



In-Country Value in Namibia: Creating the Vibrant Economy of the Future

By Dr. Thomas Deeb and Dr. Maria Beug-Deeb, contributing editor Rewaldo Quest

The estimated 6 billion barrels of recoverable oil and associated gas were discovered by Shell and Qatar Energies in the orange basin offshore, south of Namibia along with a targeted 5 GW of renewable energy generation from 350,000 metric tons of green hydrogen by Hyphen alone, pose a huge opportunity for Namibia to double its gross domestic product (GDP) by 2040. Oil and Gas Operators, as well as Green Hydrogen Developers will spend billions of dollars per year for the next couple of decades, from the development phase over the next 10 years to production (20 to 50 years). In this timeframe, new infrastructure and facilities will be needed and supply chain ecosystems will need to be developed. Accordingly, the question begs, how can the Government of the Republic of Namibia harness these windfall opportunities to create an economic boom for the benefit and welfare of all Namibians? Put differently, what is the optimal approach to localize opportunities for Namibians without impeding oil and gas production?

Conventional wisdom suggests that the way to achieve sustaining economic development is through the vehicle “local content”, in particular to create regulations focusing on companies procuring a fixed percentage of goods and services from “local Namibians”, the nationalization of low paying jobs, and the numbers of local people or companies trained and/or registered on a national database. Globally this approach has never met expectations and led to governments and communities being disappointed and frustrated. Operators and Developers are equally confused as they have been told only to use local products and services to the extent available in the country. The operators take an active approach to find people and suppliers that can meet their requirements, but the success is limited. So, operators continue

with business as usual and buy and hire goods and services globally. In the end these localization programs deliver some limited results, but never achieve real potential or meet expectations.

In-Country Value Addition

In contrast, the T&M Associates procurement-driven localization programs have been highly successful in 3 countries with very different goals and economies. These localization programs resulted in exponential growth in contracts to local companies, 100's of thousands of new well-paying jobs, billions in investment, and 10's of billions spent with SMEs. These programs are government led initiatives focused on developing local talent and buying from companies that create real value in the economy. The programs are designed to tap into the creativity of both local and international companies allowing them to best use their resources to make this happen. While these programs are a type of Local Content initiative, for clarity we will call them In-Country Value Addition (ICV) to distinguish them from the traditional Local Content programs.

Since ICV programs combine workforce development, infrastructure and policies, and leverage purchasing power of multiple stakeholders, the role of the government is critical. This role includes bringing all the stakeholders to the table, monitoring the progress of localization and adjusting the program as needed, and identifying gaps and opportunities and communicating these.

What can an ICV program do for Namibia? We should start by looking at the scale of the opportunity.

The recently discovered oil and gas opportunities are a game changer for the Namibian economy. With at least 6 billion barrels of recoverable oil, Namibia is poised to become a major producer of oil and gas in the next few years and could become one of the largest producers in Africa at a million barrels per day. The projected US \$5.6 billion in annual revenue for the country is an opportunity to scale up and meet the demand for meaningful employment, manufacturing, and services. The oil and gas production coupled with expanding renewable energy sector expected to yield US \$1.2 billion from 350,000 metric ton of green hydrogen creates the potential to deliver exceptional economic prosperity. What can be achieved:

1. Pump 10's of billions of dollars into the domestic SME ecosystem over the next decade

A significant percentage of the materials and services could be provided in country. Over several billion dollars or >20% of the expenditures should be with Small and Medium Enterprises (SMEs). Through a government led initiative and with the help of international companies, procurement can lead the way. Building reliable and sustainable local supply chains will reduce cost over time and create new high paying jobs and industries locally. And local companies that successfully meet the requirements of larger and multinational companies also are capable meeting the demands of exporting.

The timing for building reliable and sustainable local supply chains could not be better. If done correctly, these will grow and thrive as the oil and gas development phase grows and on into the production phase.

2. Create high value long term sustainable professional and skilled trade jobs.

The oil and gas opportunity should create 3 - 4 thousand new direct jobs with operators, with an additional 20,000– 40,000 indirect jobs in the supply chains and tens of thousands of jobs in the communities. The jobs created will be sustainable as the human resources can transition from the construction to the operations phase of each project.

As part of the scale up of the program, human resource needs must be planned well into the future and across all sectors of the economy and throughout our supply chain. For example, it takes several years for a new engineer or technician to build their experience. Waiting until, say, 2026 when these are needed, will inevitably result in poaching and wage inflation.

3. Find and Communicate Opportunities

Communicating future needs for materials, services, and workforce is critical and these forecasts and timing must be reliable. It is critical to look beyond the next budget cycle or 3-year planning. Thinking longer term, 5 to 10-years is required so that stakeholders can scale up and the workforce can be trained in time. And these plans must be communicated to all stakeholders from operators, suppliers, training and education institutions to SMEs and potential entrepreneurs.

The ICV framework is a highly effective, proven, and successful alternative that creates the environment that drives local content. This program combines workforce development, infrastructure and policies, and leverages company purchasing power to make localization a reality. It rewards companies for achieving tangible and verifiable results. It focuses on the value created in terms of employment, training, and compensation of nationals. It changes the game and companies are incentivized to buy more locally, develop local suppliers, establish knowledge transfer through local R&D, and to work with the supply chain to invest locally. It creates a level playing field for domestic companies, large and small, and international companies and encourages changes in the buying behavior as it is no longer about if the materials, services, and people are available today but instead about developing local talent and buying from companies that create real value in the economy. This program works across all sectors from extractives, manufacturing, food and beverages to oil field services, MRO, engineering, inspections. It is traceable, verifiable, and allows for measurement, tracking, and reporting using simple spreadsheets or web forms.

The ICV framework has a proven track record of success. It saves money, creates supply chain resiliency, and supports attaining ESG goals. Each country has unique goals and objectives and a business environment; therefore, the program is flexible and designed to meet the needs.

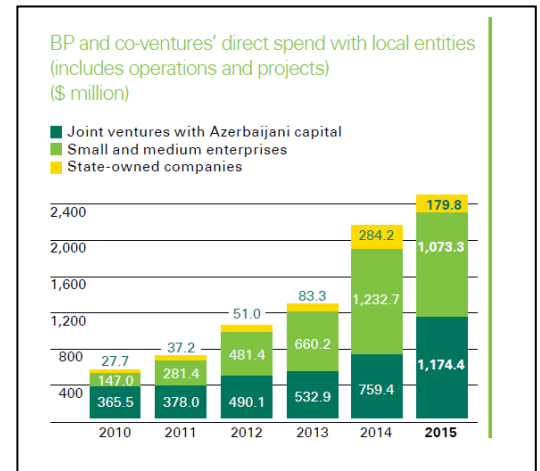
Most importantly, it is sustainable. We work in partnership with our clients and local partners from the development of the strategy through the execution, thus providing the support needed to ensure that the program is successful and meets the client's goals and objectives. From the beginning, our goal is to train and develop our local partners such that they will successfully continue the program after the completion of our engagement. All our programs are still in operation years after we left.

It is the perfect time for Namibia's oil and gas industry to develop its local content strategy, framework, and policies in a way that drives future success.

Case Study: BP Enterprise and Development Program – EDTP Azerbaijan

In 1994 the Government of Azerbaijan signed the “Contract of the Century” for the development and expansion of oil and gas production with BP which included key localization goals of increased employment and local procurement. After almost a decade, the BP Azerbaijan localization program (EDTP) had delivered some results but was not meeting the expectations of BP, SOCAR (the National Oil Company) or the Government of Azerbaijan. In 2010, T&M Associates together with a local partner took over the BP Enterprise Development and Training Program in Baku Azerbaijan. Over the 3 years of our engagement, using our ICV methodology, were able to show an 8-fold increase in local spend to over \$1.2 billion out of an operating cost of ~ 2 billion, increase SME contracts to 30% of the total expenditure, create thousands of new Azeri jobs, and encourage millions of dollars of new investment.

The Figure to the right shows the exponential growth of direct spend with local companies, not only during our engagement (2010 to 2012), but more importantly after our local partner took over. This Figure was published by BP in their 2015 Sustainability Report.



In 2013, the program was recognized by the IFC as a best practice in Local Content Development and won the prestigious BP Global Helios Award.¹ In 2017 the program was selected from over 100 programs as the runner up for the World Petroleum Council Excellence Awards in Social responsibility.

About T&M Associates:

T&M Associates is the only company that has led the development and execution of three of the most successful Local Content/Value Add programs in the oil and gas industry,

- Enterprise Development and Training Program (EDTP) for BP Azerbaijan,
- In Kingdom Total Value Add Program® (IKTVA) for Saudi Aramco, and
- the ADNOC – ICV program (version 2).

Combined these programs have delivered tens of thousands of new jobs, billions of dollars in new investment, increased participation by small and medium enterprises in the oil and gas supply chain, a step change in local spending on materials and services, and increased training and capacity building for nationals.

¹ BP Azerbaijan Sustainability Reports 2012 and 2015