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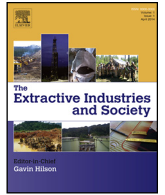

Original Article

Local content and natural resource governance: The cases of Angola and Nigeria

Jesse Salah Ovadia *

School of Geography, Politics and Sociology, Newcastle University, UK

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ABSTRACT

Recent announcements of offshore oil discoveries across sub-Saharan Africa are part an emerging discourse of 'Africa rising' that is now displacing older discourses of poverty and state failure in the region in both academia and mainstream media—particularly business periodicals. Accounting for over 75 per cent of sub-Saharan Africa's oil production in 2013, Angola and Nigeria are at the centre of this shift. Previously seen as two prime examples of the resource curse due to their histories of conflict and underdevelopment, Angola and Nigeria are now among the fastest growing economies in the world, yet have been criticised for poor governance. Local content policies, which promote local and national participation in extractive industries, are essential for the sustainability of resource-led economic development. The World Bank, African Development Bank, UN agencies and other organisations are newly emphasising natural resource governance as part of sustainable economic development. This shift underlines the importance of the state's role in development and in managing natural resource wealth. Drawing on field research and interviews in Angola and Nigeria, this paper will examine recent local content policy initiatives, evaluate their potential benefit and argue for their inclusion in an overall framework for promoting better natural resource governance in sub-Saharan Africa.

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1. Introduction

The beginning of the 21st century has ushered in a new moment of changed political and economic circumstances for sub-Saharan Africa. At the close of the 1990s, the situation was bleak. Per capita incomes in many of the region's countries were below those of 1950s–60s when many states gained their independence. To many Western observers – ordinary people as well as many so-called experts – the continent was seen as a poverty-stricken mess and its future prospects were seen as hopeless. In terms of economic development, modest average real Gross Domestic Product (GDP) growth of 2.6 per cent in the 1980s and 2.2 per cent in the 1990s (IMF, 2011b[1]) masked the devastating human impact of neoliberal structural adjustment.

Today, the situation has changed. Over the past few years, 'Africa' has been spoken about in a different way. In the media, especially in business periodicals,[2] it is now portrayed as a rising land of opportunity. In a speech in Cape Town during his recent trip to six African countries in June 2013, President Obama was widely quoted as remarking: 'There's an energy here that can't be denied – Africa is rising.' More recently, in August 2014 at a summit of African leaders in Washington DC, Obama was widely quoted as saying that 'a new Africa is emerging'. These comments reflect a new discourse around 'Africa rising' and 'emerging Africa' that has in the last few years begun to displace older discourses of poverty and state failure. Natural resources and extractive industries are very much tied into this shift.

New books are also being published which profile Africa's rise, though like the media analyses, many are failing to do more than scratch the surface of a very complex moment of change. In *Emerging Africa*, Radelet (2010) divides sub-Saharan Africa into three categories: 17 emerging countries, nine oil-exporting countries and 'the rest' (a group of 22 countries that are presumably still hopeless (though some may be on the 'threshold') simply because their average per capita GDP growth since 1996 is

* Corresponding author at: Politics Building, School of Geography, Politics and Sociology, Newcastle University, 40-42 Great North Road, Newcastle upon Tyne NE1 7RU, UK.
E-mail address: jesse.ovadia@newcastle.ac.uk

[1] Calculations from this source are the author's own based on the IMF World Economic Outlook Database, September 2011.

[2] See, for example, articles in the Economist (2011, 2013), *The Wall Street Journal* (2012), *New York Times* (Kristoff, 2012), *Forbes* (Van Rensburg, 2012) and the *Financial Times* (Wallis, 2010).

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below an arbitrary number set by the author. What is notable about this otherwise superficial analysis is the bracketing of oil exporters into their own category outside the model. According to the author, while the rapid growth of the oil exporters may in some cases be accompanied by reductions in poverty and improved social indicators, in all situations, the sustainability of growth and equity of benefits is questionable and there has been little change in political development (pp. 29–30).

Radelet's division, despite its arbitrariness, is a step towards a more in-depth analysis that can be used to better understand what has changed, what prospects exist for development and ways that some countries can achieve them. Many of the oil-exporting countries should be considered part of 'emerging Africa'. In a new publication on extractive industry and development, the United Nations Development Programme notes that 50 African nations are either producing or exploring for oil (UNDP, 2012). However, Angola and Nigeria, which together accounted for over 75 per cent of sub-Saharan Africa's oil production in 2012 (Energy Information Administration, 2013), are still by far the most important. Many lessons can be learned from them about best (and worst) practices. As more countries bring oil and gas resources online, natural resource governance becomes more important for development. In business periodicals, Angola and Nigeria are now among the most hyped emerging markets for new investment even as questions of corruption and low-level conflict remain unresolved; and, even as not so low-level conflict rages in the north of Nigeria. The hype has only increased since Nigeria's GDP rebasing exercise in April 2014 established the country as the biggest economy in Africa.

The oil-exporters of the Gulf of Guinea have generally outperformed the rest of sub-Saharan Africa in terms of GDP growth. Oil-exporting countries averaged 7.9 per cent growth from 2004 to 2010 compared to 5.8 per cent for sub-Saharan Africa overall (IMF, 2011a). While economic growth is only one aspect of development, and GDP is a notoriously poor measure of growth in sub-Saharan Africa, the statistics do help demonstrate that a shift is occurring. Today, the message that sub-Saharan Africa is stagnating is no longer accurate—particularly for the continent's current oil producers and, by logical extension, for the many future producers. What, then, is the way forward?

The new popular notion of 'emerging Africa' reflects a changed political and economic reality for many of its countries. However, this often simplistic narrative needs to be contextualised and problematised. It is a powerful yet superficial analysis that requires added depth. In this new moment, one of the biggest changes is the decision by the Angolan and Nigerian governments to pursue local content in their respective oil and gas industries. It is on these policies that the remainder of this discussion shall focus.

The paper uses local content policies, which promote local and national participation in extractive industries, as the entry point into a deeper analysis of the sustainability of resource-led economic development. Investment of the rents, royalties and taxes from resource extraction is often seen as the only facet of development through natural resources. However, local content policies represent an important second avenue for achieving positive developmental outcomes from these resources. In Angola and Nigeria, sustainable economic and social development that reaches a majority of citizens is possible. The two countries are useful cases given their size and the advanced nature of local content implementation. With reference to their oil and gas industries, I argue that local content—properly implemented and supported by various stakeholders—offers new potential not only for sub-Saharan Africa's current and future oil exporters, but for all countries with significant natural resource wealth. Its successful implementation must therefore be supported by programmes to strengthen natural resource governance.

2. Natural resource governance and local content

Local content policies increase the utilisation of national human and material resources in the petroleum sector and domicile in-country oil and gas-related economic activity that was previously located abroad. Since the industrial revolution in Britain, every capitalist country has developed with state protectionism (Chang, 2002). Unfortunately, local content has a dual nature: it is both a mechanism for promoting large-scale economic development and at the same time a mechanism for the elite to capture oil rent by legitimising policies that play favourites and privilege particular local capitalists (Ovadia, 2012). Local content is a useful entry point for discussing many of the most important issues in Angola and Nigeria, from changing methods of elite accumulation and the growing gap between rich and poor, to new economic growth and development through private sector initiative, and even to conflict in the Niger Delta, which is often related to conflicts amongst local elite over local content (Ovadia, 2013c).

Local content encourages the employment of locals by multinational companies (MNCs), but also recognises that resource extraction—particularly oil and gas—is an enclave industry that will never be a significant employer in its own right without linkages to the service sector and beyond. Therefore, local content policies (LCPs) force international companies involved in extractive industries to use local companies to supply goods and services. These LCPs also force these companies to invest in facilities for local manufacturing and service provision. Due to the strategic nature of many natural resources and the fact that they cannot simply be moved out of a particular jurisdiction to a more favourable fiscal or regulatory regime, countries with natural resource wealth can insist on LCPs and have significant leverage to ensure their implementation. The benefit in terms of capital retained in the local economy from local content policies has the potential to be larger than the royalties and taxes from extraction of a particular resource. For this reason, local content may be the single most significant innovation in energy policy in the Global South in recent decades.

After a slow start, the international community is starting to realise the need to promote these policies and devote resources to ensure proper implementation. There is great potential for LCPs in both Angola and Nigeria to foster economic development and to develop the oil services sector as an anchor for growth in manufacturing and other linked areas of economic activity. This state-led approach to development was crucial to the success of the 'Asian Tigers' (Taiwan, South Korea, Singapore and Hong Kong). Long a taboo subject, the role of the state in economic growth and natural resource development was highlighted in the Africa Progress Report 2013. In recommending strong adoption and implementation of local content, it states:

> The history of successful economic development in East Asia was, to a large degree, built on long-term strategies to build value-added industries. Governments used a range of measures – subsidized credit, local content programmes, tax breaks and temporary protection – to strengthen the competitive position of national firms. Critical to the success of these measures (and to the failure of comparable programmes in Africa) was the application of strict guidelines requiring firms to become competitive in local and, eventually, international markets. [Africa Progress Panel, 2013, p. 84].

On a similar theme, the United Nations Economic Commission for Africa (UNECA)'s 2013 *Economic Report on Africa* argues:

> Asia, however, relied on many measures that are prohibited, or at least discouraged, in today's multilateral trade arena. These include tariff protection and performance requirements, such

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