

# SAUDI ARABIA LOCAL LABOUR MARKET LOCAL CONTENT: VALUE CREATION

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White Paper





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This white paper explores the use of 'Local Content' requirements for three main concepts i) government policymaking, ii) public sector decision making and iii) private sector investment, with a very specific focus on the Kingdom of Saudi Arabia.

# INTRODUCTION

The Takamol Advisory Unit has examined the emerging use of 'Local Content' as an increasingly common tool in socio-economic policymaking; one that is certainly aimed at supporting the Saudi Vision 2030 ambitions for both enabling more (and higher-skilled) job creation and the shifting of the economy towards non-oil economic GDP growth, resource-efficient industries, and socially inclusive citizen engagement.

In terms of approach, this paper:

- Focuses on the definition of the term 'Local Content' and explores the reasons why is it suitable for economic development.
- Clarifies and articulates the significance of the meaning of 'local' within this context.
- Develops the knowledge gained from global international benchmarking on public policy and strategies for 'Local Content'.
- Identifies and makes recommendations for both the public and private sectors against sectoral strategies, economic regeneration, job creation, devolution of roles and responsibilities and inward investment.

Local Content is highly relevant to mineral-rich oil and gas producing regions, with higher economic and social dependencies on these two significant factors. Local Content focuses on utilising the larger GDP contributor of a nation's economy and creating a multi-governmental approach to a development strategy aimed at increasing the benefits from the key

contributors. For example, for economies with significant oil and gas sector, national strategies and policies translate the benefits from this sector onto other economic sectors of a given national economy.



## The National Context

The Kingdom of Saudi Arabia is a natural resource economy and mineral-rich nation, with the world's second-largest proven petroleum reserves. It is the largest exporter of petroleum in the world and has the fifth-largest proven natural gas reserves. Saudi Arabia is considered an "energy superpower" and stands in third place with the highest total estimated value of natural resources, valued at USD 34.4 trillion in Jun 2019<sup>1</sup>.

As one of the largest oil-producing nations on earth, Saudi Arabia aims to leverage the extractive value chain. The objective is to generate sustained and inclusive growth through economic diversification, employment and career opportunities, deriving the widest possible community benefit.

Saudi government estimated revenues for the fiscal year of 2020 decreased by 16.9 per cent to USD 205.24 billion against a rise of 1.2 per cent in the previous fiscal year. The ratio of forecasted revenues to nominal GDP is 28.2 per cent, with -7.6 per cent difference from the budgeted figure<sup>2</sup>. In the form of an appetite for growth, Saudi Arabia's Vision 2030 has set ambitious goals for the Kingdom to achieve a qualitative leap in the Saudi economy, including increasing gross domestic product (GDP), developing non-oil private sector participation, reducing unemployment and increasing household savings.

According to the Budget of 2020-2021, published by the Ministry of Finance, data for the first half of 2020 shows a decrease of 4.0 per cent in terms of real GDP. This was a result of the contraction in the real oil GDP by 4.9 per cent, and agreement with OPEC+ to the reduction in oil production in Q2 2020. Likewise, the real non-oil GDP declined by 3.3 per cent during the first half of 2020 due to the domestic and global impact of COVID-19, which clearly affected the performance of the domestic economy, albeit less severely than expected.

The Saudi Vision 2030 expects to increase the non-oil private sector's contribution from 40 per cent to 65 per cent of GDP, an ambitious objective that is being executed thoroughly through creating and developing new emerging industries within the Kingdom. Although it is clear that the COVID-19 pandemic has had a significant negative impact on global economies, including that of the price of oil, we are witness to the decreasing of prices to around USD 54 per barrel compared to USD 71.3 per barrel a year ago. Therefore, the objective of increasing non-oil GDP contribution is even more important as a direct result of the pandemic.

The national unemployment rate of Saudi nationals currently sits at 14.9 per cent, as of Q3 of 2020, compared to 11.8 per cent in Q1 of 2020. This, however, does not consider the full effects of the COVID-19 pandemic on the unemployment rate, the effects of which are likely to be cumulative over the next few months and years.

Although globally, we have entered an unprecedented socio-economic period, the Kingdom, through a range of socio-economic strategies and policies, continues to progress towards the achievement of Saudi Arabia's Vision 2030. This will generate economic opportunities for regional growth, jobs, socio-economic integration and international trade, all of which enable the gradual reduction in the nation's dependency on the oil-economic sector.

<sup>1</sup> 10 Countries with the most Natural Resources', 2019  
<https://www.investopedia.com/articles/markets-economy/090516/10-countries-most-natural-resources.asp>

<sup>2</sup> Analysis and estimations based on the Ministry of Finance Budget 2021

Alongside current interventions and policies for the impact of COVID-19, there remains the overarching strategy for the Kingdom’s ambitions for i) a vibrant society; ii) a thriving economy and iii) an ambitious nation. In order to achieve these ambitions, one of the key factors to be considered is the creation and effective implementation of specific policies that help promote and deliver the full potential that can be derived from Local Content.

Local Content is the total expenditure of the Kingdom of Saudi Arabia on Saudi-related elements within labour and skills, goods and services, core assets, Intellectual Property (IP) and technology.

At a time where Saudi crude oil production, according to Saudi Arabia Monetary Agency’s (SAMA) 56th Annual Report, averaged 9.81 million barrels per day (mbpd) in 2019, making it worth more than 31.15 per cent of the Saudi economic GDP. Therefore, the oil industry is vital to the input of the Local Content policies for the Kingdom. The single most important individual company in the Kingdom, relative to the success of Local Content, is Saudi Aramco.

The oil and gas producing sector in Saudi Arabia is headed up by Saudi Aramco, officially the Saudi Arabian Oil Company, the world’s most valuable company, with revenues of USD 2 trillion. Saudi Aramco is therefore critical to the Local Content ambitions of Saudi Arabia, providing a sizeable direct contribution to inputs of local and imported skills and human resources, as well as a robust supply-chain ecosystem.

Saudi Aramco estimates their In Kingdom Total Value Add (IKTVA) over the next decade to be worth USD 40 billion through just the oil-sector alone. Although important to note, this figure was prior to the COVID-19 crisis, which has affected oil prices globally, and of which the full impact is yet to be realised, particularly as many countries across the

world are experiencing a ‘second wave’ of COVID-19 cases. Therefore, more detailed analysis will be required in terms of the post-pandemic results.

Despite the impact on economics and finance, it is important to note that Local Content does not only focus on the oil-economy. There is still a multitude of government options that could be implemented for national economic impact, and there exist mechanisms to guide and support both public and private sectors in the achievement of Local Content in mineral-rich nations.

As a cooperative made up of 189-member countries, the World Bank has multiple Local Content specific policy approaches. These approaches have been identified as the most dependable and most effective methods for countries with higher extractive industry GDP reliance, and most nations with export and import trade agreement interests to effectively boost the local economy. For the purposes of this document, we will refer mostly to the World Bank case studies, insight, and learnings on policy areas covering manpower, employment and skills and business efficiencies including technology and Local Content strategies. This whitepaper does not put forward an argument either for or against Local Content policies for the Kingdom. It merely identifies the definition, the role and impact to the labour market, future of skills and employment, and raises awareness of the multiplicity of methods in calculating Local Content for government-funded projects and the private sector.

.. the definition of the term 'Local Content' and why is it suitable for economic development...

### What is Local Content Policy?

Local Content Policy (LCP) was created by the extractive industry sectors across multiple economies with the ambition to generate further benefits to their national economies beyond the direct contribution of its value-add. Local Content Policies were first introduced in the 1970s, focusing on the North Sea oil and through designated policy restrictions on imports, trade and state intervention to the sector. From its founding around 50 years ago, there have been mixed results achieved across petroleum-rich countries.

This specific policy (LCP) is quickly impacted by fast-paced economic changes and technological complexities. The high levels of ambition for Local Content, exacerbated by bottlenecks from possible bureaucratic approaches and not enough supply, usually end in results that are heavily impactful to both employment and output trends across multiple business sectors. A World Bank Study in 2013 reported Local Content as potentially creating economic distortions and inefficiencies and, in some cases, even promoting perverse behaviours and possible areas of corruption.<sup>3</sup>

To better understand the policy, it is essential to establish a clear definition of the policy’s significance. Local Content is defined by the value of oil and gas extraction itself, and the supply-value it holds against other sectors, such as refineries, construction, and chemicals. In domestic economic terms for the Kingdom of Saudi Arabia, the supply from the extraction-economy, and oil and gas production for the Kingdom, will help boost local employment and increase local purchases by these sectors that incorporate other non-oil industries, such as construction, services and manufacturing occupations or suppliers.

The Saudi Vision 2030 created a critical strategy roadmap for Local Content predominantly to realise the benefits of the creation of new economic powerhouses, the establishment of brand-new sectors, and the multiplier values of the mega-projects being invested in. Given the value and size of these government investments, and for the purposes of leading these cross-governmental efforts, following the establishment of NAMA the more recent Local Content and Government Procurement Authority (LCGPA) was founded in 2018 to develop all Local Content aspects for the benefit of the national economy, and improve government procurement operations and monitoring based on applicable regulations and laws.

The triangulation of the Saudi Vision 2030 targets focuses on the ambition to grow the private sector by 20 per cent by 2030, from a baseline of 43 per cent in 2015. It is expected that the core values in achieving this are to focus on investment, the balance of payments (BoP), Gross Domestic Product (GDP) and employment.

The Local Content and Government Procurement Authority (LCGPA), holds a clear mandate to be the driving force for the growth of the private sector and Local Content development. This will be achieved by formulating policies and regulations, identifying key target areas, measuring, and reporting the impact of local content, participating in the strategic procurement process, designing and refining government procurement procedures and citizen engagement.

The Local Content and Government Procurement Authority has announced that it will focus its efforts more specifically on the following aspects of policy and public leadership<sup>4</sup>:

- Drafting policies and strategies and suggesting laws relevant to developing Local Content and enhancing government procurement.
- Identifying performance indicators to mea-

<sup>3</sup> ‘Local Content Policies in the Oil and Gas Sector’, World Bank, 2013

<sup>4</sup> LCGPA’s jurisdiction: <https://lcgpa.gov.sa/en/AboutUs/Pages/Tasks.aspx>



sure Local Content and government procurement contributions towards achieving developmental and financial targets.

- Setting Local Content requirements and targets for procurement by government entities and following-up on their performance.
- Including Local Content requirements within highly profitable activities.
- Contributing to developing government procurement procedures and activities to meet Local Content targets and enhance government procurement processes.
- Participating in identifying government procurements required by more than one government entity and following up on the execution of unified procurement agreements.
- Participating in preparing Local Content requirements for privatisation projects.
- Encouraging the private sector to contribute to developing Local Content.
- Managing civil works contracts for government entities as part of the Economic Offset Programme and supervising their development and execution.
- Negotiating with foreign entities to transfer (localise) technology and develop Local Content, by setting relevant regulations and procedures.
- Working with the Ministry of Finance to develop and update a database of suppliers and manufacturers to support LCGPA's targets.

At the national level, the LCGPA Unit has developed an essential definition for Local Content for the Kingdom alongside a robust methodology to calculate the baseline and set targets for the overall economy. This definition is also in line with an evaluation and monitoring process to measure Local Content factors across public expenditure related business and government contracts within the Kingdom of Saudi Arabia.

LCGPA will work with both legislators and policymakers across government directly to support Local Content policy processing and

vision-setting. The Unit will engage with key stakeholders in the public and the private sector.



## Government and Semi-Government Entities

To achieve the public-spend measurements more specifically, the LCGPA Unit has built a model for supplier purchasing and for specific works and services procurement procedures across the government-funded eco-system.

The LCGPA team works alongside the relevant government entities, where LCGPA aims to increase Local Content in their own spend by setting Local Content targets, integrating Local Content in the government's procurement laws and being the centre of expertise to provide support on Local Content topics for government entities.

## Private Sector

As for the working arrangements with the private sector, LCGPA aims to enter strategic partnerships with industry leaders to support the implementation of Local Content programmes, provide support and guidance and promote robust working arrangements to raise awareness of methodologies and systems in their companies to increase their Local Content contributions.

## The Citizen

LCGPA will also aim to influence households to direct their consumer spending towards local products and local services. This will be achieved through national campaigns, awareness and educational pamphlets, advertising and branding by more specifically labelling leading initiatives. Examples of these would be through a 'Made in Saudi Arabia' labelling of products or the possibility of seasonal pro-local campaigns or stamps and accreditation for endorsed affiliations, all of which are established methods of initiat-

ing Local Content purchasing.

The household – the citizen is made aware that the reason for such activity is to ensure that by the purchasing of goods from a local supply company, sellers and producers also buy domestically produced inputs to produce their outputs. This is intended to further create an ecosystem of local produce, local suppliers, local income, local consumption and local economies – the Local Content chain.



## Labour Markets for Local Content

Local Content in the context of the labour market is not only about local recruitment, but also the share of employment and the household income, whereby the local population will spend on domestically produced goods, and thus create more jobs, potentially increasing sales within many sectors, and increasing locally supplied products at each stage of this chain.

It is evident that a number of definitional matters need to be recognised when discussing Local Content policies, including ‘what is the local community’, and the local purchasing powers. More specifically, who are the local households, citizens and the producers or suppliers.

Whilst the designation and practice of these Local Content policies differ on a country-by-country basis, the objective, overall, is to give priority to national, domestic companies and locally produced material in the procurement and purchasing of goods and services across each nation – managed within a national context.

In terms of the reason for Local Content, there are multiple intentions for national governments to create policies and strategies to increase Local Content. Nevertheless, the main and overall objective is to increase domestic value-add by substituting imported goods, services and workers for domestically produced goods, services and workers and

thus creating more local labour markets by replacing imported or foreign-based labour and enterprise for domestic labour and enterprise. The definition here, of Local Content is the most frequently cited of all objectives of Local Content policies as per the World Bank study on Local Content in the oil and gas sector.

..there is a significance to the meaning of ‘local’ within the context of Local Content.. While there is an agreed definition of Local Content, there remains no agreed universal definition of what constitutes the vocabulary for ‘Local’. However, the way in which the word is defined strongly impacts the scope, measures and policy design, as stated by the Organisation for Economic Co-operation and Development (OECD).

From a policy perspective, some countries have adopted a narrow definition whereby ‘local’ relates to the immediate vicinity surrounding the extraction activities of that specific nation. In that sense, local employment would only refer to jobs available for people originating from that particular regional area. Similarly, suppliers would qualify if they originate from the community directly impacted by the extraction activities. From a public administration perspective, the vagueness of this definition and its approach would possibly deem the policy too complex to monitor, model and evaluate.

The much broader definition or use of the word ‘local’ may also make it difficult to mea-

sure the impact of local employment accurately. Therefore, suggesting that a more precise definition may be required to determine the term ‘local’ legitimately when used for policy calculations or implementation.

The Oxford Dictionary refers to the word ‘local’ as ‘relating or restricted to a particular area or one’s neighbourhood’. This terminology can still be used and interpreted in multiple ways and can cause challenging debates in terms of what a neighbourhood or particular area is and who the citizens living in that boundary are, and more importantly what statuses they fall under.

Local Content is, therefore, as already evidenced, a complicated concept (Sigrid et al., 2011) and there remains a gap in the definition and the theories behind it. Given the nature of the complexity of defining the term ‘local’, policymakers have had to provide guidance at the discretion of the nation pursuing Local Content policies. Most countries define Local Content in their own words, with some countries even using other terms, such as in Oman, where they use “In-Country Value” to define the policies (Muscatdaily, 2012).

Nigeria, for example, defines Local Content for its own purpose as: “The quantum of composite value added to or created in Nigeria through the utilisation of Nigerian resources and services in the petroleum industry, resulting in the development of indigenous capability without compromising quality, health, safety and environmental standards” (Menas, 2008). While South Africa defines Local Content as “the proportion of the tender price which is not included in the imported content, provided that local manufacturing does take place within the borders of South Africa” (the DTI, 2016). In Ghana, the Local Content and Local Participation Bill 2013 was passed in November 2013 by the Ghanaian government to stipulates that in terms of employment Ghanaians would be prioritised for work in the petro-

leum industry.

As such, under labour market interests, another complexity then arises in the definition of national worker vs. imported foreign workers and those who have migrated from other countries, and who are recognised as local workers as they are registered as residents. The nationally living and working citizen is, therefore, also a challenge to the definition of local. Therefore, such definitions result in complex challenges when setting targets regarding local employment, local work, enterprise, income, or local procurement objectives when creating a Local Content policy.

For policymakers exploring Local Content, ‘local’ has been perceived to refer to all the relevant stakeholders, within the national context of the resource-rich nation, or those whose business is headquartered, or registered within the country’s borders. For this reason, all citizens, and any suppliers anywhere in the nation would be considered as ‘local’.

Nevertheless, a key common approach, which has been universally accepted, is that Local Content means using local resources or domestically produced goods and services. More relevant to this whitepaper and for the purposes of the Kingdom of Saudi Arabia, Local Content has been defined as the total spend in the Kingdom of Saudi Arabia on Saudi components within labour, goods, services, assets, and technology; a definition clarified and confirmed by the LCGPA.

... global international benchmarking on public policy and strategies for Local Content indicate the complexities in the terminology used for Local Content policy making...





### International Benchmarking

Alongside the strategy and objectives of the Kingdom-based LCGPA, it is of value to consider international experiences for policy making and meet Local Content requirements, utilising examples from key developing economies, emerging economies, and advanced economies.

<b>Developing economies</b> Nigeria, Tobago and Trinidad, Ghana
<b>Emerging economies</b> South Africa, Brazil, Malaysia
<b>Advanced economies</b> Australia, Norway, Canada

Norway remains the lead nation in terms of Local Content. Since the late 1970s, when foreign operators started entering the Norwegian industry, they were strongly encouraged to form research and development (R&D) partnerships and joint development programmes with Norwegian companies and institutions, thus engaging in Local Content growth. Overseas firms’ commitment to and strategies for technology transfers were made as a crucial and determining factor in the licensing process by the Ministry of Petroleum and Energy, once again putting

Local Content programmes at the heart of investments.

The Governmental policy has meant that Norwegian oil and gas supply companies developed leading class, state-of-the-art technologies and, as a result, many international companies have located part of their R&D chain in the country. The competencies and technological expertise developed as a consequence of Norway’s Local Content policy also strengthened its position within the international oil industry.

Australia has developed specific provisions to address the concerns and challenges to the indigenous communities. In Australia, Local Content is understood to mean policies that are targeted to respond to the concerns of certain ethnic groups and to develop the socio-economic conditions of historically disadvantaged citizens.

Nigeria, for example, has initiated the Nigerian Content Development and Monitoring Board (NCDMB) by the Nigerian Oil and Gas Industry Content Development (NOGICD) 2010 Act. The Act is a regulatory policy that allows for key requirements to be established for a corporation in Nigeria. The key thrusts of the NOGICD Act are to include policies requiring oil companies to employ only Nigerians in junior or intermediate positions. Nigerian Local Content targets include 80 per cent of manpower and supply-chain for floating, production, storage and off-loading vessels (FPSO). They have specific measures in place for man-hours, 50 per cent Local Content by tonnage, and 100 per cent Local Content by tonnage in the procurement of steel plates.

To ensure optimisation of this plan; operators must submit to the Board a succession plan for any position not held by a Nigerian person. The NOGICD Act also aims to encourage institutional collaboration and maximise Nigerians’ participation in oil and gas activities. This Act works to attract investment to the Nigerian oil and gas sector (service providers, equipment suppliers etc.). As a result, the utilisation of Nigerian resources, i.e., goods, services, and assets, will be maximised over time. A Local Content

monitoring regime is integrated with the process of contracting suppliers and service providers. Penalties for noncompliance with the Local Content legislation is in place and there are ministerial waivers for certain requirements of the legislation for a temporary period, including where targets established by law cannot be complied with due to limited local market capabilities. More importantly there is the establishment of a Nigeria Local Content development fund to support the skills and employability and the capacity development of national suppliers.

Brazil has in place policies and legal frameworks for companies engaged in activities in border zones or inside indigenous protected areas. They have ensured that companies must be controlled by Brazilians (i.e., an ownership requirement) with the national capital of at least 51 per cent of the capital stock of firms. Community engagement is also extremely effective as it is within many indigenous protected areas, with the law stating that indigenous communities have the right to reject any of the projects. In the mining sector, local authorities require companies to comply with compulsory social obligations to obtain environmental licenses. These included reaching 70 per cent local employment in two years, and 100 per cent across seven years (ICMM, 2013). In the oil and gas industry, local jobs and training are one of the three determinants in the bidding process. Bidders must indicate a specific percentage of Local Content, which is turned into several points used to rank bidders’ offers along with other parameters.

In Ghana, there is no official agreement on the definition of Local Content. However, in the mining sector, unskilled labour and clerical positions are reserved for Ghanaians only. For other jobs, the share of expatriate staff should not exceed 10 per cent of total senior staff within the first three years and 6 per cent after three years. This should be accompanied by training programmes. Companies must comply with specified minimum Local Content levels for goods and services, and the target is set at 10 per cent at the start, 50 per cent at five years and 60-90 per cent at ten years.

South Africa and Canada both have specific provisions to address concerns of indigenous communities. Local Content is understood to mean policies targeted to respond to the concerns of certain ethnic groups and develop the socio-economic conditions of historically disadvantaged citizens.

Trinidad and Tobago have set many policies to enhance Local Content: Priority is given to the employment of national workers. Policies are designed to restrict foreign workers through the strict regulations of work permits that are issued by the Minister of National Security. The controls are in place to ensure the prevention of cases where foreign employment does not preclude employment opportunity to suitable local candidates. Policies are designed to promote nationals’ skills development and there is a mandate for government contractors to provide training to national workers in line with the contractor’s performance standards. Contractors are expected to develop and implement training programmes that enable nationals to replace foreign workers. Upon issuance of a work permit, a local successor to the expatriate is expected to be appointed.

Malaysia has introduced various efforts regarding Local Content Policies and strongly encourages the private sector and all contractors to maximise the employment of nationals. There are no minimum targets (general or position-based) or regulations. Policies are designed to restrict the number of foreign workers. Malaysian company laws link the size of paid capital to the number and type of expatriate work visas that may be requested and obtained by a company. Policies are therefore designed to promote nationals’ skills development and reduce the requirements of foreign workers.

Malaysia’s terms of Local Content oblige contractors to make an annual research and development contribution (0.5 per cent) which helps fund the upskilling of Malaysian-nationals and supports investment in R&D for future skills, technology and other appropriate assets for the benefit of Malaysian nationals.



## Local Content for the Kingdom of Saudi Arabia

We have specifically analysed the Local Content Policy (LCP) significance for the purposes of i) increasing Saudi national employment and shifting work to high-value positions ii) Capacity building through knowledge exchange and iii) increasing socio-economic value through local community input. These are key to the growth of local capabilities and the maximisation of human capital and capitalisation of the national purchasing power for a strengthened and sustainable economy.

### Increasing Saudi national employment and shifting work to high-value positions.

Saudi national unemployment rates are currently, as of Q3 2020, standing at 14.9 per cent of the labour force population. This means that there are around one million Saudi national job seekers in the Kingdom. The current economic and labour market challenges have already raised the importance of requiring policy intervention within the Saudi Arabian government.

Local Content has been further enabled to ensure that companies recruit local Saudi nationals. The tactical approach used is especially important for the long-term recovery phase. Saudisation is a policy focus that is already well underway in the Kingdom. We know that 2021 will have a specific focus on the nationalisation of 115,000 qualitative and high priority jobs in each sector. These

will already have an impact on the Local Content review for the Kingdom and will also be aligned with the government Saudisation policies held under the Ministry of Human Resources and Social Development. The Nitaqat programme that is also well underway is also another tool for policymakers to push for localised jobs and local content.

To support employment, enterprise, and career perspectives for the Kingdom, there are some best practices from around the globe in terms of the setting of Local Content policies. There is substantial evidence that the oil and gas sector is capital intensive. Therefore, its contribution to national employment levels tends to be very limited. In order to achieve higher employment figures and labour market growth, LCPs are created to be aimed directly at the level of local employment in the alternative industrial sectors, whilst only focusing on the creating of job opportunities within the oil and gas supply chain and also bringing efforts into the new emerging technologies and services. Another key aspect of securing national employment and increasing the quality of work, particularly for high-value positions, is creating a national workforce development policy. The national workforce development policy would create the need for companies and corporations to have in place a workforce development strategy that not only recruits locals but also puts in place the appropriate training, guidance and career pathways to increase the quality of work and result in high-value employment.

### Capacity building through knowledge exchange

Local Content is not only delivered through the direct interaction between companies and the end-user. Some methods require longer-term investment into the creation of local content. Funds collected from Local Content policies, in terms of taxes, fees, penalties or direct contributions could also be used for activities that require national

research and development, innovation and invention and ideation. Local Content funds could be the vehicle in setting up innovative joint ventures, in the creation of intellectual property and developing products to increase productivity, efficiency and investments. These funds are not limited solely to research and development as alternative policies and interventions could also be effective in terms of mentorship policies to help transfer knowledge amongst older workers, expat workers and younger Saudi nationals. Additional training and development strategies could be implemented to provide knowledge exchange and capacity building of individual skills. Capacity building is not only targeted at an individual level but is also effective in terms of activating strategic task plans to knowledge exchange amongst contractors, global suppliers and international supply-chains.

### Increasing socio-economic value through local community input.

Financial or investment compensation for the adverse socio-economic impacts of oil and gas activities on the local communities is generally accepted in return for temporary or permanent loss of economic faculties. The international standards for environmental and social impact have set principles for compensating individuals for the loss of the potential to earn an income. In practice, this could involve project proponents that are directly part of the tendered opportunities to suppliers who source labour or materials from affected communities, or it could mean obliging their major contractors to meet targets for the employment of displaced and affected persons.

Ensuring effective community engagement is an essential aspect of LCPs. Primarily this includes protecting local communities and keeping them well informed on projects affecting their surrounding areas, particularly in the case in the mining sector where there is a high risk of disruption on local communi-

ties. For example, Canada and South Africa have specific programmes related to engagement and inclusion of aboriginal communities. Canada also engages local communities in mining-related activities by making applications for mining permits publicly available for comment for thirty days before issuance. This means that members of the public can express concerns for any mining ventures to the government before projects are contracted. In Oman, community engagement focuses more on Local Content through a sustainability strategy which requires partners to hire from the local area, source from local suppliers and utilise efforts with local service providers to maximise opportunities for the local communities.

When developing LCPs, policymakers should include the conducting of effective community engagement to mitigate the negative impact that projects may have on local areas. LCPs should also seek to benefit local communities which can include employment, business start-up, supply and the use of local products and resources.





### Benefits and Areas of Contention – Involving the Private Sector

It is vital to ensure that both the benefits and drawbacks of LCPs are taken into consideration before all stages of policy development. The development, implementation, and review of Local Content do not solely rely on the activities of national government and policymakers only. Local Content could be used as best practice for corporate social responsibility purposes by the private sector and government agencies.

Research shows that the much larger private-sector corporations, are deemed the true potential leaders of driving Local Content policies. Below is a table of some key international oil and extraction companies and their activities in achieving Local Content policy outputs and outcomes, examples that could certainly be used as best practice for design, development and implementation across the Kingdom.

**Company:** ExxonMobil  
• ExxonMobil, 2008  
**Strategy name:** National Content Strategy  
**Main components:**  
• Workforce development  
• Supply-chain development  
• Strategic community investment

**Company:** Statoil  
• Statoil, 2010-2011  
**Strategy name:** Positive local impacts – Local Content  
**Main components:**  
• Local recruitment  
• Local procurement  
• Local supplier development  
• Education, skills and training

**Company:** Total  
• Total, 2012  
**Strategy name:** Local Content Programs  
**Main components:**  
• Local training and recruitment  
• Increase the number of nationals in the workforce  
• Supporting local entrepreneurs  
• Supporting small and medium-sized businesses

**Company:** BP  
• 2005  
• BP, 2009  
**Strategy name:** Local Content development strategies  
**Main components:**  
• Local supplier development  
• Develop local expertise  
• Local supplier participation

**Company:** Shell  
• Shell, 2013  
**Strategy name:** Impact on local communities  
**Main components:**  
• Job creation strategy  
• Capacity and technology building  
• Contracting and business opportunities  
• Social investment

From the policy frameworks examined from across different countries on Local Content, and from the activities of many corporations, as detailed above, it is evident that multiple global nations have achieved significant improvements in the contribution of the oil and gas sector to their national economies beyond a narrow benefit of revenue generation and export earnings.

Local Content policies are likely to result in increased employment opportunities and enhanced development of skills and capacities of individuals and local small and medium scale enterprises. This also extends the expansion in the participation of national industries in the sector through capacity enhancement for workforce development of companies and sub-contractors, particularly in the construction and supply of goods and services to the oil and gas industry.

It is clear that there remain legal and policy gaps in the enforcement of Local Content in parts of the world due to the absence of institutions that provide adequate legislation, monitoring, evaluation, and measurement of the policy in determining impact and achievement of policy objectives and targets.

In the Kingdom, the Local Content Authority has created some key indicators that will be used to measure, monitor and evaluate LCPs for Saudi Arabia. These are defined as:

- Saudi citizens must own at least 50 per cent for a company to be considered a local company.
- Salaries: the salaries of Saudi employees contribute 100 per cent to Local Content whereas the salaries of non-Saudi employees contribute to 37 per cent to Local Content.
- Goods & Services: Local Content in spending on goods and services based on the Local Content rate of the sector the product or service belongs to.
- Capacity Building: Spending on Saudis’ training and developing suppliers and

Research and Development in the Kingdom contribute 100 per cent to Local Content.

- Assets: For in-Kingdom assets bought from a local manufacturer, the Local Content contribution is 100 per cent of depreciation value while the Local Content contribution of imported in-Kingdom assets is 20 per cent of depreciation value.
- Value to KSA within goods and services (SAR): Value of national components of the goods and services purchased for the previous financial year across all suppliers for the entity’s in-Kingdom operations. Do not double count with expenses that reported in other sections.
- Local Content is defined as the total spending on Saudi components within Labour, Goods, Services, Assets, Technology and other items of the sort within the Kingdom of Saudi Arabia.
- Commercial Entity means an entity that has a commercial registration in KSA or licensed to perform a commercial activity in KSA.
- Financial Statements are an Entity’s financial statements that have been prepared in accordance with accounting standards that are endorsed in the Kingdom of Saudi Arabia. They have been audited by an independent auditor in accordance with auditing standards that are endorsed in the Kingdom of Saudi Arabia. These KPIs fall under three main factors: labour force, commodity purchases, and procuring services. The Local Content percentage is calculated annually, and it gives an overall indication of the level of localisation efforts undertaken by the company. These KPIs do not determine if a company embeds, embraces and grows Local Content regulations. Therefore, a lot more is required from government to ensure LCPs are effective across all sectors and government expenditure.



## Recommendations

The following recommendations are proposed to strengthen both the policymaking framework for the Kingdom and in the promotion and execution of sustainable domestic activity for Local Content policies:

**1. Strengthen Legislation to Increase Local Employment and Ongoing Skills development:** Specific and focused regulations and policies should be introduced to improve the transfer of knowledge, experience and skills related to oil, gas and mining operations by the international companies to local enterprises and workers. A related strategy should encourage and incentivise local companies to form joint ventures with foreign companies to ensure a more direct method of knowledge and technology transfer to local enterprises. The strategy should include details such as metrics to measure the performance of the international companies in delivering procedural knowledge and skills so that compliance by foreign companies can be monitored. This will help address the challenge of inadequate local capacity, which has been a significant constraint to the impact of policies aimed at increasing access to opportunities through employment and the supply of goods and services.

**2. Engage Directly with Companies and Corporations that have Demonstrated Good Practice:** Policymakers and other key stakeholders should engage directly with those companies and corporations which have already established impactful strategies

and initiatives to drive the achievement of effective Local Content. Specific areas of interest should include Workforce Development, Supply Chain Development, Strategic Community Investment, Local Recruitment, Local Procurement, Local Supplier Development, Skills and Training, Supporting Local Entrepreneurs and SME's, Job Creation, Capacity and Technology Building and Social Investment.

**3. Establish Enterprise Development and Vocational Training Centres:** Funding should be made available for enterprise development and vocational training with the support of the foreign oil and gas companies, delivering to a co-ordinated and sustainable strategy and action plan. Enterprise development and vocational training centres should be spread across the country rather than being concentrated mostly in the major cities, thereby increasing the participation of the wider geographical population in oil, gas and mining activities. To date, many initiatives, including Vocational Training Centres, focus their programmes and activities on short-term capacity building to meet the immediate needs of the oil, gas and extraction companies without a well-developed strategy for a long-term sustainable vocational training for skills development and the creation of employment opportunities in the industry.

**4. Promote sustainable domestic production linkages through policy interventions:** To promote sustainable domestic production linkages, effective monitoring mechanisms should be introduced to ensure that incentives provided are used to promote and create local enterprises which contribute to local value addition in the Kingdom. Building a conducive business environment will enhance the confidence of local and international investors and boost their participation in the sector. This will support the expansion of linkages between the sector and the broader economy. Most countries reviewed in this paper expressed clearly that the adop-

tion of Local Content development strategy was the result of the ambitions outlined in their National Development Plans to increase domestic production linkages through the exploitation of oil, gas, and mining resources. The countries recognise that developing relations amongst government and private sector will enhance employment, skills development, and national industry participation of local enterprises in the sector. However, a common regulatory policy adopted by the countries is predominantly reflected in domestic ownership rather than creating domestic linkages with other sectors, thereby limiting local value add.

**5. Create a Partnership Among Stakeholders for Local Content Development:** For Local Content policies to achieve their intended impact on the local economy, there is a need for collaboration between government, industry, and civil society organisations, particularly, in skills development and local supplier development programmes. Such partnerships will create opportunities for small and medium enterprises to access skills development programmes, technical mentoring and support for the development of business management skills. It will also enhance access to finance as well as institutional strengthening that will create an enabling environment for local SME development. The Government can provide institutional infrastructures, governance and incentives required by the industry to promote employment and skills development programmes. The civil society organisations can mobilise industry support for these programmes through advocacy while the industry uses its technical knowledge and expertise to implement the programmes. This partnership can also help strengthen regulatory compliance through human capacity building and constructive oversight of companies' Local Content plans and achievements. Creation of a Local Content Governance Board will provide the appropriate level of strategic direction, legislative boundaries and enforcement and funding.

**6. Provide Access to Finance by Local Small and Medium Enterprises (SME's):** There is a need for a deliberate policy to provide loan guarantees and insurance schemes to SMEs so that banks will be encouraged to lend to SMEs operating in the oil, gas, and mining industry. Identifying key governance processes for this is core to the success in building supply-chains for the Kingdom. Capacity building of local Small and Medium-sized enterprises should be complemented with access to finance that will enable them to expand their activities and better compete with foreign firms operating in the oil, gas, and mining industries in various other countries. While Saudi Arabia has put in place some measures to enable SMEs access to finance from financial institutions, the local banks remain reluctant to grant the required working capital to local enterprises.

**7. Learn from the Experience of Successful Countries:** Countries that are new to Local Content should collaborate closely with more experienced countries that have implemented successful Local Content policies and that have promoted domestic linkages with other economic sectors. Learning from the experiences of these countries will enable the strengthening of regulatory and monitoring mechanisms to ensure maximum impact on employment, skills development, and national industry participation. For example, Congo signed a technical cooperation Memorandum of Understanding with Nigeria. Oil and gas professionals undertook a learning tour of the country to understudy the operations of the Nigerian Content Development and Monitoring Board.





## Conclusion

Saudi Arabia has already made positive steps towards developing Local Content policies within the Kingdom through the Saudi Vision 2030 strategy. In addition, with the creation of the Local Content and Government Procurement Authority (LCGPA), there is now an entity with a clear mandate to be the driving force for the growth of the private sector and Local Content development. LCGPA will continue to work closely with the government, private sector as well as reaching out to national households. Changes have already been visible within the labour market with regards to the increasing employment of Saudi nationals. Progress has also been made within spheres such as government and private procurement, the building of local supply chains and in the shifting of household expenditure on local goods and services (mainly evidenced through the entertainment, leisure, and health sector).

The current economic climate due to the COVID-19 pandemic raises challenges for the goals of LCPs due to the changes in employment, restricted travel, logistics and consumption, the limited cash flows among businesses, especially SMEs, the appetite for risk amongst investors, and the decrease in oil markets pricing. While there is a consensus that LCPs can increase GDP, and improve economic conditions for government, policymakers should take into account both the bene-

fits, advantages and the disadvantages of LCPs and ensure that policies are rigorously assessed and analysed in order to maximise their success.

It is certain that, Saudi Arabia has demonstrated a clear commitment to ensuring that Local Content provides the maximum possible benefit to individuals, families, households, communities, business, local economies, and the overall national economy of the Kingdom. While much remains to be done, the decisions and actions taken to date provide a strong basis for continuing to drive this policy agenda forward.

