

**PROMOTING LOCAL CONTENT AND ANALYSING THE EFFECTIVENESS OF LOCAL
CONTENT POLICIES IN UGANDA'S OIL AND GAS SECTOR: A CASE STUDY OF HOIMA
DISTRICT**

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**A DISSERTATION SUBMITTED TO THE SCHOOL OF LAW IN PARTIAL FULFILLMENT OF
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GAS OF UGANDA CHRISTIAN UNIVERSITY**

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**UGANDA CHRISTIAN
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DECLARATION

I, **MUGABI KOLPING FRANCIS**, do hereby declare that this research report titled, “Promoting Local Content and Analysing the Effectiveness of Local Content Policies in Uganda’s Oil and Gas sector. A Case Study of Hoima District” except where acknowledged, is entirely my original work, and it has never been submitted to any other University or Institution of higher learning for the award of academic qualification. I also certify that this Dissertation was prepared by me specifically for the partial fulfilment of the requirements for the award of a degree of Master of Law in Oil and Gas from Uganda Christian University.

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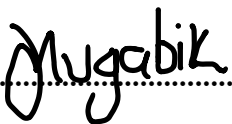
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APPROVAL

This is to certify that this Dissertation entitled, “Promoting Local Content and Analysing the Effectiveness of Local Content Policies in Uganda’s Oil and Gas Sector: A Case Study of Hoima District” has been done under my supervision and is ready for submission.

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DEDICATION

This Dissertation is dedicated to my parents Mr. Aloysius Mugasa Adyeri and Hon. Mrs. Mugasa Grace Mary, my Sister Mrs. Mary Gorettie Tusiime Kaija, my brothers Joseph Murungi, Victor Musiimenta and to the soul of my departed brother Joachim Constantine Mutegeki. I further dedicate this Dissertation to my friends and colleagues, Counsel Godfrey Himbaza, Counsel Nathan Osinde Ondesi, Counsel Caleb Alaka, Counsel Peter Kauma, Counsel Yaledi Elizabeth and to the entire staff of OSH Advocates.

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LIST OF ABBREVIATIONS/ACCRONYMS

CNOOC	-	China National Offshore Oil Company
CSOs	-	Civil Society Organisations
CSR	-	Corporate Social Responsibility
CVI	-	Content Validity Index
DRC	-	Democratic Republic of Congo
GDP	-	Gross Domestic Product
IOC(s)	-	International Oil Companies
KM	-	Kilometers
LCPs	-	Local Content Policies
MoEMD	-	Ministry of Energy and Mineral Development
NCPs	-	National Content Policies
NGO	-	Non-Governmental Organisation
NNOC	-	Nigerian National Oil Corporation
NOGP	-	National Oil and Gas Policy
PSA(s)	-	Production Sharing Agreement(s)
O&G	-	Oil and Gas
SOPs	-	Standard Operating Procedures
TOTAL E&P	-	Total Exploration and Production
UBOS	-	Uganda Bureau of Statistics

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ABSTRACT

Upon discovering vast deposits of any natural resources, most developing countries undertake progressive initiatives aimed at facilitating the extraction of such resources so as to attain revenue. Upon the realization of commercially viable Oil and Gas deposits in the Albertine Graben along Uganda's western border with DR. Congo, Uganda embarked on the above mentioned trajectory, not only aiming at attaining direct revenue from Oil and Gas sales but also maximizing other potential benefits from the resource with a view of promoting development and curtailing the adverse effects of the oil curse (Dutch disease) that has often plagued resource rich countries especially in the developing world.

To achieve the above, resource rich countries, Uganda inclusive have designed policies and legal frameworks which are termed as National and Local Content Policies. The main aim of those policies is to ensure that the extractives industry generates benefits to the economy that are beyond the direct contribution of trading in oil and gas and these can be achieved through its links with other sectors. In most parts of Hoima, and other oil-rich Districts, there is a consensus, that the lack of specialized skills and a competitive local services and goods sector is a major obstacle to the realization of National/Local Content goals. This has in turn forced many oil rich countries to promote National content policies that generally focus on the entire country without giving special consideration to the local content promotion within host communities in oil rich regions.

This research will concentrate on an analysis of Uganda's National and Local Content Policies specifically examining how Hoima District has benefited from Uganda's National and local content framework. This research is designed to act as a building block on how the legal framework can be structured to benefit local communities in Oil and Gas Districts and whether the individual residents and businesses have and will ultimately benefit from Oil and Gas. The research will also draw insights from the challenges faced by other developing countries in implementing and enforcing National and Local Content Policies at both a national and local level, the lessons that Uganda ought to learn and mitigating measures the residents of Hoima District and Uganda at large have to adopt to cut short the negative effects of poorly structured and ineffectively enforced National and Local Content Policies.

CHAPTER ONE

INTRODUCTION

1.0.1. HISTORICAL BACKGROUND

This background was based on Amin¹ who put emphasis on discussing the historical, theoretical, conceptual and the contextual background.

Local content has integrated itself into the International Oil sector in ways that four decades ago would have seemed quite unlikely due to the hegemony of neoliberal economics *Cimino, Gary, Hoffbauer & Schott*,². Local content in the Oil and Gas sector evolved from Brazil, Mexico, Chile, Oman, Kazakhstan and Indonesia. Major Oil Sector Conferences such as the Global Local Content Summit and the Global Local Content Council's 'NOCs and Governments Summit compete to attract delegates from government agencies and multinational corporations willing to pay thousands of dollars per person in registration fees so they can learn about the latest trends according to *Cogan, Sharpe and Hertzberg*.³

Local content became a global concern in the 1970s as countries began forming their own national oil companies *see Grossman*⁴. The development of local content has basically been a result of recognition that after years of Oil and Gas or mineral exploitation in many developing countries, little seems to be transferred to the citizens of these resource-rich countries in form of technology and employment *see Matthews and Lynch*⁵.

Many citizens of resource-rich countries especially in the developing world tend to be mere spectators yet local content must focus on helping enhance welfare of citizens irrespective of whether they are participating in the oil and gas sector or

¹Amin, M.E. (2005) *Social Science Research: Conception Methodology and Analysis*. Makerere University Printeryafd, Kampala, page 8

² Cimino, Gary Clyde Hoffbauer & Jeffrey J Schott. *A Proposed Code to Discipline Local Content Requirements*. Peterson Institute for International Economics Policy, Brief NoPB14-6, P. 1.

³ Cogan A ..., Sharpe S & Hertzberg, J. *Citizen Participation*. In So, F. S, Hands, I., & Madewell, B. D (Eds.) *The Practice of State and Regional Planning*. Municipal Management Series, Chicago: American Planning Association.

⁴ Grossman. *The Theory of Domestic Local Content Protection and Content Preference* (2004) 96"4 *Quarterly Journal of Economics* page 583.

⁵Grossman. *The Theory of Domestic Local Content Protection and Content Preference* (2004) 96"4 *Quarterly Journal of Economics* page 583.

not. This trend continues to exist although many mining and petroleum companies in the developing world are given incentives such as tax holidays with a hope that they will be able to exploit the resource, provide employment for the natives and develop infrastructure which would enable the economy to develop which will in turn improve people's living standards.

Uganda is no exception to the observation that many citizens of resource-rich countries especially in the developing world are mere spectators. After the announcement of commercially viable quantities of petroleum in the country, there was excitement about the developments that the new resource would bring according to *Muhwezi*⁶. Ugandans have been excited at the potential for development, improvement of household incomes and general living standards once petroleum revenues start flowing. However, it is not always as rosy as it looks. Uganda needs stringent macro and micro economic policies to enable the economy to sustain the negative impacts that petroleum might have on the economy⁷.

Uganda discovered commercially viable deposits of hydrocarbons in the Albertine Graben region in 2006.⁸ The government of Uganda embarked on an ambitious development of its legal and policy frameworks aimed at facilitating coordinated exploitation of oil and gas that had been discovered in the country.⁹ In 2008, the National Oil and Gas Policy¹⁰ was formulated, in 2009, the formulation of the National Local Content Policy took root,¹¹ in 2012, the Oil and Gas Revenue Management Policy was launched, in 2013, the Petroleum (Exploration, Development and Production) Act¹², the Petroleum (Refining, Conversion, Transmission and Midstream storage) were enacted and the National local Regulations were put in place in 2016, later the National Local Content Bill of 2019

⁶Muhwezi, et.al, crafting an Oil Revenue -sharing Mechanism for Uganda. (A Comparative Analysis Policy Research Series, No 30, 2009 Kampala)

⁷Muhwezi, et.al, Crafting an Oil Revenue -sharing Mechanism for Uganda. (A Comparative Analysis Policy Research Series, No 30, 2009 Kampala)

⁸ Alert I. Governance and Livelihoods in Uganda's Oil-Rich Albertine Graben, 2013 at page 6.

⁹Auty, Richard & Jose Luis Evia, A Growth Collapse with Point Resources, Bolivia. In Resource Abundance and Economic Development, edited by Richard M. Auty. Oxford University Press 2001.

¹⁰ The Uganda National Oil and Gas Policy of 2018.

¹¹ Uganda National Local Content Policy of 2009.

¹² Act no 4 of 2013 (Parliament of Uganda).

was tabled, discussed and passed by the Parliament of Uganda and only awaits President's assent.

As observed by *Allen Gelb and Stephanie*¹³, in most developing countries, the discovery of Oil and Gas resources has been classified both as a blessing and a curse¹⁴. The reasons for being a blessing are the fact that the extraction of Oil and Gas generates significant flows of revenue to the host country. According to *Hansen*,¹⁵ history shows that natural resources especially Oil and Gas are not necessarily an engine for economic growth due to that fact that they tend to come with distortions that slow down economic development. Such an economic blockage has been explained by the term resources curse as explained by *Auty.R.M.*¹⁶ The Author expounds this concept to mean instances where developing countries that have abundant extractable resources such as oil or minerals still lag behind other nations economically¹⁷.

1.0. GENERAL INTRODUCTION

On the 8th of October 2006, Uganda symbolically announced the discovery of commercial deposits of petroleum/oil and gas in the Albertine Graben.¹⁸ This was a source of pride and apprehension for the Ugandan economy, Government and the Ugandan general population at large especially the residents of Hoima District who relished on the dream of attainment of potential development opportunities, improvement of household incomes and general living standards wealth and other benefits from the Oil and Gas sector. Upon this realization of vast commercially viable deposits of Oil and Gas, a lot of effort and input has gone into making of laws and policies that will govern and regulate the Sector.

¹³ Allen Gelb and Stephanie Majerowics, *Oil for Uganda? Or Ugandans? Can Cash Transfers Prevent Recourse Curse?* 2011.

¹⁴ Allen Gelb and Stephanie Majerowicz *Oil for Uganda or Ugandans Can cash Transfers Prevent the Resource Curse* , 2011. Centre for Global Development Working Paper 261

¹⁵ Hansen. *The Political Economy of Local Content in Africa Extractives: Lessons from Three Africa Countries*. Paper presented 2014 at page 46 Armode, Dansk Selskab for Stateskundskab, Vejle, Denmark. page 3.

¹⁶Auty, R.M *Social Sustainability in Mineral -Driven Development*, *Journal of International Development*, 10:487-500.

¹⁷ Richard Auty *Sustaining Development in Mineral Economics: The Resources Curse Thesis* (1993) London Routledge.

¹⁸ <https://www.pau.go.ug/exploration-and-appraisal-of-oil-and-gas-discoveries/>

Those same laws shall ensure that Uganda maximizes the advantages of exploring, developing and producing the Oil and Gas resource. It is of paramount importance for the Government and nationals that the Oil and Gas sector becomes one of the unrivalled sources of employment for Ugandans. Locally produced goods and services should be utilized and there should be effective transfer of technology from International Oil Companies (IOCs) to Ugandans and Ugandan entities in order to further facilitate growth of the Oil and Gas industry and other sectors of the economy.¹⁹ This debate is inclined towards National and Local Content and how its regime has been enforced by the Oil and Gas sector with special reference to the state of affairs in Hoima District.

National and Local content requirements are mainly in form of policy and regulatory measures that focus on increasing use of the locally available labour, technology and other resources in the Oil and Gas sector. The focus is on transfer of technology by companies engaged in the extractive resource sector to the native people of a particular nation with a hope of assuring them income, employment and ultimately sustainable development. The development of local content has basically been a result of recognition that in many developing countries, little seems to be transferred to the citizens especially in form of technology and employment despite years of oil and gas or mineral exploitation in these so-called oil-rich countries.²⁰

In the past 10 years, several countries including Kenya, Ghana and Uganda have discovered commercially viable quantities of hydrocarbon reserves. This has prompted the Governments to come up with regulatory and policy framework aimed at ensuring that these countries' local population significantly benefits from the oil and gas sector. For example, Uganda formulated the Oil and Gas Revenue policy of 2012, the National Oil and Gas policy of 2009, the Petroleum (Exploration, Development and Production) Act 2013²¹ the Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013, various Oil and Gas Regulations of 2016 and the National Local Content Bill of 2019. Kenya enacted the Petroleum Act

¹⁹ Peter Magelah Gwakya (2014), "Local Content in Oil and Gas Sector: An Assessment of Uganda's Legal and Policy Regimes" *ACODE Policy Briefing Paper Series No.28, 2014*

²⁰ Peter Matthews and Matthew Lynch (2011) "Local Content Strategy: A Guidance Document for the Oil and Gas Industry" *IPIECA. London*

²¹ Act no.4 of 2013 (Parliament of the Republic of Uganda)

of Kenya and National local content Act of Kenya, finally Nigeria put in place the Oil and Gas Sector Content Development Act of 2010.

This desire to achieve more from the Oil and Gas sector has made policy makers in such countries like Kenya, Uganda and Ghana to enact legislations and policies in order to obtain greater benefits for their economies from the extractives industry of Oil and Gas with the goal of creating more employment opportunities for the local population, boosting the economic benefits of the Oil and Gas resource. Thus, this has far reaching effect to the entire economy through strengthening inter sectorial linkages aimed at improving the economic development of these resource prone countries.

In doing so, the policy makers came up with a concept referred to as national or local content of which in broad terms is the extent to which the output of the extractive industry sector generates further benefits to the economy beyond the direct contribution of it is value added chain through links to other sectors²². This later led to the formulation of the local content policies that typically require companies to give preferential treatment to nationals of the country in which they operate in matters of employment and in the procurement of goods and services²³. These result into technological transfer and also initiate the ability of the country to take charge of its own development. These policies are regarded as productive development policies whose main goal is to strengthen the productive structure of a particular national economy²⁴ as a way of enhancing the social welfare of people in the Oil and Gas host region. These requirements are either embedded in contractual agreements between Governments and International Oil companies or they are enacted legislatively. At times they are established in bidding rules as a pre-condition for the signing of contracts or embedded more indirectly in regulations

²² Silvana, Michael Warner, Manzano Osmel. E and Anouti Yahya, Local Content Policies in the Oil and Gas Sector. (the World Bank, Washington DC 2013)

²³ Melo & Andres Rodriguez Clare, Productive Development Policies and Supporting Institutions in America and the Caribbean, Inter-American Development Bank Research Department Competitive Series Working Paper C 106, February 2006 p.5.

²⁴ Silvana, Michael Warner, Manzano Osmel & Anouti Yahya, local content policies in the Oil and Gas sector. (the World Bank, Washington D.C 2013) 1.

and tax regimes through provisions of incentives to the local industries or to other companies that support local participation²⁵.

Many citizens of oil-rich countries especially in the developing world tend to be mere spectators. Ironically the residents of resource rich regions or districts have in some respects proved to be even much worse off than their counterparts in other parts of the country, a state of affairs that has contributed to resource conflicts and escalated the adverse effects of the resource curse or Dutch disease.

1.0.2. Theoretical Perspective

The study was guided by the Relational Theory by *Freeman* and *Phillips* which has a root from the complex firm-environment relationships. As the term implies, interrelations between the two are the focus of the analysis of local content. Relational theory is further divided into four sub-groups of theories: these include **business and society**, **stakeholder approach**, **corporate citizenship** and **social contract**.

Business and society are proposed to mean ‘business in society’ in which local content emerges as a matter of interaction between the two entities. One of the measures of local content is the development of economic values in a society.²⁶ Another is a person’s obligation to consider the effects of his decision and action on the whole social system. Stated in the form of a general relationship, social responsibilities of businessmen need to reflect the amount of social power they have through supporting and improving the welfare of the people in that sector.

Uganda’s path to the promotion of Local content application has been a murky one with efforts commencing on an ad-hoc basis in the early 1980s even prior to official announcement of commercially viable oil and gas deposits. Uganda’s LCPs attained standardization within the various Productions Sharing Agreements (PSAs) which were signed between the Government and IOCs and then the National Oil and Gas

²⁵ Wan slaw lecture. The Petroleum Sector Value chain in Silvana Tordo, Brandon S Tracy & Noora Arfa (eds) National Oil Companies and Value Chain (World Bank Working Paper No. 218, 2011) pg. 8-9.

²⁶ Michael & Hansen. The Political Economy of Local Content in African Extractives. Lessons from Three African Countries, Paper Presented at 46. Armode I Denmark Selskabstaskundskab ,Okt , 23-24, Vejle , Denmark , pg.3.

Policy for Uganda (2008) (NOGP) was put in place by the Ministry of Energy and Mineral Development (MoEMD) which further provided for promotion of local content. Atoning to the fact that Uganda's Oil and Gas sector is still more or less in its formative phase, a stage at which need arises to apply more concerted efforts to make sure that Ugandan citizens especially those from within Hoima District take part in the oil and gas sector competitively.

Whereas the terminologies National Content and Local Content have historically been used interchangeably by a multitude of scholars and both municipal and international law, there have been variations where national content has been cited to include promotion of employment, technology transfer at a national level whereas local content advocates for the same but giving advantage to local host communities within oil rich districts.²⁷ It should be noted that application and interpretation of these terminologies differs from one jurisdiction to another; Uganda on the other hand seems to apply and integrate both national and local content.

An analysis of National/local content laws from various jurisdictions elaborates that insufficient thought has been apportioned to understanding the term "local" within local content. A centralist or generalist approach has been adopted by most countries to define "local content" in regard to giving first consideration to "nationals" in general. Most countries have little to no reference on the local population residing within or around the resource rich location where oil and gas will be extracted.²⁸ The inauspicious outcomes of such an understanding of local content cannot abscond the consciousness of someone who has keenly observed the local conflicts that arise out of ignoring local host communities in the process of developing the Oil and Gas sector in Developing Countries.

²⁷ Chilenye Nwapi (2016), "A Survey of the Literature on Local Content Policies in the Oil and Gas Industry in East Africa" *University of Calgary*; Pg. 7

²⁸ Chilenye Nwapi (2015), "Defining the "Local" in Local Content Requirements in the Oil and Gas Mining Sectors In Developing Countries. *Law and Development Review* 2015; 8(1): 187- 216

Local content Application both at national and local community level must observe and pay heed to the fact that the Oil and Gas industry or sector is spread across a value chain of identifiably dissimilar phases that may act as distinct sectors. These stages are exploration, development and production. At every distinct stage of the Oil and Gas sector value chain, different skills, expertise, technical know-how and technology are required, hence possible local content application may be different along the distinct stages of the Oil and Gas value chain. As the Oil and Gas sector grows from exploration to production, the local content inputs are likely to be different with some stages relying more on local content input and others on foreign imported input.²⁹ This position elaborates why both the upstream and midstream oil and gas stages in Uganda have independent laws and regulations governing their national or local content.

Stakeholder approach has been developed as one of the strategies in improving the management of the firm. It also enables understanding reality in order to manage the socially responsible behavior of a firm. Based on *Garriga's* analysis, stakeholder approach is both within the integrative and ethical theories, where the former emphasizes the integration of social demands, and the latter focuses on the right thing to achieve a good society. These are supported by the work of *Mitchel, Agle and Wood*. Where balances among the interests of the stakeholders are the emphases: and the work of *Freeman and Phillips* considers fiduciary duties towards stakeholders of the firms, respectively.

Social contract theory refers to the fundamental issue of justifying the morality of economic activities in order to have a theoretical basis for analyzing social relations between corporation and society. Hence, local content is derived from the moral legitimacy the corporation achieves in the society and understanding about local content is contained in the justification of social actions that legitimize the behaviour of the corporation which focuses on enhancing the welfare of Ugandans or people in the oil and gas sector.

The main rationale behind this theory is to prevent chances of resource curse which is a common phenomenon in many developing countries such as Nigeria, Venezuela,

²⁹ Silvana Tordo, *et al* (2013), "Local Content in the Oil and Gas Sector." *World Bank Study; Washington* Pg. 10

Iraq, South Sudan and many other countries according to *Anderson & Browne A.J*³⁰ this is done through impacting knowledge and skills, providing employment to the local power and helping their communities³¹.

Resource curse theory³² is widely analyzed and explained by the Dutch disease phenomenon which refers to the fact those countries with abundant resources tend to innovate at a slower pace than the resource poor ones³³ due to corruption and bad governance in these countries. These countries are full of political instabilities and economic crisis which is associated with poverty even though these countries are rich in resources since they fail to address the social welfare problem of their citizens since the local content policies are aimed at improving the living standards of people especially those participating in the Oil and Gas sector.

The reasons for this are over dependence on the easy money accruing from the natural resources,³⁴ which undermines the linkages between the various sectors of the economy that usually serve to keep the economy strong and healthy.

Many authors for example *Michael Warner*³⁵, *Silvana Tordo*, *Tracy and Nouri Arfra*³⁶, have extended it to be a problem that often gives rise to corruption and deficit in public governance and sometimes leads to situations of extreme institutional collapse and civil conflicts. This is caused by discontent among the citizens of these countries when they feel that they have not benefited from the countries' resources and this explains the increasing instabilities in resource rich countries like Angola, Nigeria and Liberia that are full of civil unrests.

This backdrop is a major concern not only for governments, international institutions and civil society, but also for the extracting companies, which seek to secure their

³⁰ Anderson & Browne AJ. The politics of Oil in East Africa 5:2, Journal of East African Studies 395.8.

³¹ Marie Claire Aoun and Carole Mathieu, Local Content Strategies in Oil and Gas Sector. However, to maximize benefits to Host Communities (2015) the French institute of international relations page 3.

³² Peter Megillah Gwayaka, local content in oil and gas, an assessment of Uganda's legal and policy Regimes (A code policy, Briefing paper series No 28 2014, Kampala) 2

³³ Jeffrey D Sachs & Andrew M. Warner, "The Big Push, Natural Resources Booms and Growth," (1997) of Development Economics 59.

³⁴ Jeffrey D Sachs & Andrew M. Warner, "The Big Push, Natural Resources Booms and Growth," (1997) of Development Economics 59.

³⁵ Local Content in Procurement. Creating Local Jobs and Competitive Domestic Industries in Supply Chain (Sheffield, Greenleaf Publishing 2011.)

³⁶ National Companies and Value Creation (World Bank Working page no 218, 2011) page 8

investments by building long lasting partnerships with the host countries and ensuring that the welfare of the citizens of those states and countries are catered in their living standards through creation of employment opportunities , skilling them through education and training and purchasing locally made products from citizens as a way of enhancing their living standards through empowering them economically and requiring the companies to procure locally produced goods from the local market.

In order to ensure that resources generate benefits for the local economy, there is a need for the creation of productive sectorial linkages in the economy aimed at lifting all vital sectors of economy together to avoid the lagging behind of sectors for example education and agriculture which are crucial to the growth of the economy through the promotion of local content strategies in the country. There has been adoption of local content development policy referred to as content requirement.³⁷This has made local content to become a priority strategy. This has been achieved through enactment of more stringent legal provisions and following the advice of international institutions issuing recommendations and Oil and Gas companies making commitments to review and improve their practice.³⁸

Uganda's situation is no different from the rest of the developing extractive industries in other areas around the world for example Ghana and Nigeria.³⁹Uganda is also prone to political corruption and lack of transparency which in most cases is a product of bad governance and impunity of leaders and it ranks Uganda as one of the most corrupt countries in the world.⁴⁰ Uganda needs stringent macro and micro economic policies to enable the economy sustain the negative impacts that petroleum might have on the economy⁴¹.

³⁷ Marie-Claire Aoun and Carole Mathieu. Local Content Strategies in the Oil and Gas Sector. How to Maximize Benefits to Host Communities, The French Institute for International Relations pg.4

³⁸ Ado Rabiou, Local Content Policy and WTO Rules of Trade Related Investment Measures (TRIMS): The Pros and Cons, (2013) International Journal of Business and Management Studies 137-146.

³⁹Maira& Martini 2014 Local Content Policies and Corruption in the Oil and Gas Sector. U4 Anti-corruption Resource Centre, September pg. 6.

⁴⁰ Report of Transparency International of 2018.

⁴¹Muhwezi, et.al, Crafting an Oil Revenue -Sharing Mechanism for Uganda. (A Comparative Analysis Policy Research Series, No 30, 2009 Kampala)

Several African countries have adopted the LCPs most notably Angola, Nigeria and Ghana. Uganda also in its bid to enhance LC measures in the Oil and Gas industry, adopted the National Oil and Gas Policy⁴² which is in place to ensure optimum national participation in oil and gas activities⁴³. Among its strategies is the promotion of the participation of the country's entrepreneurs in providing goods and services to the sub sector as a way of optimizing the contribution of oil and gas activities to the overall development of the country through promotion of employment of Ugandans in the oil and gas sector and promotion of technology transfer of the country⁴⁴ aimed at ensuring the enhanced living standards of the people.

1.0.3. Conceptual Perspective

The spate of major Oil and Gas discoveries in Uganda in recent years has seen much talk. As the Oil and Gas sector ramps up in the country, the government has striven to create local content policies to benefit local people and the local economy according to the Independent, October 2013. Additionally, in an environment of falling prices, lack of skilled labour and poor infrastructure, local content laws and policies affect this nascent sector in the country. The challenge of creating market for the locally made products through procurement strategy must be balanced with the right to promote investment but at the same time ensure that the locally manufactured goods are of high quality and e this created through providing for the locally procured goods and hiring and procuring goods from local companies and this will improve the living standards of people in the oil and gas sector. MoEMD.⁴⁵

Uganda Government has in place the 'National Oil and Gas Policy NOGP. Secondly, the country has in place the upstream and midstream laws to govern and regulate the Oil and Gas sectors, but the downstream bill is still being considered by parliament according to *Megillah*.⁴⁶ It is important for these laws and policies to

⁴²Ministry of Energy and Mineral Development, National Oil and Gas Policy for Uganda. (February 2008)

⁴³Ibid Objective 7.

⁴⁴Oil and Gas policy, supra (note 16) viii.

⁴⁵ MOEMD, National Oil and Gas Policy for Uganda, pg. 15.

⁴⁶Peter Megillah Gwayaka, Local Content in Oil and Gas, An assessment of Uganda's Legal and Policy Regimes (A Code Policy Briefing Paper Series No.28, 2014, Kampala 2.

provide for citizen participation and safeguard citizen's roles in the Oil and Gas sector. However, the challenge for Uganda today is how to create effective local content laws and policies that work for all stakeholders in the Oil and Gas sector, and which promotes development of the country.

Oil and Gas Companies in the Albertine Graben work to maximize participation of local businesses within supply chain to ensure the Oil and Gas sector creates positive impacts on the economies and lives of local communities aimed at improving the welfare of people in the Oil and Gas industry. Through local content policy the companies are committed to local sourcing of goods, services and expertise to build up local through education, knowledge and skills transfer so that local people can benefit from development of natural resources.

Local content in Oil and Gas sector in Uganda broadly focuses on involving citizens in the sector. This is through training and building capacity for citizens, technology transfer in addition to employment and service provision. The development of the Oil and Gas sector will result into significant opportunities in other sectors. It is necessary to use these opportunities and the investments therein to create as much value as possible in the country through national participation. This can be through shareholding in licenses and provision of goods and services by the country's business community. It is therefore necessary for the country's private sector to acquire and develop the skills necessary to participate in this sector according to the National Oil and Gas policy for Uganda, 2014 in order to effectively improve the social welfare of people in the oil and gas industry.

The researcher looked at how local content policies can help in reducing the level of employment in the country and ensuring that Hoima and Uganda certainly benefit from the newly discovered resource of oil and gas especially the ordinary Ugandans to enhance the welfare of Ugandans.

1.0.4. Contextual perceptives

Local content is going to be looked at in terms of employment opportunities for the Ugandans, skilling of Ugandans, buying Ugandans goods and building infrastructures for Ugandan population and this will help the country to attain highest levels of economic development and growth among ordinary citizens of the country.

Conclusively, irrespective of the presence of a local content policy within Uganda whether adequate or insufficient, the level of achievement in application of the same LCPs is yet to be fully determined especially in oil producing districts like Hoima. It should be noted that whereas literature exists that pronounces the basic form of Uganda's LCPs, it lacks a true analysis and critic on performance of the same policies. These concerns formulate the relevance for conducting this research.

1.1. STATEMENT OF THE PROBLEM

The discovery of commercially viable quantities of Oil and Gas deposits has stirred hiked levels of expectations and excitement among local residents of Hoima District. Those levels of expectation are attributable to a prognostic anticipation that the commencement of Oil and Gas activities will stimulate unprecedented levels of economic growth and sustainable development within the local communities and Uganda. The World Bank report ⁴⁷ notes that, Uganda may consider adopting a socialist approach to implementing local content policies by giving special consideration to the localities where the Oil and Gas and exploitation takes place aimed at boosting the welfare of people therein.

This approach may help to address wider socio-economic problems associated with Oil and Gas development especially in the Albertine Graben. The Government may also consider adopting a regional approach, which enables to pull their resources together to jointly address the skills problem facing the country and thereby help one another. Given the enormous Oil and Gas skills gap in the country, it may help to avoid the imposition of stringent local content targets on Oil and Gas companies operating and, instead, adopt an incremental and compartmentalized approach that takes stock of what skills are available, in what compartments at any given time and set their local content targets accordingly.

According to the *World Bank* ⁴⁸ delivering local benefits to the communities where Oil and Gas companies operate is no longer an option. It is a commercial necessity

⁴⁷ World Bank Report 2014. Human Capital for the Oil and Gas and Minerals Industries, Science Technology and Skills for Development, March 2014, page 1.

⁴⁸ World Bank Report 2014. Human Capital for the Oil and Gas and Minerals Industries, Science Technology, and Skills for Development, March 2014, page 1.

which is increasingly mandated by law in many countries. In the new competitive landscape of diminishing supply and increasing demand for energy resources, Companies in the Oil and Gas sector face rising expectations to do more than simply mitigate negative impacts, serve as sources of tax or royalty revenue and act as good neighbours.

The above aspiration revolves around the possibility for the emerging Oil and Gas sector to spearhead employment opportunities, improvement of diverse infrastructure including roads, schools, health facilities and general improvement in the standards of living within Hoima District. However, it has been recorded in a multitude of resource rich countries that exploration, development and production of Oil and Gas bears with it many adverse impacts including the paradox of plenty that culminates into the Dutch disease. This negatively affects resource rich communities like Hoima District more than other parts of the country.

1.2. RESEARCH OBJECTIVES

1.2.1. General Objective

To analyze the promotion and effectiveness of local content policies in Uganda's oil and gas sector with specific insight into the policy applications in Hoima District.

1.2.2. Specific Objectives

- i) To assess how effectively Uganda's national or local content policies have been applied particularly within Hoima District.
- ii) To analyze whether and how the local population in Hoima District has benefited from Uganda's national or local content policies.
- iii) To identify what measures or arrangements should be put in Hoima District for its residents to fully benefit from Uganda's local content policies

1.3. RESEARCH QUESTIONS

- i) How has Uganda's local content policies been applied in Hoima District?
- ii) What benefits have so far been attained by the local population from national/local content policies in Hoima District?
- iii) How effective are the current local content laws and policies?
- iv) What actions should be undertaken by the residents of Hoima District in order to fully benefit from Uganda's national/local content policies?

1.4. THE RESEARCH FRAMEWORK OF THE STUDY

There are two types of frameworks, the theoretical which deals with the ideal and real situation of the research problem and the conceptual framework which deals with how the research variable interacts to form the existing problem and upon that basis I will use the conceptual framework because shows how the dependant, independent and intervening variables interact which makes it easy to solve the research problem.

1.4.1. Conceptual Framework

A conceptual framework helps to postulate or hypothesize and test certain relationships which improve the understanding of the situation.⁴⁹ My conceptual framework is based on the understanding of how Hoima District in the Oil and Gas sector is affected by the local content policies. Local content policies will be the independent variable while the implementation of policies in the oil and gas sector will be the dependent variables as these policies greatly influence the social welfare of the society. However, the study will adopt the theoretical framework to explain the variables and interactions of the research items.

1.4.2. Theoretical Framework

This research adopts the framework in solving the research problem, theoretically local content policies in the Oil and Gas sector must be implemented in order for the people of Hoima to benefit from the industry. However, there have been lots of complaints and failures of the system of implementation.

1.5. JUSTIFICATION

The principal justification for carrying out research or any study is to provide proof for a theory and inform action. Further it is in order to make contribution towards the development of knowledge in a specific field of study.

In Uganda, the indigenous firms are gaining the slightest percentage of the oil and gas procurement costs.⁵⁰ This makes the efficacy of the local content policies to lie in a balance. There are also severe perception gaps within the indigenous firms

⁴⁹ Sekaran, U & R Business Research Methods 2003.

⁵⁰ Auditor General, n14.

concerning their role in growing the Ugandan the Oil and Gas sector. There is a requirement for observed particulars if strategy and institutional interventions are to ever build up the involvement of indigenous firms in Uganda's Oil and Gas sector to foster direct value benefits to the economy by the sector.

1.6. SCOPE OF THE STUDY

The study was divided into three perspectives, these include Content, Time and Geographical scope.

1.6.1. Content Scope

This study focused on examining the effectiveness of implementation of local content policies and their implementation in Uganda's oil and Gas sector, A case study of Hoima District in terms of enhancing welfare of Ugandans in the oil and gas sector. The study will assess the effectiveness of L.C implementation in Hoima District looking at various laws relating to National Content and their implementations in areas of employment and procuring goods from locally available firms.

The study focused on the Upstream, Midstream, stages of Uganda's Oil and Gas industry basing on the fact that the regulations in place capture the big part of these stages in the industry. More so it is where most opportunities lie for the citizens of Uganda to participate fully through different entrepreneurial ventures that are sustainable to both the host government and different stakeholders in the industry.

1.6.2. Time Scope

The study considers a period of 10 years spanning from 2009 up to 2021, the time period from 2021 when the discovery of commercially viable quantities of Oil and Gas reservoirs up to the time the regulations affecting Oil and Gas industry of Uganda came into effect with the most recent one which is the National Local Content Regulations of 2019.

1.6.3. Geographical Scope

This study was carried out in Uganda and the research focussed on Uganda's as country in terms of assessing its Oil and Gas industry. Uganda is found in East Africa neighbouring Kenya in the East, Tanzania in the south and D.R. Congo in the west,

South Sudan in the North and Rwanda in the south-western part of East Africa. It's located in the heart of Africa in the central sub-Saharan region of Africa. Its Oil and Gas fields are located near the part of Uganda and D.R. Congo.⁵¹

The Albertine Graben stretches from the border with Sudan in the north to Lake Edward in the south, covering an area of 20,000 sq. km, and extends into the Democratic Republic of Congo.⁵² Whereas the Albertine Graben straddles over multiple Districts, commercially viable deposits of oil and gas have so far been discovered in Buliisa District, the newly established Kikuube District and Hoima District which is the commercial hub of the region.

A slight proportion of the Albertine Graben is also situated in the northern region of Uganda at its border with DRC. This Graben is also comprised of Lake Albert and River Semliki. Hoima District that constitutes the case study areas of this project is situated right in the middle of the Albertine Graben and preferred as a center for coordinating offices of the different multinational Oil Companies such as CNOOC, Tullow Oil and Total E&P.

It is worth noting that majority of future Oil and Gas installations and infrastructure are to be constructed in Hoima District which include and are not limited to an Oil refinery and the East African Crude Oil Pipeline that will commence in Hoima District traverse through central Uganda, northern, central and eastern Tanzania up to Tanga Port located at Tanzania's coast along the Indian Ocean.

Hoima City is also described as a center for recreation and social amenities as well as a commercial business hub. It is therefore unsurprising that Hoima District is a home to advocacy activities and a center for Corporate Social Organisations (CSOs), Non-Governmental Organisations (NGOs), socioeconomic and environmental equity in the Oil and Gas region. It is therefore without doubt that the cash flows, worker migrations and direct exploration activities have had effects on the local community.

⁵¹ McKnight, Tom L; Hess, Darrel (2000), "The Internal Processes: Graben". Physical Geography: A Landscape Appreciation. Upper Saddle River, NJ: Prentice Hall. p. 417. ISBN 0-13-020263-0.

⁵² Kashambuzi, Reuben, J. (2010), "The Story of Petroleum Exploration in Uganda 1984 – 2008: A Matter of Faith." *Impro Publications Ltd, Kampala, Uganda.*

This adversity further highlights the need to promote local content application specifically within Hoima district albeit not at the expense of national content promotion for the entire country. Hence this study will concentrate on how local content policies have been applied for the benefit of residents and local businesses in Hoima District, the achievements registered so far and the pitfalls encountered.

1.7. PURPOSE OF THE STUDY

The purpose was assessing the implementation of L.C.Ps in Hoima District as case study.

1.8. SIGNIFICANCE OF THE STUDY

1.8.1. To Policy Makers

- i) The study will help to illustrate and recommend practical solutions to the policy makers. Through the extensive research carried out, policy makers will be able to learn more of how to assess the degree of implementation of local content master plan with an objective of growing guidance for building up local content policies so as to grow the involvement of local firms in the oil and gas sector.

- ii) It further facilitates the indigenous firms, as the study avails a possibility for them to extract their scheme and impediments to reverse linkage that the Uganda should deal with as a way of growing their involvement in the procurement of the oil and gas sector.

1.8.2. To the Researcher

To articulate the problems hindering the local content strategies and develop recommendations for strengthening the local content policy for enhanced participation of indigenous firms in the Oil and Gas sector.

1.8.3. To Students

To learn more about the issues concerning local content and how it affects the living standards of those involved in the oil and gas sector of Uganda

1.9. CHAPTER SYNOPSIS

1.9.1. Structure of the Research

The study is divided into five chapters.

1.9.2. Chapter One (Introduction)

This Chapter introduces the study, present an overview of the background, problem statement, Justification, Research Objectives and Questions, Significance of the Study, Conceptual Framework, Chapter Synopsis and the Limitations of the Study.

1.9.3. Chapter Two (Literature Review)

This Chapter reviews the existing literature explaining what is meant by local content, the need for local content , Research and development, promotion of Registration and licensing , competitiveness of the local firms , promotion of compliance , business development , use of locally produced goods , procurement procedures ,operational base, standardization, exclusive local tendering , the reasons for and against local content procurement requirement in enhancing the living standards of people in the Oil and Gas industry. The Section looks at the practical decisions and perceptives in the formation of local content policies, looked at the hindrance and challenges facing the effective implementation of local content procurement regulatory regime in enhancing living standards of people in the Oil and Gas industry of Uganda.

1.9.4. Chapter Three (Methodology)

This Chapter looks at the research methodology, Research design, Study population, Research Instruments, Data sources, Way of analyzing data and Research, Ethical considerations and Limitations of the Study.

1.9.5. Chapter Four (Data Analysis)

This Chapter analyses and discusses the questionnaires and the interview response rate, it will present an analysis of the main findings of the study, including the interpretation and the discussion of the findings thereof.

1.9.6. Chapter Five (Summary, Conclusion and Recommendations)

The Conclusions and Recommendations section presents the Summary of findings, limitations of the study, recommendations as well as outlines areas for future research.

CHAPTER TWO LITERATURE REVIEW

2.0. INTRODUCTION

This Chapter handles the Literature Review basing on the objectives highlighted through reviewing scholarly work that is related to the topic in question, identifying the gaps therein that the research in question seeks to bridge. LC implementation policy requirements are further explained with reasons why they are important. The objectives of the study will be handled separately and identified as the discussion flows.

A multitude of factors tend to influence the successful implementation and application of national/local content policies especially within host communities. The current state of epistemology includes laws, journal articles, textbooks among others advancing views on what it takes to establish and implement LCPs with approaches that would maximize benefits to host communities while minimizing absurdities that tend to ensue in absence of protective measures for communities such as Hoima District.

Uganda as a country that is newly developing its Oil and Gas industry has the mandate to ensure that some of the policy measurements in the Oil and Gas industry like LCP that see the success of the industry at large are adopted and put in place. The topic in question that is meant to be handled by this study is meant to establish and portray how best the effectiveness of LC procurement requirement regulatory regime is handled in Uganda's Oil and Gas industry with the emphasis of analyzing how effective this aspect is in enhancing welfare of people in the industry.

Reviewing literature involves the systematic identification, location and analysis of documents containing information related to the research problem being investigated. The activity of literature review involves location, reading and evaluating reports of research as well as reports of observation, discussions and opinions that are related to the individuals planned research project.⁵³

⁵³Barifaijo, K., Basheka, B. and Oonyu, J. (2010) How to Write a Good Dissertation Thesis, 1st Edition, The New Vision Printing and Publishing Company Limited, Kampala.

According to *Hart*⁵⁴, literature review is “the selection of available documents on the topic which contain information, ideas, data and evidence written from a particular standpoint to fulfill certain aims or express certain views on the topic and the effective evaluation of these documents in relation to the research being proposed”.⁵⁵

This Chapter therefore presents the theoretical framework of the research and review of relevant previous research. Supply chain management integrates supply and demand management within and across companies and businesses in Hoima District.

Therefore my literature review begins with the broad literature on what constitutes a “local” business entity or local supplier and subsequently an analysis on the relationship between the Local Supplier and Other International Businesses Operating in the Country, in general, providing an insight and analysis to identify any gaps, trends, ideas and theories as highlighted by Saunders.⁵⁶ The affirmative action theory guided this study to highlight the need for positive discriminatory local content strategies in developing local firms’ opportunities for participation in Oil and Gas sector procurement process.

Anna et al in their thesis stipulated that the Oil and Gas resource, like every other resource, is finite. Nations are increasingly becoming preoccupied with improving the chances for local businesses to participate in the exploitation of resources, especially resources in the extractive industries like mining and Oil and Gas since it aims at enhancing the welfare of Ugandans in the Oil and Gas industry. This is because of a global belief that the resources in these industries drive economic growth and can help lift a nation out of poverty.⁵⁷ *Tordo*⁵⁸ in the same view explains

⁵⁴ Saunders et al., “Research Methods for Business Students” Pearson Education, e-resource Robert Gordon University, Research Methods Module Notes at <http://campusmoodle.rgu.ac.uk/view.php?id=77818> (accessed on 18th August 2021)

⁵⁵Hart, C, *Doing a Literature Review: Releasing the Social Science Research Imagination*. London: Sage Publications 1998.

⁵⁶ Saunders, n 49

⁵⁷ Esteves A. M. B, Coyne and A. Moreno. *Local content Initiatives: Enhancing the Sub National Benefits of the Oil, Gas and the Mining Sectors*. Briefing, Natural Resources Governance Institute for Science and Technology .2013, 1089-1009

⁵⁸Tordo Silvana Warner, Manzano Osmel , E, and Yahya , *Local Content Policies in the Oil and Gas Sector* (The World Bank, Washington DVC.2013) 1.

that in order to obtain benefits for their countries, policy makers usually design various policies to guard their nations interests often backed up with increasing local content.⁵⁹

A National content study in the Oil and Gas sector in Uganda commissioned by Government in 2018 put the share of national content during the then on-going exploration phase at around 15% overall and showed that Uganda needs to adopt several measures in order to successfully promote national content according to MoEMD, 2018. Most Ugandans are likely to be employed only for casual jobs due to a lack of necessary qualifications, thus limiting the benefits that can accrue to them from the sector according to International Alert, 2013. Furthermore, emerging industry and media reports are calling for the revision of the national content provisions in the Petroleum Act and Production Sharing Agreements (PSAs) citing inadequacies and contradictions relating to procurements of local goods and ownership of local firms.

The regulatory regime is broken down into The Petroleum (Exploration , Development and Production) Act 2013, The Petroleum (Refining, Conservation, Transmission and Midstream Storage) Act 2013, The Petroleum (Exploration, Development and Production) (National Content) Regulations 2016, The Petroleum (Refining, Conservation, Transmission and Midstream Storage) (National Content) Regulations 2016⁶⁰, The National Local Content Bill of 2019, Access to Information Act , 2005 and the National Oil and Gas Policy 2009. These will be reviewed and analysed on how best they have been adopted and the local content promulgated as a key aspect thereby demonstrating how effective this aspect is handled in Uganda at large when it comes to enhancing the welfare of people in the Oil and Gas industry.

⁵⁹Tordo Silvana Warner, Manzano Osmel , E, and Yahya , Local Content Policies in the Oil and Gas Sector (The World Bank, Washington DVC.2013) 1.

⁶⁰The Petroleum (Refining, Conservation, Transmission and Midstream Storage) (National Content) Regulations, 2016

The Petroleum (Exploration, Development and Production) (National Content) Regulations 2016 (Upstream National Content Regulations) provides for two definitions of national content as follows:

- i) *“The level of use of Ugandan local expertise, goods and services, Ugandan Companies, Ugandan Citizens, registered entities, businesses and financing in petroleum activities*
- ii) *The substantial combined value added or created in the Ugandan economy through the utilization of Ugandan human and material resources for the provision of goods and services to the petroleum industry in Uganda”⁶¹*

These same definitions above are reiterated by the Petroleum (Refining, Conversion, Transmission and midstream storage) (National Content) Regulations 2016⁶² (Midstream National Content Regulations).

The National Local Content Bill whereas not yet accented into law by the President of Uganda differs slightly in definition wherein it mentions local content and not national content. It provides that, “local content includes the quantum or percentage of locally produced goods, locally provided services and utilization of personnel, financing, goods and services by a local content entity in any operation or activity carried out in Uganda.⁶³

The use of various strategies and performance standards by developed countries to influence economic growth among various local industries is a prodding trend.⁶⁴ Ado⁶⁵ in his article stipulates that various nations such as Canada, in their automobile industry, Australia in their automobile and tobacco industries and several European countries in their automobile and electronics industries have employed the use of policies such as local content requirements, or export

⁶¹ Section 4, Petroleum (Exploration, Development and Production) (National Content) Regulations 2016

⁶²Section 4, Petroleum (Refining, Conversion, Transmission and midstream storage) (National Content) Regulations 2016

⁶³ Section 2, National Local Content Act, 2020

⁶⁴Tordo Silvana Warner, Manzano Osmel , E, and Yahya , Local Content Policies in the Oil and Gas Sector (The World Bank, Washington DVC.2013) 1.

⁶⁵ Ado Rabiou , Local Content Policy and the WTO Rules of Trade-Related Investment Measures (TRIMS): The Pros and Cons, 2013. International Journal of Business and Management Studies 137-146.

performance to their advantages.⁶⁶ *Kazzazi et al* in their stipulated thus those countries like United Kingdom, Norway, Brazil, Malaysia and Trinidad and Tobago are often touted as local content successes in the Oil and Gas industry.⁶⁷

Kazzazi et al continued to portray that the use of these policies and their proper implementation has benefited these nations and played a vital role in their industrial growth and economic development which has been an example to other oil producing and exporting entities to take positive approaches towards local content development to increase the benefits from Oil and Gas extraction aimed at enhancing the welfare of Ugandans in the Oil and Gas sector.

2.1. Capacity Development and Competitive Level of Local Companies Compared to the Foreign Companies

Local content development is believed to depend on capacity and competitive level of local companies compared to the foreign companies. It is assumed, that even in the face of the regulations favoring the local firms, the foreign oil companies will choose to engage local companies provided they offer higher value services in terms of cost-effectiveness and efficiency.

This is in other words what can be referred to as the competitive advantage of local firms which partly leverages this study. The literature of *Heum, et al.*, factors that are crucial for competitiveness. These include macroeconomic stability and predictability, adequacy and quality of infrastructure for business development including public utilities such transport modes, telecommunications, electricity, water supply; and supportiveness of institutions such as taxes, interest rates, exchange rate.⁶⁸

It is worth noting that, the capacity of a locality to be able to supply skilled labour, quality goods and services and any other local content inputs will depend on its level of industrialization and development. This will often determine the extent

⁶⁶ Ado Rabiou , Local Content Policy and the WTO Rules of Trade-Related Investment Measures (TRIMS): The Pros and Cons, 2013. International Journal of Business and Management Studies 137-146.

⁶⁷AbolfaziKazzai& Behrouz Nouri. A Conceptual Model for Local Content Development in the Petroleum Industry 2012. 2 Management Science Letters. page 2166,

⁶⁸ Heum, P. Kasande, R., Ole, F.E and Nyombi, A. (2011). Policy and Regulatory Framework to Enhance Local Content. Yardsticks and Best Practice: Paper presented at The 5th Conference & Exhibition on the Petroleum Potential and Investments Opportunities in East Africa Revenue.

to which the host communities will benefit from local content interventions. Whereas some communities in developed nations may benefit from developing their own Oil and Gas industry, most host communities especially in developing countries will attain more benefit through use of local content interventions to diversify other sectors of the local economy.⁶⁹ It is a point of general agreement that Sub-Saharan Africa meets major obstacles in regard to supply of specialized skilled labour and advanced technology necessary for the oil and gas industry.⁷⁰

This phenomenon is even more prevalent in local host communities within resource rich regions for example Hoima District in Uganda. In itself this is prohibitive to local content application especially in these host communities; none the less, these shortcomings should not blind a government's efforts to put in place LCPs that are beneficial to districts like Hoima.

Chilenye Nwapi (2016) states that,

*“East African countries may consider adopting a localist approach to LCPs by giving special consideration to the localities where the oil and gas exploitation takes place since they bear the brunt of oil and gas activities. This approach may help them to address wider socio-economic problems associated with oil and gas development and curtail on possible uprisings and political conflict.”*⁷¹

The above assertion is given meaning in law by the Petroleum (Exploration, Development and Production) Act 2013 (Upstream Act), which provides for the recruitment and training of Ugandans in all stages of petroleum activities giving key consideration to gender, persons with disability and host communities.⁷² Further elaboration is provided wherein it is stated that host communities “refers to the inhabitants of the district in which petroleum activities take place,”⁷³ this undoubtedly includes Hoima District. To note however, the Petroleum (Refining,

⁶⁹ Ana Maria Esteves, Bruce Coyne, Ana Moreno (2012), “Local Content in the oil, gas and mining sectors: Enhancing the Benefits at the Subnational Level.” Pg. 5

⁷⁰ Chilenye Nwapi (2016), “A Survey of the Literature on Local Content Policies in the Oil and Gas Industry in East Africa” *University of Calgary*; Pg. i

⁷¹ Chilenye Nwapi (2016), “A Survey of the Literature on Local Content Policies in the Oil and Gas Industry in East Africa” *University of Calgary*; Pg. ii

⁷² Section 126 (2), Petroleum (Exploration, Development and Production) Act 2013

⁷³ Section 126 (3), Petroleum (Exploration, Development and Production) Act 2013

Conversion, Transmission and midstream storage) Act 2013 (Midstream Act) does not specifically provide for special consideration of host communities in local content application.

Tordo et al, argue that industrial capacity is one of the most important factors for policy makers to consider when designing a local content policy.⁷⁴ According *Heum et al*, the level of technology and the industrial base of a country shape the type of policy required to promote local content. If a country's local content strategy is focused on the promotion of local procurement, for example, national and local service companies must have high levels of technology and the country's national industries must be able to meet the standards that international extraction companies require.⁷⁵

Heum et al, argues that, if the strategy of the local content policy is focused on the promotion of local employment, the capacities of available workforce are a key factor to consider.⁷⁶

According to *Tordo et al*, Institutional and legal arrangements also led to capacity development. Hence, extractive sector governance is as an additional factor that matters when designing and implementing local content policy.⁷⁷

Tordo et al. argue that Corruption, lack of transparency and bureaucracy are challenges that countries and companies commonly face which negatively influence local content implementation.⁷⁸ *Nordas et al*, analyse specific case studies of countries that have adopted a local content policy and the general outcomes they have achieved.⁷⁹

These countries include Angola, Brazil, Indonesia, Kazakhstan, Malaysia, Trinidad and Tobago, Brazil, Mexico, Nigeria, Angola and Norway. According to the authors, after adopting specific local content policies, Brazil has successfully increased its

⁷⁴ Tordo & Anouti, Local Content in the Oil and Gas Sector: Case Studies, 2013.

⁷⁵ Heum, n 45

⁷⁶ Tordo, n 46

⁷⁷ *ibid*

⁷⁸ *ibid*

⁷⁹ Nordas, K. H., Vatne, E., Heum, P. 2003. The Upstream Petroleum Industry and Local Industrial Development: A Comparative Study. SNF Working Paper No. 08/03. Institute for Research in Economics and Business Administration, Bergen

local content quotas. In this scenario, Brazil has emerged as an important actor for implementing local content and permanent monitoring of the compliance of local content targets. Bidding processes incorporate local content requirements and designated institutions monitor compliance according to the national local content framework.

However, even though there has been an increase in the creation of jobs and local industries have been strengthened, Brazil has faced challenges due to the costs of implementing its local content policy, production quota delays, a lack of technology and some issues of corruption. Despite this, Brazil has become a reference for other countries in the region when creating and adopting local content frameworks.

Nordas et al, argue that Mexico's oil and gas industry has a strong history of protectionism and nationalization. Pemex (Mexico's National Oil Company) and the Union of Oil Workers have played a pivotal role in the implementation of local content. Mexico's local content strategy has focused on the development of its national industries through industrialization programmes. Despite the achievement of positive local content outcomes such as the development of a sound and competitive industrial base outside the oil sector and the generation of national jobs, Mexico's monopoly and protectionism over the industry has resulted in some challenges such as reduced exploration levels, a weak technology infrastructure and overstaffing of Pemex among others.⁸⁰

Nordas et al argue that Nigeria has introduced several measures with the objective of increasing local value added, employment and ownership in the petroleum and industrial sector. The Nigerian Oil and Gas Industry Content Development Act was passed in 2010 and subsequently the Nigerian Content Development Monitoring Board was created in order to monitor and enforce the Act.⁸¹ This framework has contributed to increasing ownership in Nigerian National Petroleum Corporation and employment of national labour in skilled, unskilled, professional and managerial positions. Moreover, International Oil Companies have been more active in promoting local content in Nigeria through independent skills development

⁸⁰ Nordas , n 51

⁸¹ *ibid*

programmes. However, because the objectives of the Local Content Act are quite ambitious, Nigeria has faced many challenges during implementation in terms of reaching the expected targets. Furthermore, *Ovadia*, argues that Nigeria faces historic challenges such as corruption, weak internal governance and low capacities.⁸²

Angola has been following two strategies, the “angolanization” of the workforce and the domestic sourcing of goods and services. To this end, the Government has created a series of frameworks, especially through decrees and PSAs. Sonangol (country’s National Oil Company) has played a key role during the implementation of these strategies, which has resulted in the achievement of targets such as the increment of national jobs (unskilled, mid and upper level) with higher rates reported on unskilled and administrative staff.

Tordo et al, argue that the lack of experience of local and national firms has been a challenge that foreign firms have faced.⁸³ Furthermore, *Ovadia*, reported that weak governance, conflict of interest and the danger of local content reinforcing the power of the country’s elite are some of the challenges faced by Angola that influence the way in which local content is implemented.⁸⁴

Finally, some literature focuses on countries that have achieved mostly positive outcomes and that have developed local content policies to expand their oil and gas sector internationally. For example, in reviewing the case of Norway and the path it took to implement local content policies, *Heum* highlights the uniqueness of this case since Norway had strong institutions and an industrialised economy before oil and gas was discovered.⁸⁵ These factors enabled Norway to focus on the participation of its national industry within the oil and gas sector first nationally and

⁸² Ovadia JS. Local Content Policies and Petro-Development in Sub-Saharan Africa: A Comparative Analysis.

⁸³ Tordo , n 46 & Anouti, Local Content in the Oil and Gas Sector: Case Studies, 2013.

⁸⁴ Ovadia , n 54

⁵⁷ Heum, P. C. Quale, J.E. Karlsen, M. and Osahon, G. (2003). Enhancement of Local Content in the Upstream Oil and Gas Industry in Nigeria - a Comprehensive and Viable Policy Approach, Bergen: The Institute for Research in Economics and Business Administration, SNF-Report 25/03, 2003

then internationally. *Easo et al* identify as another key factor for Norway (and also for the United Kingdom) its highly educated workforce with technical competence in manufacturing, shipbuilding and engineering.⁸⁶

Notwithstanding, the Norwegian and British cases offer few lessons for countries that do not share these characteristics, as is the case for Africa and Latin America. *Byaruhanga* argued that, Ugandan Local SMEs, have been identified with inadequate institutions and regulations.⁸⁷ *Heum et al* also argued that Uganda is faced with limited investment capital and inadequate financing which includes limited working capital, insufficient equity and expensive credit cost. All these have characterized inadequate capacity.

Heum, et al opine that it is also evident that SMEs in Uganda lack international quality certifications in the procurement processes especially for transport and logistics supplies are complex where as the cost of production is high.⁸⁸ These challenges have also been stressed in the country's National Development Plan. The magnitude of challenges is likely to vary across SMEs depending on their age and size measured in terms of fixed assets value and investment capital.

Abuka, argues that it is suggested that with time business enterprises tend to discover and develop long term survival strategies and advance from their capital developments over time. Business maturity reduces tendencies of risk averseness and crafting of risk mitigation procedures.⁸⁹ *Mwakali* reports that many Private Sector Apex Institutions have responded to the obvious needs for capacity building of the companies by educating best practices to the business community; training in fundamental business skills, calculating costs, keeping of proper accounting records and certification of skills.⁹⁰

⁸⁶ Easo and Wallace (2014)

⁸⁷ Byaruhanga, H., P. Mwakali, P. and Ekern, O.F. Enhancing Local Content in the Oil and Gas Industry in Uganda, 2011.

⁸⁸ Heum , n 45

⁸⁹ Abuka, C.K., Egesa, C.A., Atai,A and Abeona, M. . Firm Level Investment: Trends, Determinants and Constraints: Research Series No.47, Economic Policy Research Centre, Kampala, 2006.

⁹⁰ Mwakali, J.A. (2011). "Local Content in the Oil and Gas Industry: Implications for Uganda", in J.A. Mwakali and Alinaitwe (eds.), Proceedings of the 2nd Conference on Advances in Engineering and Technology, Entebbe, Uganda, 31 January-1 February 2011

Tullow Oil, the Oil Extraction Company, took lead in implementing the interventions towards promoting local content in Oil and Gas and the same policies have been continued under Total E&P which acquired Tullow Oil's interest in the Ugandan Oil and Gas Sector. Total E&P has streamlined local content development in its operations.⁹¹ The company's interventions have focused on building a dynamic supplier base which can take part in the Uganda's oil industry's supply chain. The capacity building activities have entailed; closing-the-gap seminars and business development advisory services to local SMEs, provision of information to suppliers regarding available business opportunities in the oil and gas industry.⁹²

The valuable, lessons from benchmark cases such as Norway, the UK, Canada and Malaysia, are limited in terms of their applicability to countries with entirely different contexts, such as those in Africa and Latin America where poor governance, corruption, a weak industrial base and workforce are specific challenges faced by their oil and gas sectors. This is majorly because the stage of economic and social development of these countries is another aspect that influences the policy-making process.

While African countries have been actively discussing the adoption of local content policies during recent years, Latin American countries have adopted different strategies to promote local content as part of their productive policies, although they have not developed specific frameworks for the Oil and Gas sector.

Both Latin American and African Oil and Gas producing countries have been involved in this dynamic for years and have achieved different kinds of outcomes. Hence a comparative study of these cases is required to draw out relevant lessons for other developing countries with similar contexts. Currently, this is still an important gap in research as far as comparisons across cases are concerned.

My dissertation represents an initial attempt to fill this gap and provide lessons that can be transferred between countries and regions. Currently, this is still an important gap in research as far as comparisons across cases is concerned.

⁹¹ Tullow Oil (2012).Tullow Uganda Country Report: Creating Shared Prosperity in Uganda, 2012

⁹² Ovadia , n 54

My dissertation represents an initial attempt to fill this gap and provide lessons that can be transferred between countries and regions where governance, anti -corrupt, strong industrial base and workforce are achieved in the oil and gas sectors.

2.2. Capacity Development

The motive of capacity growth in encouraging procurement involvement by local firms has gained few analytical and comparative studies. *P Arthur et al*, states that few reviews acquired in this study tend to suggest that there is increased involvement of local firms in the oil and gas sector of Ghana. This will be intensified through successful execution of local content policy on capacity development.⁹³ Similarly Nigeria officially announced that Local Content Policy has made big contributions to technological capacity development of oil.

This has brought about the servicing SMEs together with the firms, leading to participating in a type of relationship which has toughened their engrossed capacity extent. This relationship incorporated the technological and management skills that has moved Nigeria and improved the country's capability in winning projects, bids and contracts. *Unam, J M Agorzie et al*, argue that the system has also raised the intensity to quickly deal with industrial standards and matters of quality productivity.⁹⁴

Brand M V's study shows that, in both developed and developing economies where teaching projects were carried out, the outcomes have been good in enhancing domestic awareness so as carry out important necessity for involvement in the oil and gas sector.⁹⁵ This purpose of capacity building is key in improving the capabilities of local capacity in becoming a part of the Oil and Gas procurement is seen in Angola where capacity development strategy and accounts are a necessity. However, in countries like Indonesia, Trinidad and Tobago where capacity

⁹³ P Arthur and Emmanuel Arthur, Tertiary Institutions and Capacity Building in Ghana. Challenges and the Way Forward (2014)

⁹⁴ Unam, J M Agorzie, CJ & Asaolu T.O, Local Content Policy and Technological Capacity Buildings of SMEs in the Nigerian Oil & Gas Industry. Energy Technology and Infrastructure for Development (2015)

⁹⁵ Brand, M, V, Local Content Policies in the Oil Industry; A Comparative Analysis , Thesis, Politecnico Di Milano University (2017)

development strategies and accounts are not given special importance, the development of domestic capacity has been moderate.

Brand M V further reports in Nigeria and Kazakhstan, show, they could not successfully lessen the skill gap brought about by foreign employment quotas.⁹⁶ *Teka Z's* longitudinal study in Angola revealed that between 1990 and 2003 only 1,581 high-skilled professionals and 1,111 medium-skilled professionals through its programs and by 2008 the number of high-skilled graduates reached only to 1,790.⁹⁷

Teka Z attests to the relationship between capacity building and procurement participation, their generalization in the Ugandan context is limited.⁹⁸ It is therefore necessary that this study is undertaken to examine the influence of capacity building on procuring the participation local firms in the seemingly nascent state of O&G sector of Uganda.

2.3. Partnerships

Ihua, U.B reports that a critical analysis of the present state of writings on partnerships and procurement participation within the Oil and Gas sector suggests some correlations between the two features.

Partnerships form because of the characteristics of high budgets and high risks in the Oil and Gas. *Oyewole B* reports that consequently there is an increase in the number of SME local that are partnering for joint ventures in the Oil and Gas sector even though forming trust, unclear roles, responsibilities and alignment to common goals were notable issues faced in Oil and Gas partnerships.⁹⁹ *Leahy J* reports that substandard explanations during initial levels of the projects between parties, and whether the share division of the benefits will be proportionate to the risk they are taking can also open up to the liability in the execution and outcomes.¹⁰⁰

⁹⁶ Brand M V, Local Content Policies in the Oil Industry; A Comparative Analysis , Thesis, Politecnico Di Milano university (2017)

⁹⁷ Teka, Z; Linkages to Manufacturing in the Resource Sector; The Case Scenario of the Angolan Oil and Gas Industry ,37 Resources Policy (2012)

⁹⁸ Teka, Z; n, 23

⁹⁹ Oyewole, B; Best Practices in Local Content Development Strategy; The Nigerian Experience, 2015

¹⁰⁰ Leahy, J; Local Supply Policy Tests Petrobas ; Financial Times <http://www.ft.com/o/a2f51e12-60ad-11e1-84dd>

Oyewole B observes that short and long-term relationships within partnering arrangements have to be dealt with accordingly to avoid pitfalls and any untoward relationship that could be costly.¹⁰¹ *N Changarawe* also reports that the same line, lack of business partnerships was the key limiting factor for local firms to supply goods and services in the oil and gas sector in Tanzania.¹⁰²

Although the above literature is informative on the relationship and challenges in partnership or alliances attribute on technology transfer, their generalization in the Ugandan context is limited. It is necessary that a study is undertaken to examine the influence of partnerships/alliance on procurement participation by local firms in Uganda's Oil and gas sector which is still nascent.

2.4. Research and Development

Technology movement needs particular technologies to be moved on non-commercial terms and/or specific levels and types of research and development to be carried out domestically. This is particularly because it contains major deliberations connected to capacity growth, growth of partnerships, research and growth. *Unam J M et al* report that technology movement affects procurement involvement in the Oil and Gas and that a limited number of oil servicing firms that deal in research and development activities do not have individual research and development department.¹⁰³ That notwithstanding, a narrow industrial base, underdeveloped capital markets and inadequate power supply still subsist as big limits to bring about technological capacity building of SMEs in the petroleum industry.

This study will advocate for partnership with foreign firms, provision of cost-friendly loans, and deregulation of the power sector. The above writings are insightful on the relationship and challenges of research and development. The attribute on research and development on technology transfer, and the generalization in research and development in the Ugandan context is limited.

¹⁰¹Oyewole B, n 62

¹⁰² N Changarawe, Participation of Local Suppliers in Oil and Gas Industry in Tanzania

¹⁰³ Unam, J M , Agorzie, C J & Asaolu T, O. (2015) Local Content Policy and Technological Capacity Building of SMEs in the Nigerian Oil & Gas Industry. Energy Technology and Infrastructure for Development ,352-368

2.5. Promotion of Business Competitiveness and Local Firms' Participation in the Procurement Process for Oil and Gas Sector

Objective three of the National Local Content Policy envisages development the competitiveness of Ugandan enterprises as suppliers and joint venture partners. Key actions to this effect include promotion of business registration and licensing, promotion of Compliance, Business Development and promotion of financial access.¹⁰⁴

2.6. Promotion of Registration and Licensing

One of the actions in the National Local Content Policy of Uganda is to encourage Uganda businesses to formalize through registration and licensing of enterprises. A number of studies on this action for promotion of business competitiveness reveal mixed experiences. A Nigerian study by *Ihua*¹⁰⁵ found that SMEs which strived to comply with the national laws and tax regime and specifically procurement guidelines and manufacturing standard reported growth in business deals in the Oil and Gas sector.

*Giroud et al*¹⁰⁶ contend that effective procurement participation by local SMEs in the O&G sector requires not only promotion of business registration but also supervision and monitoring by the national authority charged with promotion of local content.

According to *Byaruhanga et al*¹⁰⁷, the informal nature of local firms' initiatives affects their governance. Their findings further reveal that a big number of the firms in Uganda (85%) had no accounts with formal auditing companies due to poor records management and limited willingness to reveal economic results. This limits compliance to the requirements to supply of goods and services for the Oil and Gas sector.

¹⁰⁴ National Local Content Policy for the Petroleum Subsector in Uganda 2017

¹⁰⁵ Ihua, U.B. (2010). Local Content Policy and SME Sector Promotion: The Nigeria Oil Industry Experiences. *International Journal of Business and Management*, 5(5), 3-13.

¹⁰⁶ Giroud, A., Jindra, B., & Marek, P. (2012). Heterogeneous FDI in Transition Economies Advancing an Overall Approach to Assess the Developmental Effects of Backward Linkages. *World Dev.*40, 11.

¹⁰⁷ Byaruhanga, H., P. Mwakali, P. and Ekern, O.F. (2011). Enhancing Local Content in the Oil and Gas Industry in Uganda

Formal requirements are often strict when working with the Oil and Gas sector implying that staff competence be documented. *Byaruhanga*¹⁰⁸ found out that two of three firms they surveyed did not have one full time employee with formal training in health, security and environment. Three of four did not have any professional engineers in their staff, and only a few had some certification of their business of relevance for the Oil and Gas sector.

Although the literature was insightful on the affirmative action on promotion of business registration and licensing and procurement participation, its generalization in the Ugandan context was limited. This study strives to provide empirical evidence on if efforts to register and license SMEs has resulted into significant procurement participation in the embryonic Oil and Gas sector of Uganda.

2.7. Promotion of Compliance

*Ejiro*¹⁰⁹ for example found that a few interrelated segments of the Oil and Gas value chain stimulates goods and services for local SMEs than the general contractors. His findings further reveal that local SMEs can compete favorably in the Oil and Gas sector procurement process if only they comply with national laws and business best practices.

*Giroud et al*¹¹⁰ contends that effective procurement participation by local SMEs the O&G sector is enhanced through effective monitoring of compliance by the concerned government agencies in Venezuela. *Adedeji et al*¹¹¹ also affirm that affirmative action on promotion of compliance of SMEs to national laws resulted in significant local SMEs participation in procurement and significant local value added.

Although the literature is insightful on the affirmative action on promotion of compliance among SMEs and procurement participation, its generalization in the Ugandan context was limited. This study strives to provide empirical evidence on

¹⁰⁸ Byaruhanga , n66

¹⁰⁹ Ejiro Blessing Inubiwon, *Developing Small and Medium Enterprises in the Nigerian Oil and Gas Sector*, (2017)

¹¹⁰ Giroud, A., Jindra, B., & Marek, P , n 65

¹¹¹ Adedeji, A.N., Sidique, S.F., Abd Rahman, Z., HookLaw, S., & Law, S.H. (2016). The Role of Local Content Policy in Local Value Creation in Nigeria's Oil Industry: A Structural Equation Modeling (SEM) approach. *Resources Policy* 49, 61-73

if the efforts to promote compliance of SMEs has resulted into significant procurement participation in the embryonic Oil and Gas sector of Uganda.

2.8. Business Development

Business development according to the Uganda Local Content Policy aims at facilitating business development programs for Ugandan enterprises in the Oil and Gas industry. This will be achieved through development of business development programs in procurement, business counseling, management and technical assistance to build the capacities of Ugandan enterprises in the oil and gas industry.¹¹²

An empirical case study by *Asiago (2017)*¹¹³ reports that affirmative action by Petroleum Development Oman's focusing on Local Community Contractors program aimed to share the benefits of its operations with the local community by engaging the community contractors through contract work foster SME competitiveness and participation in the Oil and Gas sector. This was achieved through appointing a business consultant to guide them in developing their business plans and management systems that meet industry standards; sending experienced staff members to each of the companies to help them better understand Oil and Gas operations; allocating industrial plots and workshops; and purchasing all the necessary equipment to execute the assigned work.

*Ejoro (2017)*¹¹⁴ equally reports that efforts to promote business development through joint ventures and supplier development efforts were in position to win a good deal of procurement tenders in the O & G sector. A Ghana study by *Ablo (2016)*¹¹⁵ reports that the policy to promote business development in Ghana resulted into a 10% local SMEs participation in the Oil and Gas sector.

The literature findings on promotion SMEs business development and procurement participation could not be generalized in the Ugandan context. This study strives to

¹¹² National Local Content Policy for the Petroleum Subsector in Uganda, 2017

¹¹³ Asiago, B.C. (2017). Rules of Engagement: A Review of Regulatory Instruments Designed to Promote and Secure Local Content Requirements in the Oil and Gas Sector. *Resources*, 6 (46), 1-19.

¹¹⁴ Ejoro Blessing Inubiwon, n 68

¹¹⁵ Ablo, A.J. (2016). From Local Content to Local Participation: Exploring Entrepreneurship in Ghana's Oil and Gas Sector' Dissertation; University of Bergen

provide empirical evidence on if the business development effort has resulted into significant procurement participation in the embryonic Oil and Gas sector of Uganda.

2.9. Finance Access

The National Local Content Policy of Uganda targets improved access to financing by Ugandan enterprises to supply goods and services to the oil and gas industry¹¹⁶ (National Local Content Policy for the Petroleum Subsector in Uganda 2017). It has always been argued that access to financial services is a key success factor in promoting local SME competitiveness in the Oil and Gas sector as SMEs were less likely to access financial credit compared in IOC. The financial challenges are also exhibited in restricted access to finance by local SMEs due to lack of significant collateral requirements, and lack of the knowledge and skills to prepare attractive business plans for loan proposals.

It has also been noted that financial access is a key factor on entrepreneurship or business formation and business growth through participation in business opportunities in the Oil and Gas sector as per *Adewuyi et al.*¹¹⁷ *Ablo* equally noted that the case studies of Ghana entrepreneurial activities show how embedded resources and practices of actors shape local SMEs participation in the Oil and Gas industry.

*Sigam*¹¹⁸ and *Garcia (2012)* in a Brazil study reported that one of the barriers to the expansion of production capacity of the domestic industry in Brazil, as well as to new investments in research and development, is the difficulty, especially for SMEs, in obtaining finance due to the high cost of capital from the private banking sector. In order to facilitate credit for domestic suppliers, the Program for the Mobilization of the National Industry of Oil and Natural Gas supported the structuring of new financing mechanisms and capitalization of the production chain through collaboration with public and private banks.

¹¹⁶ National Local Content Policy for the Petroleum Subsector in Uganda, n 71

¹¹⁷ Adewuyi, A. O., & Oyejide, T. A. (2012). Determinants of Backward linkages of Oil and Gas Industry in the Nigerian Economy. *Resource. Policy*, 37(4),452-460.

¹¹⁸ Sigam, C., & Garcia, L. (2012). *Extractive Industries: Optimising Value Retention in Host Countries*. UNCTAD, Geneva.

To this effect a Program in conjunction with Petrobras and the 11 large banks in Brazil, aimed at making available credit with competitive conditions to the Petrobras supply chain (contractors and subcontractors). It also aims to improve liquidity and financial requirements and more than 40 cross-industry enabling initiatives across six dimensions of human resources, technology and innovation, business development, capital and finance, contracting and tendering, legislation and process improvement which stimulated procurement participation and SME competitiveness *Sigam*.¹¹⁹

Although the literature was informative on the affirmative action on promotion of financial access among SMEs and procurement participation, its generalization in the Ugandan context was limited given the unique Ugandan financial services sector policies.

This study strives to provide empirical evidence on if the efforts to promote financial access among SMEs has resulted into significant procurement participation in the embryonic O & G sector of Uganda.

2.10. Use of Locally Produced Goods and Local Firms' Participation in the Procurement Process for Oil and Gas Sector

Use of domestically manufactured goods and services alludes to the procurement and use of domestically manufactured input materials and development of these materials. This is often identified as a necessary connection which reduces the capital cost that may have been incurred by the former and overextension of the firm. *Teka Z* reported that the use of locally manufactured goods tends to contain affirmative action on simplification of procurement procedures, emphasis on local operational base, standardization of local products through quality assurance and exclusive local tendering.¹²⁰

The National Local Content Policy of Uganda foresees a raised use of domestically manufactured or available goods and services by the oil and gas industry.¹²¹

¹¹⁹ *Sigam*, n 77

¹²⁰ *Teka, Z. (2012). Linkages to Manufacturing in the Resource Sector: The Case of the Angolan Oil and Gas Industry, 37 Resources Policy 466-451*

¹²¹ National Local Content Policy for the Petroleum Subsector in Uganda, n 71

Plans needed to obtain the objective include:

- i) Licensed oil companies, their contractors and subcontractors will implement procurement and contracting methods and practices to empower Ugandan enterprises.
- ii) Secondly licensed oil companies, their contractors and subcontractors will set up operational bases in Uganda.
- iii) Thirdly, there is a requirement to evolve and embrace standards and quality assurance systems for locally available/produced goods and services.
- iv) Lastly, licensed oil companies, their contractors and subcontractors will exclusively tender locally available goods and services to Ugandan enterprises.¹²²

2.11. Procurement Procedures

An examination of the current body of writings lends support for the duty of affirmative action participation local firm on procurement procedures in promoting procurement in the Oil and Gas department. Local content regulations that put first affirmative action on procurement procedures are more likely to obtain beneficial results in respect of employment creation, skills development and the participation of their national industry along the oil and gas value chain.¹²³ *Oyewole* reported that in Nigeria, effective design, implementation and monitoring of procurement procedures resulted into increased value added procurement procedures resulted into increased value added, enhanced entrepreneurial development, improvements in local investment in the sector and overall participation of local SMEs in the Oil and Gas sector.¹²⁴

Adedeji also affirms that affirmative action on procurement procedures resulted in significant local SMEs participation in procurement for works, services and supplies leading to significant local value added. *Ihua*, further, concludes that the legislating local content especially through procurement procedures has had very little positive implication in enhancing SMEs participation in the industry.³⁶ Calls for more

¹²² Ibid

¹²³ Sigam and Garcia, n 77

¹²⁴ Oyewole, B. (2015). Best Practice in Local Content Development Strategy: the Nigerian Experience. Presented at a Regional Workshop and Project Launching on Ameliorating the Structural Effects of Mineral Resources in the Economic Community of Central African Countries, Ndjamen, Chad, 25-30 November, 2015.

effective supervision and monitoring of the policy guidelines by regulatory authorities; lessening the pre-qualification requirements and the conditions for tenders and bid, *Giroud et al* said that there is the need to invest massively in the educational system to promote local firm's procurement participation in Oil and Gas sector has been made.¹²⁵

The literature will point to a significant relationship between affirmative action on procurement procedures and procurement participation. However, their generalization in the Ugandan context is limited. It is necessary that a study is undertaken to examine the influence of affirmative action on procurement participation by local firms in Uganda's Oil and Gas sector which is still embryonic.

2.12. Operational Base

A key emphasis of the local content policy is the need to for Licensed NOC, their contractors and subcontractors will establish operational bases in the explorations country and studies report of mixed findings on its effect on procurement participation. In their study *Adedeji et al* (2014)¹²⁶ conceptualized backward integration to include the level of cooperation between local oil service firms and their local affiliate suppliers through local input development, information exchange, technical upgrading, negotiation of payment and delivery, and labor training.

A Ghana study by *Ablo* (2016) reports that in terms of goods and services provision, the policy mandates that all operators in the Oil and Gas industry shall as far as practicable have a local base and use goods or services produced by or provided in Ghana for their operations. It was the hope of the government that after the commencement of operations, the participation of Ghanaians in value-added would be at least 10% initially, with a 10% increase annually in the provision of goods and services with the policy of having a local base in Ghana. However, *Boyefio and Ochai*, state that the Ghanaian oil industry was dominated by foreign manufacturers or suppliers of goods and services that could ordinarily be made or supplied by local SMEs or firms. They noted that, although most international oil companies profess support for local content, the reality is that they prefer to deal with their global

¹²⁵ Giroud, A., Jindra, B., & Marek, P , n 65

¹²⁶ Adedeji, n 70

suppliers for a number of reasons and are reluctant to break such supplier relationships.

Giroud et al (2012) equally revealed that promotion of local goods and services by establishing a local base in the local content policy in Venezuela resulted into significant improvement in local firm's participation Oil and Gas sector and overall contribution to GDP. However, a Nigerian study by *Ihua* concluded that the legislations on local supplies has had very little positive implication in enhancing SMEs participation in the industry.

The literature on promotion of firm localization in the Oil and Gas sector as highlighted above could not be generalized in the Ugandan context given its unique local content policy and the nascent nature of the Oil and Gas sector. This study strives to provide empirical evidence on local base strategy and its contribution to SME participation in the Oil and Gas sector of Uganda.

2.13. Standardization

To deliver cost savings on projects, operators across the Oil and Gas industry are looking at standardization as a way of simplifying the processes from design and construction through to installation and start-up, in order to create safer, more predictable and reliable facilities that start-up on time and stay up (*Mohammad & Price*). To this effect, one of the strategies is to increase the use of locally produced or available goods and services by the Oil and Gas industry in Uganda is to develop and adopt standards and quality assurance systems for locally available or produced goods and services. On the influence of standardization on procurement participation, *Mohammad and Price* note that since procurement process in the oil and gas industry is a capital-intensive industry and about 90-95% of project costs are paid to contractors and suppliers, to ensure project success.

It is critical that procurement strategies should incorporate and integrate with the standardization in local supplies. Some form of standardization programme and specification reviews must also be included. *Mohammad and Price* further note that a strategic outsourcing, such as in supply chain management must be in place. Finally, a management and incentive programme for all key contractors and suppliers must

exist in order to secure the commitment of contractors and suppliers to the overall success of the project by supplying standardized goods and services.

The literature on promotion of standardization in the Oil and Gas sector as highlighted above could not be generalized in the Ugandan context given its unique local content policy and the nascent nature of the Oil and Gas sector. This study strives to provide empirical evidence on standardization strategy and its contribution to SME participation in the Oil and Gas sector of Uganda.

2.14. Exclusive Local Tendering

The role of exclusive or preferential local tendering in promoting local firm participation in the extractive sector has been emphasized in most local content policies. To begin with, *Ihua* views local content from an angle of ‘community content’; stating that ‘Ultimately, community content is about realizing a competitive advantage for an oil and gas development company in the eyes of both the local population and the country’s guardians of economic policy. He observed two distinct policy strategies for achieving higher local content vis-à-vis: firstly, where the state requires oil companies to give greater preference to those nationals and national suppliers who can compete internationally on cost, quality and timeliness notably what can be termed local content participation.

For instance, the Trinidad and Tobago case, where oil production operators shall give preference to national subcontractors where such are competitive with foreign bidders in skills, availability and price and meet technical and financial requirements; and the case of Nigeria where the proposed LC bill requires about 95 percent managerial and supervisory positions, 100 percent risk insurance and legal services to be handled by indigenous professionals as per *Ihua*.

In Latin America, *Tordo et al* reports that virtually all of the surveyed regimes mandate preference for local goods, services, consumables, works or enterprises. In all of the jurisdictions examined, the IOC has an obligation to give due and proper consideration to preferring locally sourced services and goods when their price, quality, time of delivery and other terms are comparable to internationally available ones.

A related study by Leahy revealed that on overall, reveal that reactive exclusive tendering policy as opposed to proactive ones are believed to hinder Petro bras from achieving its production and financial targets. *Ablo* equally noted that through extensive fieldwork conducted in Ghana's oil industry over a period of three years, the study concludes that Ghana's local content law on exclusive local tendering is largely beneficial to local elites and does not stimulate broad-based social and economic benefits. The case studies of Ghana entrepreneurial activities show how embedded resources and practices of actors shape local SMEs participation in the Oil and Gas industry.

The literature on promotion of excusive tendering as highlighted above could not be generalized in the Ugandan context given its unique local content policy and the nascent nature of the Oil and Gas sector.

This study strives to provide empirical evidence on exclusive tendering strategy and its contribution to SME participation in the O&G sector of Uganda.

2.15. Challenges in Implementing Local Content Strategy

Cerbusca V reported a number of challenges identified in the literature on local content which are classified into capacity gaps, corruption, inefficiencies risks, policy implementation and monitoring deficiency.¹²⁷ *Kazzazi A et al* report that capacity gaps arise on the basis that local entities are not able to provide the required inputs in most low developed economies¹²⁸. *Akpanika* stated that the argument is that it is quite difficult for Local entities to quickly supply specialized goods and services to the oil industry for lack of the technical complexity of producing them, the specific skills required and the large size of the contracts, among others problems. ¹²⁹

Akpanika also states that the capacity challenges are also exhibited in restricted access to finance by local SMEs due to lack of significant collateral requirements, and lack the knowledge and skills to prepare attractive business plans for loan

¹²⁷ Cerbusca, V, Financing SME Future Development. *Economy and Sociology* , 139-142

¹²⁸ Kazzazi, A , & Nouri , B; Conceptual Model for Local Content Development in the Petroleum Industry, *Management Science Letters* 2165-2174
& Nouri, 2012;

¹²⁹ Akpanika, Technology Transfer and the Challenge of Local Content Development in the Nigerian Oil Industry. *Global Journey of Engineering Research* , 11(2),123-131

proposals.¹³⁰ He further reported that corruption has resulted into opportunities for local participation being denied and explored by the economic elites which leads to less efficient than a perfectly competitive environment, thus giving rise to welfare losses. Cases of fictitious companies could equally lead to flaw a procurement process on the basis of local content policy.¹³¹ He also reported inefficiency risks that are widely cited as significant threat in local content policy. This arises from the position that the local content policies are granted by law. A portion of the contracts to local suppliers give rise to a decrease in their incentives to invest in research and development innovation, as the jobs are assured to them, without facing foreign competition.¹³²

Kazzazi reported policy implementation and monitoring challenges, arises from the fact that although policies have been meticulously analysed and ensure a priority for national welfare developments in the long run, it will be hard for any outcome to materialize if the policies are not adequately implemented and monitored.¹³³ Karzai has also argued that the actual implementation process, if done correctly, can be more challenging.¹³⁴ If no formal information flow mechanism is implemented, local businesses and individuals will not be aware of the opportunities in place. When the rules are not clear a number of legal, coordination and financing problems might arise. On the other hand, a lax monitoring process can lead to operators hiding, withholding, or strictly not complying with the legal requirements intentionally.¹³⁵

2.16. SUMMARY OF LITERATURE REVIEW

The review of existing body of research reveals an inconclusive position on the influence of local content policies on procurement participation by local firms in the Oil and Gas sector of developing countries. Like any other developing country, provocations in Uganda's local content development have focused on whether there is sufficient technological local capacity to deal with the employment, goods and

¹³⁰ Akpanika, n 45

¹³¹ Ibid

¹³² ibid

¹³³ Kazzazi , n 44

¹³⁴ Akpanika, n 45

¹³⁵ ibid

service needs for the oil and gas industry. On the other hand, standards of locally produced goods and services to meet the requirements of the Oil and Gas sector remains questionable¹³⁶.

To fill the knowledge void, this study will examine the effect of local content policies specifically; business competitiveness, promotion of locally produced goods/services and technology transfer on local firm's participation in procurement of goods and services in the Oil and Gas sector.

¹³⁶ Peter Magelah Gwayaka, Local Content in Oil and Gas Sector, An Assessment of Uganda's Legal and Policy Regimes

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This Chapter presents the research methodology that will be adopted in carrying out this study. It explains the key components namely research design, study area, population, sampling techniques and procedure, data collection instruments, data analysis, methods of testing the validity and reliability of instruments, data management and analysis techniques that were used in conducting the study.

This chapter also presents and describes the approaches and techniques that the researcher used to collect data and investigate the research problem. They include the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods, data collection instruments, data quality control (validity and reliability), procedure of data collection, data analysis and measurement of variables and the ethical considerations.

3.1. Research Design

The study shall use a case study research design because of the nature of the variables that were at hand, to produce data required for quantitative and qualitative analysis and to allow simultaneous description of views from respondents.

A descriptive cross-sectional survey design was adopted for the study as it permits in-depth study of fundamental themes. This study applied qualitative approaches which involved in depths probe and application of subjectively interpreted data. The quantitative and qualitative approaches were adopted in sampling, collection of data, data quality control and in data analysis. Triangulation was adopted for purposes of getting quality data.

The study used both qualitative and quantitative methods to collect data. In depth information from key informants will be obtained.

Qualitative research design was chosen because it is good for open ended questions. The approach to the study has many qualitative aspects but with inbuilt quantitative variables as well. The specific unit of data collection was a combination of

households and individuals. The study also is based mainly on a review of the literature concerning local content application within and outside Uganda.

3.2. Study Area

The study area is Hoima District which is located in the Western region of Uganda lying between longitudes 33° 48' E - 34° 18' E and latitudes 1° 38' N - 2° 20' N¹³⁷ spurning approximately 241,551square kilometers. Hoima is approximately 200kms northwest of Kampala. Hoima District borders Lake Albert and DRC to the West, Buliisa and Masindi Districts to the North, Kyankwanzi District to the East and Kikuube District to the South. It has to be noted that Kikuube District is a newly formulated Administrative unit that was curved off from Hoima District in 2018.

3.3. Study Population

According to the Population and Housing Census (2014), Hoima District has a projected total population of 572,986 people.¹³⁸ The target population will be community household representatives, political leaders and employees of Oil and Gas Companies who have lived within the boundaries of Hoima District before and after discovery of Oil and Gas.

The study is concentrated on the registered Business community in Hoima District, one hundred eighty (180) community members provide services or products in the Oil and Gas sector that include; food and beverages, merchandise, accommodation facilities and labour (Hoima District Records, 2020).

However out of the one hundred eighty (180) business community service providers, eighty-five (85) are .registered. Therefore, the study population consisted of eighty five (85) locally based registered business community members who were considered knowledgeable on local content policy in Hoima District.

¹³⁷ <https://www.hoima.go.ug>

¹³⁸ UBOS (2017), "National Population and Housing Census 2014 - Hoima District" Government of the Republic of Uganda; Accessed Online > <https://www.ubos.org/wp-content/uploads/publications/2014CensusProfiles/HOIMA.pdf>

3.4. Sampling Techniques and Procedure

3.4.1. Sample Size, Population and Sampling Techniques

The sample size was determined using the statistical table of *Krejcie and Morgan (1970)*. Basing on the total of eighty-five (85), a sample size chosen was seventy (70) respondents.

The study employed the convenience sampling technique. The researcher employed a convenience sampling technique because of its quickness in data collection and according to Amin (2005) it avoids rigidity of proceedings in data collection.

Hoima District is made up of four constituencies/counties namely, Hoima City East, Hoima City West, Bugahya and Kigorobya. I sampled 20 people at random from each county within the District, who will be given questionnaires.

I further conducted face to face interviews with these same sampled people. Sampling was limited to residents of Hoima District only; all other necessary interviews were conducted on the basis of professional participation in the Oil and Gas sector.

3.5. Data Collection Instruments

Primary data was collected from participants using a researcher administered questionnaire designed according to the objectives of the study. Overall, the questionnaire was divided into four parts: The first section sought to gather the demographic characteristics of respondents. The remaining parts focused on gathering data in line with the three research objectives.

In the study, both primary and secondary data collection methods were used. Primary data was collected using questionnaires, observation and interviews. For secondary data from publications, print media (News Papers and Magazines), reports and text books with relevant literature, policy statements from Ministry of Energy and Mineral Development, legislation and the internet was used to complement the primary data findings and triangulate with facts in other Oil producing areas.

Therefore in summary, the instruments that were used in this study included questionnaires, direct observation, interviews, and documentary analysis.

3.6. Questionnaires

Questionnaires were the main instrument used in the study. The questions were prepared in a logical sequence in order to address the research objectives. Possible answers to questions were suggested on the questionnaire. Some questions were open ended to aid possible suggested answers to allow respondents to specify other answers. A questionnaire was preferred for this study to make it possible to ask a series of questions and accommodate other prompts for the purpose of gathering more information.

This method was used to target a wider group of respondents, eliminate bias, and most importantly, to get information that is not readily given face to face, especially community perceptions and attitudes. To avoid misinterpretation of the questionnaire and inaccuracy of answers, some questions were translated into Runyoro-Rutooro a language that am very conversant with for the respondents who may not understand well the English language.

3.7. Observation

Observation is a purposive or intentional examination of something, particularly for purposes of data gathering. During the research process, personal assessments of the situations were done through careful watching and noting of observable facts like change in settlement, economic activities and trends in peoples' livelihood.

It was important to observe the major activities of economic livelihoods in the study area to ease the work of data collection and local triangulation of data.

3.8. Interviews

Personal interviews were used especially for literate employees of the Oil and Gas sector who lacked time to respond to questionnaires. Interviews were also adopted because of the expected degree of illiteracy of part of the study population in the rural areas of the District. Probing questions were also employed to generate deeper understanding. Respondents were allowed to give out any other related information.

3.9. Documentary Analysis

Otto and Onen (2005) describe a Documentary analysis as the "critical examination of public or private recorded information related to the issue under

investigation”.¹³⁹ This method acknowledges the availability of data relevant to the study which served as source material. Different documents which include: publications, annual reports of the Ministry of Energy and Mineral Development, journals, magazines and other literature written by different knowledgeable scholars were examined.

Data on Oil and Gas, Government policies and working papers, and other relevant publications on Oil and Gas was also examined. Documented information is useful because it provides reference on materials used in obtaining information on Oil and Gas for other people who may wish to cross-examine them.

3.10. Data Quality Control

This refers to the measures the study instituted to minimise bias and ensure accurate collection of relevant data. Data quality control lays emphasis on avoiding mistakes during research and ensuring quality of data. The researcher with the help of the Supervisor checked and verified questions and other collected information during the process of data collection to ensure completeness and accuracy.

This involved constant editing of the data and results to ensure a minimal error rate. The researcher submitted the research tools to the Supervisor for approval before deployment. The research tools were cross-checked for errors and consistence and were piloted to ensure that the data collected is relevant, reliable and accurate.

3.11. Data Collection Methods

3.11.1. Validity of Instruments

Validity refers to the truthfulness of findings or the extent to which the instrument is relevant in measuring what it is supposed to measure (*Earl-Babbie, 2013*). The validity of the instrument quantitatively was established using the Content Validity Index (CVI). This involved the expert scoring of the relevance of the questions in the instrument in relation to the study variables. The instruments that yielded a CVI above 0.7 were within the accepted ranges. Index (CVI) was computed using the formula below

¹³⁹Otto V. W and Onen D. (2005), “A General Guide to Writing Research Proposal and Report” Kampala: Options Press

YI - Number of Relevant respondents

Total Number of Items

3.11.2. Reliability

Qualitatively, the reliability of the instruments was established through a pilot test of the questionnaire to ensure consistency and dependability and its ability to tap data that would answer the objectives of the study. The results were subjected to a reliability analysis.

3.11.3. Data Analysis and Presentation

Upon data collection, questionnaires were examined for completeness. Consequently, all completed questionnaires were labelled, coded and entered into the Small Stata (version 12.0). Given the nature of the research questions, descriptive analysis was conducted on all the observations on the respective research questions. Where appropriate, mean scores were used to assess the magnitude of variables.

CHAPTER FOUR
DATA PRESENTATION AND ANALYSIS OF DATA

4.0. Introduction

This Chapter focuses on the presentation and analysis of the study findings. The presentation is done in order of research questions, that is; to identify the services offered by Hoima District Business Community to the Oil and Gas sector, to determine the factors hindering effective participation of business community in the Oil and Gas sector as well as to propose strategies to improve participation of business community in the Oil and Gas sector.

4.1. Response Rate

Out of the targeted population of 70 respondents, 50 respondents agreed to participate in the study, thereby returning a response rate of 71.4%

4.2. Characteristics of Respondents

Table 1: Description of Sample

<u>GENDER</u>		<u>Freq.</u>	<u>Percentage (%)</u>	<u>Cum</u>
	<u>Male</u>	<u>33</u>	<u>66</u>	<u>66</u>
	<u>Female</u>	<u>17</u>	<u>34</u>	<u>100</u>
	<u>Total</u>	<u>50</u>	<u>100</u>	
<u>AGE</u>		<u>Freq.</u>	<u>Percentage (%)</u>	<u>Cum</u>
	<u>1.8-25 years</u>	<u>3</u>	<u>6</u>	<u>6</u>
	<u>26-33years</u>	<u>14</u>	<u>28</u>	<u>34</u>
	<u>34-41 years</u>	<u>19</u>	<u>38</u>	<u>72</u>
	<u>42-49 years</u>	<u>11</u>	<u>22</u>	<u>94</u>
	<u>50 years & above</u>	<u>3</u>	<u>6</u>	<u>100</u>
	<u>Total</u>	<u>50</u>	<u>100</u>	
<u>EDUCATION LEVEL</u>		<u>Freq.</u>	<u>Percentage (%)</u>	<u>Cum</u>
	<u>None</u>	<u>10</u>	<u>20</u>	<u>20</u>
	<u>Primary</u>	<u>14</u>	<u>28</u>	<u>48</u>
	<u>Secondary</u>	<u>18</u>	<u>36</u>	<u>84</u>
	<u>Diploma</u>	<u>8</u>	<u>16</u>	<u>100</u>
	<u>Total</u>	<u>50</u>	<u>100</u>	

Source: Primary Data

The table above indicates that the researcher gave opportunity to various genders to participate in the study. The results from the field indicate that the study

registered most male respondents with 66%. The least were female respondents with 34%.

The study found male respondents readily available as this was done basing on time management, confidence and convenience of the respondents. Men also had the highest percentage of registered service providing businesses to the Oil and Gas sector as compared to women. Majority respondents were those of age group 34-41 years with 38%. The results suggested that the sample was youthful; a good number of business owners had at least attained secondary education.

Table 2: Nationality and Business Conducted

Nationality	Freq,	Percentage	Cum,
Ugandan	32	64	64
Non Ugandan	18	36	100
Total	50	100	
	Freq.	Percentage	Cum,
Participating	29	58	58
Not Participating	21	42	100
Total	50	100	

Source: Primary Data

Table 2 indicates that majority of respondents were Ugandans with 64% while non-Ugandans had 36%. This is in line with the local content implementation framework which ascertained that license must give preference to goods produced in Uganda and services provided by Ugandan citizens and companies that have the capacity to add value and to meet health, safety and environment standards.

4.3. Services Offered by Business Community to the Oil and Gas Sector in Hoima District.

The Section aimed at examining the services offered by Hoima District Business Community to the Oil and Gas sector. The following means and Standard deviation results were obtained from the respondents. The means below are rated using a 5point scale (1-5) where Very frequently (highest) = 5, and Never (lowest) =1

Table 3: Involvement of Business Community in the Oil and Gas Sector

	<u>Freq.</u>	<u>Percentage (° /o</u>	<u>Cum</u>
<u>Real estate</u>	<u>2</u>	<u>4</u>	<u>4</u>
<u>Leisure &Hospitality</u>	<u>3</u>	<u>6</u>	<u>10</u>
<u>Medical services</u>	<u>3</u>	<u>6</u>	<u>16</u>
<u>Transportation</u>	<u>4</u>	<u>8</u>	<u>24</u>
<u>Accommodation</u>	<u>7</u>	<u>14</u>	<u>38</u>
<u>Catering</u>	<u>13</u>	<u>26</u>	<u>64</u>
<u>Causal Labour</u>	<u>18</u>	<u>36</u>	<u>100</u>
<u>Total</u>	<u>50</u>	<u>100</u>	

Source: Primary Data

The findings in Table 3 reveal that the major services offered by the business community in Hoima District are Labour (36%), Catering services (26%) and Accommodation services (14%). One of the respondents noted that acquiring a contract in the oil and gas sector is hard because of the high standards expected; that's why most they can do is causal Labour.

4.4. Factors hindering effective participation of District Business Community in the Oil and Gas Sector.

This Section sought answers on factors that hinder effective participation of Hoima District Business Community in the Oil and Gas sector. The following means and Standard deviation results were obtained from the respondents. The means below are rated using an S point scale (1-5) where strongly agree (highest) = 5, and strongly disagree (lowest) =1.

Table 4: Factors Hindering Effective Participation of Hoima District Business Community in the Oil and Gas Sector

<u>Measurement Items</u>	<u>N</u>	<u>Min</u>	<u>Max</u>	<u>Mean</u>	<u>stcLDev</u>
Limited access to credit	50	1	5	4.18	1
Uncertainty of Future Demand from the petroleum sector	50	1	6	4.02	1.18
Shortage of skilled Labour	50	1	5	3.96	1.12
Unreliable supply of inputs	50	1	6	3.24	1.34
Poor infrastructure	50	1	6	3.14	1.47
Limited information of the contract available	50	1	6	2.84	1.47

Source: Primary Data

The findings in table 4 indicate that the limited access to credit (Mean =4.18 & std. Dev =1.0), Uncertainty of Future Demand from the petroleum sector (Mean =4.02 & std. Dev =1.18) and shortage of skilled Labour (Mean =3.96 & std. Dev =1.12) hinder effective participation of business community in Hoima District.

Other factors that respondents mention as hindrances included administrative bureaucracies, clarity of Oil and Gas certification, inadequate industrial base and small scale and subsistence production were among the reported factors that hindered effective participation of Business communities.

This Section sought answers on the strategies to enhance participation of Hoima District business community in the Oil and Gas sector. Various answers from all groups of respondents were collected and have been analysed as shown in Table 9 below.

Table 5: Strategies to Enhance Business Community Participation in the Oil and Gas Sector

<u>STRATEGIES</u>	<u>Freq.</u>	<u>Percentage (%)</u>	<u>Cum.</u>
Broaden the national education curricula	15	30	30
Promotion of	12	24	54
Development of other sectors in line with oil	9	18	72
Provision of goods from local suppliers	7	14	86
Promotion of	5	10	96
technology sharing			
Ensuring effective			
National Oil and gas policy that promotes	2	4	100
<u>Total</u>	<u>50</u>	<u>100</u>	

Source: Primary Data

The findings in Table 5 reveal that broadening the national education curricula (30%), promotion of partnerships (24%) and development of other sectors in line with oil and gas sector (18%) will enhance participation of the business community in the sector.

4.5. DISCUSSION OF RESULTS

4.5.0. Introduction

This Section presents the interpretation of the results based on the findings of the study and this forms a basis upon which recommendations are made. The main objectives of the study were to identify the services offered by Hoima District Business Community, to determine the factors hindering effective participation of Hoima District Business Community and finally to propose strategies to improve the participation of Hoima District Business Community.

4.5.1. Services Offered by Hoima District Business Community in the Oil and Gas Sector

The findings revealed that the major services offered by the business community in Hoima District are casual Labour. Catering services and Accommodation services. Labour services are offered by DHAM services Limited and Atusa investments limited who have sub contracts with Oil and gas companies like Tullow/Total E& P. The results are in line with Maria & Martin (2014) who referred local content to jobs that are created anywhere in the domestic economy as a result of actions of the Oil and Gas Company.

4.5.2. Factors Hindering Effective Participation of Hoima District Business Community in the Oil and Gas Sector

The study findings indicate that limited access to credit facilities affects effective participation of the business communities. Difficulty in accessing credit is due to stringent conditions attached, too much interest as well as long procedures of getting the loans. In line with the findings, *Grossman (2004)* noted that local businesses that provide services to oil companies are currently necessitated to raise the required operating capital through commercial loans from local commercial banks under difficult financing terms.

The lack of concessionary loans for equity financing of local businesses have made expansion of local businesses to match their foreign counter-part in provision of goods and services to the Oil and Gas sector a difficult undertaking.

A survey commissioned by the joint venture Partners (Tullow, CNOOC and Total) reported that Uganda's Oil sector has the potential to generate up to 150,000 jobs. This same survey however found that Ugandans lack the skills to take up jobs in the Oil and Gas sector which is in agreement with research findings which indicate the limited skilled has hindered effective participation.

The study revealed that limited information on contracts available does not necessary affect effective participation which is line with some scholars. The petroleum sector is characterized by strong global supplier chains with limited entry points for Companies outside of the chain. Moreover, *Tordo et al (2013)* find that

both extractive companies and government sometimes have a tendency to shelter preferred companies from competition.

4.5.3. Strategies to Enhance Participation of the Hoima District Business Community in the Oil and Gas Sector

The study revealed that broadening the national education curricula, promotion of partnerships and development of other sectors in line with oil and gas sector will increase their participation in the sector. *Tordo et al (2013)* agree with the research findings; in order to qualify nationals for the jobs in the value chain, skills development must be a corner stone of LCPs. It's important to note that the more advanced the requirements are, the direr the skills gap is.

Whereas the study findings show that only 5% respondents suggest that promotion of technology sharing will enhance their participation, there is great potential for domestic companies to learn from the extractive sector. *Tordo et al (2013)* suggest that stimulating spill overs may be important not only for local companies that provide supplies to the extractive sector, but also for local industries ability to develop in other directions. The high level of technology complexity and its specialised inputs and knowledge equips these companies with tools that can also be used in other sectors. The transferability of skills can be seen in Norway.

4.6.0. ETHICAL CONSIDERATIONS

The ethical considerations in research involve outlining the content of research and what would be required of participants, how informed consent will be obtained and confidentiality ensured.¹⁴⁰ It deals with protection of respondents' autonomy, maximizing good outcomes while minimizing unnecessary risk to respondents.

The right of respondents to remain anonymous has to be assured to them and respected.¹⁴¹ Respondents pictures will not be added to this research nor will their names if they desire to remain completely anonymous.

Owing to the fact that the world was going through a global COVID-19 pandemic, it was highly imperative to ethically practice SOPs as given by the Ministry of Health,

¹⁴⁰ Mugenda O. M and Mugenda A. G (2003), "Research Methods: Quantitative and Qualitative Approaches" *Nairobi: Acts Press*

¹⁴¹ Otto V. W and Onen D. (2005), "A General guide to Writing Research Proposal and report" *Kampala: Options Press*

in order to limit the possibility of infecting the respondents or myself with the deadly virus.

It was imperative to attain introductory letters from the Institute of Petroleum Studies Kampala and Uganda Christian University in cases where they would be required. This enabled me identify myself fully and clearly as doing research in respect of University requirements for the attainment of a Masters of Laws degree to the respondents in order to dissuade any fears that information acquired from them might be used for unethical purposes. Even the Research assistants, whenever required, were briefed on the ethical considerations to be ensured during data collection. Appointments for interviews were fixed with the identified respondents in order to secure free time and prior consent to participate in this study. Furthermore, data was analyzed and reported objectively without personal bias.

4.7.0. LIMITATIONS OF THE STUDY AND POSSIBLE WAY FORWARD

While organizing and preparing the research study, various constraints or challenges were expected to be encountered throughout the research exercise. These were assumed to bear the potential problems affecting the accomplishment of research activity in relation to the set study objectives. These included the following:

- i) Time shortage due to the busy schedules based on the care with which data has to be collected from the field including questionnaire design, data editing, data coding, data entry and data analysis.
- ii) A low response challenge was expected to arise from the respondents due to differences in the characters and behavior. This may cause delays in answering questionnaires.
- iii) A few appointments for the delivery and or administration and collection of questionnaires might be relegated. People were expected to place first priority on the demands of their jobs and businesses especially due to erratic schedules with ever increasing oil and gas rich opportunities.
- iv) Inadequate funds to conduct the research. This challenge unfolded in many different ways; it is expensive to transport myself and any research assistants I may require to and from Hoima multiple times among other unforeseen expenses. This inevitably makes it difficult to conduct the research.

- v) Other challenges that may be encountered include sickness and accidental circumstances of busy work schedules that may cause unnecessary delays.
- vi) COVID-19 restrictions may also suffice as a challenge, standard operating procedures are supposed to be adhered to, which among others limit human interaction. This would make it difficult to conduct face to face interviews and to congregate as many people as possible for easier accomplishment of the objectives.
- vii) Likert scale is uni-dimensional and only gives 5-7 options of choice, and the space between each choice cannot possibly be equidistant. Therefore, it fails to measure the true attitudes of respondents.
- viii) The use of self-administered questionnaires was also a limitation to the study, no wonder out of the 70, only 50 respondents returned the questionnaires. Thus the respondent controls the survey.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0. Summary

- i) The study found out that the business community is offering services to the Oil and Gas sector like casual labour, catering services accommodation services but on a low scale. In a nutshell these services offered don't require any sort of expertise (low skills required) in the Oil and Gas sector.
- ii) Furthermore, the study revealed that the limited access to credit, uncertainty of Future Demand from the petroleum sector and shortage of skilled Labour in Hoima District business community hindered effective participation. This analysis made the researcher come to a conclusion that effective participation is not being achieved by the business communities due to the lack of information about different segments of the sector.
- iii) The study revealed that broadening the national education curricula, promotion of partnerships, development of other sectors in line with Oil and Gas sector, promotion of technology sharing and ensuring effective National Oil and Gas Policy will increase their participation in the sector. In conclusion if these strategies are put in place the local content policy will achieve tremendous success.

5.1. Recommendations

From the discussions and conclusions aforementioned, the following recommendations are suggested:

5.1.1. Recommendations to the Government of Uganda

The Government of Uganda should focus on developing capacity institutions that will provide support services to the oil and gas sector.

The Government of Uganda should support farmers within the Albertine region especially; Hoima District so that they can meet the demands of the sector. Farming is what Ugandans are good at so they should concentrate on that since that's their edge.

The Government establishes a small business support agency to offer structured support for business community members in areas such as business registration processes, advice for starting a new business as well as provision of loans or credit, it could also offer training on basic elements of running a business. Such a roadmap could promote opportunities stemming from local mining investment. Collaboration between Government, private sector and development partners in building capacity of the Ugandan individuals and enterprises.

The issue of funding the local suppliers is one pertinent issue that should be one of the Government's key support area. The researcher recommends that this should be done to ensure that these suppliers are boosted up in their business. An example is given by *Jeff Baitwa* the three shipping CEO who stipulates that a fund around 200m to 300m USD is sufficient enough to boost the local based suppliers.¹⁴² He continues to establish that such a fund would help local companies to borrow money at affordable rates to participate in the sector. In addition, the fund in question will help the companies to acquire loans at a low cost since the interest rates from other means are usually higher than when the Government itself decides to fund these companies in question. This will allow many participants especially Ugandans to benefit from the Oil and Gas sector.

Baitwa continues to say that local service providers had played a big role in reducing exploration costs. For instance, he said the exploration cost would have been 50% more than it is today. For example, "a truck rent was USD 1,000 per day at the start, today it is USD 350 because there are now more local service providers."¹⁴³

It is highly recommended that the Government takes these issues seriously and ensures there is clear funding and support given to the local enterprises that are to participate in the industry which will help them to boost their businesses and be able to compete with the international counterparts.

Government should make its role in the Oil and Gas industry key in all aspects. Taking an example of the countries discussed in relation to how best they have

¹⁴² The Uganda Chamber of Mines & Petroleum, 'A Case for Local Content' (April, 2016) 15(1) <http://ww.ucmp.ug> accessed on 12th march, 2022 pg 22

¹⁴³ The Uganda Chamber of Mines & Petroleum, 'A Case for Local Content' (April, 2016) 15(1) <http://ww.ucmp.ug> accessed on 12th Feb 2022, pg 22

promoted and developed their LC aspect in the Oil and Gas industry that is Nigeria and Norway as have already been discussed, it is key to note that among these two countries, the Government's role in the Oil and Gas industry made it important to be some of the best examples when it comes to the issue of LC promotion in the Oil and Gas industry.

It should be put into consideration that the industry is capital intensive and some of the best decisions are best made by the government especially where the resources are managed by the government on behalf of the people a case for Uganda as a country. This imposes a mandate on the Government to ensure that the resource is beneficial to the masses in general through good decisions which guarantee good project linkages and inter sectorial development. The role the government has to play cannot be exhausted only to recommend that its role is very vital to see the industry become a success it should be with tangible benefits to the Ugandans from the oil and gas sector.

5.1.2. Recommendations to the Policy Implementers

The Petroleum Authority of Uganda per se has a big mandate and role to achieve and is responsible for a lot of activities in regards to how the Oil companies and subsequent contractors and subcontractors execute their roles. There is need for setting up a serious establishment bigger than the authority as it is known to be. This is through diligent staffing to ensure that the requisite technical support to the Ugandan companies, citizens and service providers are taken care of and the essence of LC in the country is absorbed and promoted therein to in a manner that significantly contributes to improving the social and economic welfare of Ugandans in the Oil and Gas industry through improving their living standards.

The Petroleum Authority needs to always have massive sensitisation programmes concerning all stakeholders affected by the regulations in question. This should be done so as to stop keeping people in the dark towards their respective roles as envisaged in the regulations in place. Through this, seminars should be handled where all the stakeholders in order to bridge the gap of those who would be having issues not only to what is in the regulations in question, but also to how they should relate with other stakeholders under the mandate provided by the Authority as the regulations provide in question. This would help to have a harmonious LC policy

aspect Promotion in the Oil and Gas of Uganda. Credit is given to the Petroleum Authority of Uganda that has of recent launched a campaign whereby it has teamed up with media houses to always update the public on what is transpiring in the Oil and Gas industry of Uganda. Such insights help to curb the queries in the industry at large.

5.1.3. Recommendations to Oil Companies

To make sure that the local content policy work, Oil and Gas companies should provide clarity on their quantitative and qualitative needs in terms of manpower and procurement. The second step is to look at whether the country already has the capabilities necessary to respond to these needs. This will help to narrow down the potential for immediate local participation and identifying the gaps which will need to be filled overtime with specific programmes. This approach has recently been used in Uganda CNOOC Uganda Limited. Total E& P Uganda and Tullow Uganda Operators pty Limited have carried out an extensive “industrial Baseline Survey” and presented their results in a handbook which was published in May 2014.¹⁴⁴

5.1.4. Other Recommendations

It is recommended that there is need to develop a collaborative approach whereby for Government sets up dialogue with Oil and Gas Companies. Government cannot see the full picture alone. In fact the Oil and Gas Companies have a clear interest in becoming involved in the discussion and providing technical advice to public authorities as a way to ensure that the local content requirements will be fit for purpose and will not generate unbearable constraints for their business activities. A collaborative approach should therefore be built on this coverage of interests between the State and the private sector.

It is recommended that capacity building is one of the key developmental aspects as highlighted by the respondents that will make the aspect of LC pertinent in the Oil and Gas industry and how it ensures welfare of people in the oil industry. This can be done through first of all sensitisation of the masses plus effective communication of the opportunities available in the industry in question.

¹⁴⁴ CNOOC, TULLOW, TOTAL (2014): ‘Planning for the Future: A Demand and Supply Study on the Oil and Gas Sector in Uganda.’

This can also work hand in hand through ensuring that there is a boost of the educational institutions in Uganda that have ventured into massive training of the local citizens to acquire the skills required in the Oil and Gas industry per se. In order to boost this cause, there is need for partnerships with some of the educational institutions that are already established so that the people with the zeal to acquire skills can use the opportunity to participate in the industry through the skills acquisition process. This can help to get certified courses that will be key for the promotion of LC in the industry since it will make the local citizens able to compete on international standards.

5.1.5. Suggestions for Further Research

Due to the limitation of time, the same study could be conducted in more detail in future. The content given above cannot be said to be exhaustive, as there is much more in question to be studied. As the global aspects tend to keep changing especially with the aspects of Oil and Gas as an industry, there ought to be new features that are expected especially with how LC as an aspect is dealt with. This makes it relevant to endeavour to do more research on the topic on a later stage so as to ensure that best practices are adhered to within the industry in question.

- i) The researcher recommends further study on the level of business community satisfaction with local content policies in other areas of Hoima District.
- ii) Future research should scrutinize the positive and negative contribution of Local Content Policy in Uganda's Oil and Gas Sector.

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APPENDICES

Appendix A; Questionnaire

Hello, my name is **MUGABI KOLPING FRANCIS**, I *am a* student of Masters of Laws in Oil and Gas Management at Uganda Christian University. In partial fulfilment of the requirements for the degree, I am required to conduct a research in an area of my interest. My interest in this study is “Promoting local content and its application in Uganda’s oil and gas sector. A case study of Hoima District”

You have been sampled to participate in this study and the information you give will be used strictly for academic purposes and will never be used against you or your office. The information got from you will be kept confidential. You are also requested not to write your name on this questionnaire. After filling out the questionnaire, put in the provided envelop and seal it and return to me.

Thank you for your cooperation

Instructions: Please tick or circle the correct answer and then where necessary write or state your answer or the reason for your answer.

1. What is your gender?

MALE	FEMALE
------	--------

2. What is your age range?

18-25	26-35	36-45	45 and above
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3. What is your Nationality?

4. What is the highest level of education you have attained?

Primary	Secondary	Diploma/Tertiary	University	Postgraduate	None

5. Is your business registered?

YES	NO
-----	----

6. Are you involved in providing services or goods or both to the oil and gas sector?

Services	Goods	Both
----------	-------	------

7. What goods and/or services do you provide to the oil and gas sector?

8. Listed below are some of the challenges that may affect your effective participation in the oil and gas sector. Using the above scale indicate the extent to which the following have hindered your participation in the oil and gas sector.

Please tick the number that best indicates your opinion on the questions using the following scale.

1	2	3	4	5
Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree

PARTICULARS	1	2	3	4	5
Limited access to credit					
Uncertainty of future demand from the oil and gas sector					
Shortage of local skilled labour					
Unreliable supply of inputs					
Poor infrastructure					
Limited information on advertised contracts within the oil and gas sector					

9. What other factors have hindered your effective participation in the oil and gas sector? (List them in the space provided below)

10. What strategies should the Government of Uganda adopt to enhance participation of the local population in the oil and gas sector?



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DISSERTATION CORRECTION COMPLIANCE REPORT BY THE CANDIDATE (POST VIVA FORM)

Date:18TH APRIL 2024.....

Name of Candidate: ...MUGABI KOLPING FRANCIS.... Reg. No: RJ20M23/020.....

Title of Dissertation PROMOTING LOCAL CONTENT AND ANALYSING THE EFFECTIVENESS OF LOCAL CONTENT POLICIES IN UGANDA'S OIL AND GAS SECTOR: A CASE STUDY OF HOIMA DISTRICT

SN	COMMENTS BY EXTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	The title could be rephrased to include an aspect of 'analysing the effectiveness of local content policies....'	Title changed to, "Promoting Local Content and Analysing the Effectiveness of Local Content Polices in Uganda's Oil and Gas sector. A Case Study of Hoima District."	Cover page
2	The abstract should be around 330 words illustrating the increasing role of local content in Uganda's oil and gas sector, and what your research aims to achieve	Changes have been made to the Abstract to reduce the words to within the 330 range and further reflect the Examiner's advice.	Page Vi
3	Footnote one is not complete. Ensure that you add full citations. Also, use OSCOLA for referencing	Footnote has been completed, citing the page number as well using the OSCOLA referencing style	Page 1

4	Chapter one, especially Section 1.0.2 is unnecessarily long. Most of the information here could be developed in the literature review chapter. Additionally, no need to discuss the legal and regulatory regime in this chapter	Section 1.0.2 has been shortened and concepts discussing legal and regulatory regime/frame work have been transferred to the Literature review wherein they are fully discussed and analyzed.	Pages 6, 21 and 26
5	The main objective under section 1.2.1 needs to be rephrased	The main objective has been re-phrased to. "To analyze the promotion and effectiveness of local content policies in Uganda's oil and gas sector with specific insight into the policy applications in Hoima District."	Page 14
6	Under section 1.3, add a research question with respect to the effectiveness of the current local content laws and policies in Uganda.	A research question has been added, "How effective are the current local content laws and policies?"	Page 15
7	Chapter two on the literature review, is elaborative	Section 1.0.2 of the introduction was shortened as advised by the examiner and concepts discussing legal and regulatory regime/frame work were transferred to the Literature review wherein they are fully discussed and analyzed.	Pages 21 and 26
8	Under chapter three, there is no need to define a particular research method	Definitions have been removed	Pages 47 and 48
9	Chapter 4 and 5 are good. But the research questions should be adequately answered.	Research questions have been more adequately answered including the newly added research question in section 1.3	Pages 62 - 73 and Pages 74 - 78

SN	COMMENTS BY INTERNAL EXAMINER	ACTION TAKEN	INDICATOR
1	Change Title to reflect application of the local content policies	Title was changed to “Promoting local content and its application in Uganda’s oil and gas industry: a case study of Hoima district.” Please note that the same title has been changed as advised by the External examiner to also reflect effectiveness of local content policies.	Cover page
2	Internal Examiner concentrated on the editorial rather the substantive as the work met his critical criteria	Changes were taken to ensure the work fits form as required by the Internal Examiner and the same was submitted to the examiner for approval.	Entire Dissertation

SN	COMMENTS BY VIVA VOCE PANNEL	ACTION TAKEN	INDICATOR
1	Update your local content statistics from 2011 to the latest.	Statistics were updated to reflect current latest facts and figures as presented in prevailing Local content policies	Page 23
2	Include all Ugandans in the Local content and not Banyoro only	The dissertation concentrates on Hoima District as a case study which is predominantly populated by Banyoro, however it doesn’t specifically mention only Banyoro but all ethnicities that reside within Hoima District. The dissertation concentrates on Hoima district and not just Banyoro as a tribe.	Entire dissertation
3	You work is good in general, you can proceed to making the final book upon incorporating those comments	NIL	NIL

MUGABI KOLPING FRANCIS

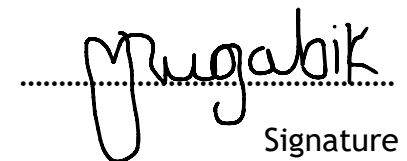
Candidate’s Name



Signature

.....MUGABI...IVAN.....

Supervisor’s Name



Signature