



Local Content Policies and Programs: An Enabler for Development and Growth in Africa

Overview

As governments look for ways to elevate local capacity and bolster economic development, right-sizing local content policies and programs can incentivize financial investment and technical and technological transfers that will benefit countries competing to attract the best companies, as well as companies searching for the most attractive markets to maximize efficiencies and manage costs.

Pressure to use local content (e.g., local workers, companies, goods and services) in large or mega-projects continues to increase. For growing markets, particularly in Africa, it is a catalyst for rapid development. Striking the balance between short-term job creation and longer term specialization, diversification, and supply chain development is a challenging issue for governments, companies and communities.

Use of local workers and suppliers can be the most efficient way to execute key aspects of a project, while other jobs may require specialized skills not available among nationals. This reality can become a source of socio-economic and political tension when local supply and project demand are not well understood by all stakeholders. This is compounded when there is a “ramping up” to thousands of skilled workers in a very short period compared to what is realistically accessible within the market, or when companies bring their own labor force into the project and leave behind very little that can be transitioned into meaningful local capacities.

Also, when government requirements for local content are unrealistically high, companies may avoid pursuing a project or investment altogether, or projects can be significantly delayed which can affect not only the quality, cost, and/or duration of such projects, but the longer term development benefits generated by them.

The purpose¹ of this paper is to contribute a body of knowledge from Bechtel’s experiences over many decades of delivering large infrastructure projects and in helping governments, companies, and communities align local content policies and programs to promote economic development beyond the delivery of projects.

¹ It is not the purpose of this paper to advise on specific local content legislation or address all the issues and concerns around such legislation.

Key Considerations and Learnings

Because of the increasing technical challenges associated with large- and mega-scale engineering and infrastructure projects it is highly unlikely that all the required skills will be available domestically. Importing specialists is generally greater in markets with lower skills for specific needs, especially when the demand for the project leads to aggressive schedules and insufficient time to train local workers or suppliers to meet required standards and specifications.

There can also be a lack of understanding among governments and local communities regarding the specialized skills required for large, complex projects. Some of Bechtel's projects can require one thousand workers within six months making recruitment of local workers with the right skills very challenging, if not impossible. Moreover, when national policies require 80%+ of local content from the onset projects can be significantly delayed and costs can increase as more workers will be needed to deliver the project. In this situation it may seem more local workers are being trained; rather more are being shifted to lower-skilled positions and not benefiting from the technical and on-the-job training needed for higher skilled positions.

Local content targets are constantly shifting as expectations continue to grow and the economics of the projects changes. Yet, certain elements remain constant:

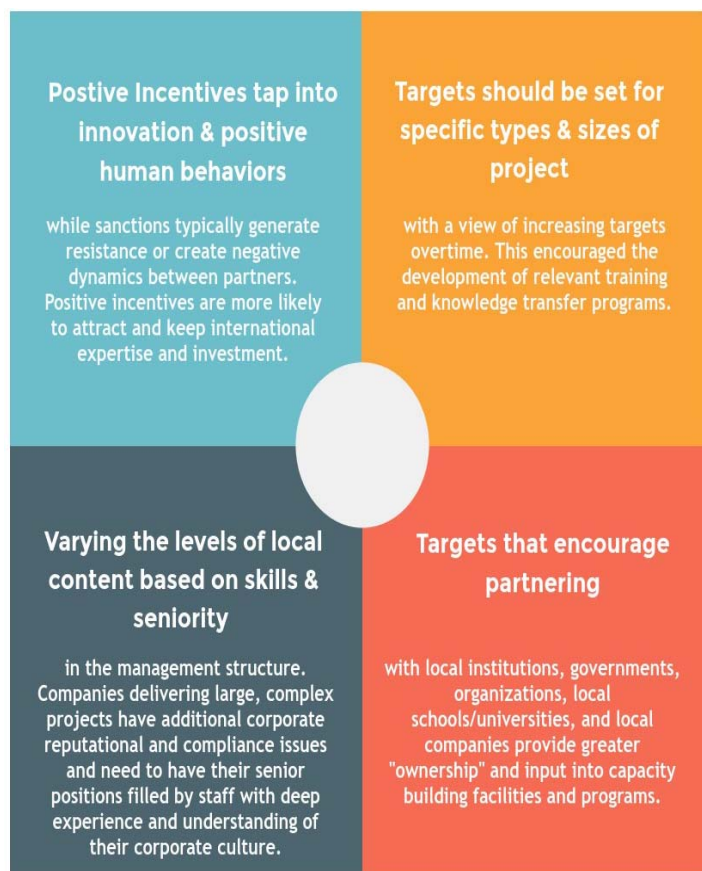


Develop Flexible Policies

Many governments are formulating or have incorporated local content requirements into law. These are critical pieces of legislation that governments should have; however, as the scale and speed of each infrastructure project can vary, it is important that these policies/legislations balance near-term capacity building with long-term economic growth. Local content programs should be tailored to specific industries and projects (e.g. one-time construction project versus long-term manufacturing or operating facility), and structured around positive reinforcement under a partnership approach

Establish the Right Targets

Flexible approaches to local capacity building can be challenging given the stakeholder demands to demonstrate rapid progress. Establishing realistic, but meaningful targets around the number of local workers or suppliers to be developed over a number of years is a practical approach. This should include milestones agreed to, recognized and celebrated by the customer and relevant authorities. Key elements of the targets include:



Establish Trust and Transparency Early

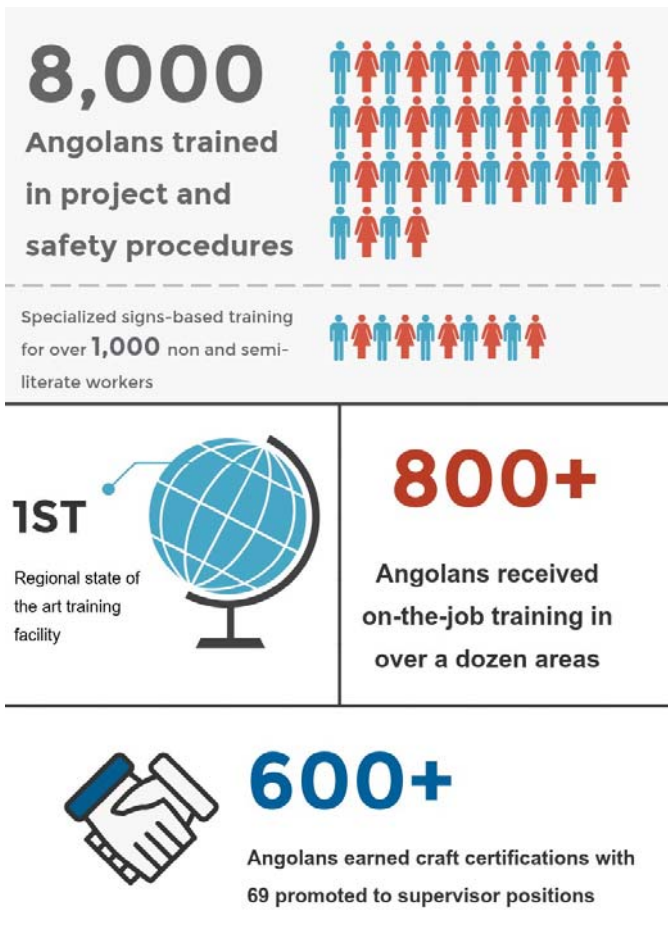
Local staffing over a project lifecycle is likely to change. A particular project phase may require more international staff than previous or later phases and adaptable rules are needed to accommodate such changes. Because projects need this flexibility during changing circumstances, establishing early trust and being transparent between the project and local communities is critical to preventing costly, and sometimes contentious, delays and disruptions to project delivery.

Maximize and Optimize Local Content

Where local skills exist introducing expatriate workers can cost more and have less local knowledge. Beyond variance in pay, the costs of recruiting, transporting, and caring for expatriate workers can add significant costs to the project. While this has an obvious impact on competitiveness, it also affects the ability to finance a project. Even when such skills do not exist locally, it is desirable to maximize local workers and suppliers, and where appropriate, optimize relevant capabilities to develop their specialization and diversification.

Case Study: Angola LNG

We established a tiered training program in our Angola LNG project focusing on workers with no skills and/or lower education and formulated goals, targets and assessments to advance them as the project progresses, including the operational phase where more specialized skills will be required.



This approach brings benefits beyond the immediate financial ones to a project: (i) indigenous knowledge and know-how; (ii) supportive social interactions with communities; (iii) local workforce/suppliers becoming anchors for future business growth in the region, and (iv) “clusters” of service companies serving as a local supply chain for future projects. Corporate social investments can also be used to supplement workforce or supplier development programs. This may include creating a venture fund to catalyze local entrepreneurship, partnering with local NGOs to build technical competencies, or implementing a training program on savings and tax preparation.

Create Local Partnership Networks

There are examples of companies establishing schools, training facilities, or capacity building programs to secure a contract, but then fail to deliver on promises or to properly integrate such training into project delivery.

Partnership networks between companies, governments, schools/universities, and training institutions, including affected communities; with agreement on gaps, goals and targets is an effective way to manage expectations and plan beyond the project. This includes expanding existing facilities and introducing new materials and experts to support training platforms that can be used across multiple industries or can be modified later for different skills needed within the industry. Moreover, partnership networks can also “crowd-in” external donors, ancillary industries, investors, and NGOs to align their economic development programs around a common local content vision and plan.

Start the Transition Early

We plan for not just the impacts, but the sustainable outcomes generated from the project. This includes transitioning local workers and suppliers from construction demobilization. What we leave behind is inherently part of how we do business, which is captured in our enterprise sustainability policy: *“We regard sustainability as our responsibility to enhance the positive effects of our projects where possible and avoid or mitigate the potentially negative ones. We believe that we are not just delivering a physical asset to our customers and communities but also creating an enabling environment that will benefit them in the long term.”*

The three LNG plants (Australia Pacific LNG, Gladstone LNG, and Queensland Curtis Island LNG) under construction on Curtis Island off the coast of Gladstone, Australia is one of the largest concentration of Bechtel projects in the world. It was important for us to minimize “boom and bust” issues commonly associated with project entry and demobilization. In advance of commencing the construction of the plants, we started a training and employment program with the indigenous and local community to transition the workforce from an earlier Bechtel project in the region. We also organized business workshops to help entrepreneurs and small firms prepare for the economic impacts of demobilization, such as leasing instead of buying equipment and diversifying their businesses beyond the LNG contracts.

In the remote mountains of Peru, Las Bambas is one of the world’s largest copper projects and supposed to produce 400,000 metric tons of copper per year. Over the past three years, Bechtel purchased nearly \$100 million in goods and services from local suppliers. Two years prior to demobilization we started to transition them from the construction phase. We focused on developing businesses that can continue to support operations, including health and safety standards for transportation, lodging, food, and laundry services; tax savings and preparation; and employee relations.

As international markets compete to attract the best companies, and as companies consider which markets offer the most attractive opportunities, headline policies can count as much as the small print of local content laws. Establishing the right policies and programs, that are flexible and have a long-term view, can increase the interests for international companies to invest, both financially and in resources, in a country that will leverage these projects as a building block to economic and social growth.

Case Study: Gabon National Infrastructure Plan

Bechtel’s approach is to integrate with, or where necessary help generate, a regional/ national approach to local content. In Gabon we are embedded within the government to deliver their national infrastructure program. When we started in 2010 Bechtel had over 80% expatriates on the project. As we elevated their capabilities and transferred knowledge and know-how in construction standards and public administration, we now make up less than 15% of the total project team. This has become recognized as a model for infrastructure delivery across Africa.

