within the timeframes specified because capital intensity and technological demands. This trend also runs through for Nigeria and Brazil where due to lack of capacity audits, targets set for local content were unattainable and led to non-compliance. The LI2204 mandates a 5% local participation in exploration and production activities and 10% local participation for the provision of goods and services. It has been noted that of the over 300 indigenous companies registered, less than 5% possess the financial muscle or have built the requisite capacity to effectively contribute the 5% capital requirement and other technology requirements for exploration and production (E&P). Exploration and Production is very risky; the probability of success in prospecting for oil is 10% and exploration and development costs for deepwater resources can range between $100-150 million. Five per cent (5%) of this amount is quite huge, keeping in mind that the company can end up with a dry well (no oil found). For the Exxon Mobil E&P for example, for the initial exploration period, the local partner may be required to bear $20 million cash call. Very few companies were noted to be able to handle this cash call.

The key hindrance to the active participation of the other companies in tenders and contracts (and then by so doing building capacity) is their inability to obtain the requisite internationally recognized (ISO/TS 29001) certifications just like in Nigeria where the lack of requisite certification causes indigenous oil and gas companies to lose out on bids for contracts. It is expensive to build the capacity required to obtain these certifications and the certifications themselves are expensive. This also directly affects employment within the sector; although employment of indigenes has increased, most indigenes are employed at the junior level and in managerial roles. Expertise are lacked in the core technical functions (for example petroleum engineers, Geoscientists, reservoir engineers etc.) leading to fewer Ghanaians being employed in technical roles. This is because the key criteria for employing technical persons is the level of experience and after training technical persons, it usually takes 7 to 9 years to gain an appreciable level of experience and then obtain certification.