The Policy and Politics of the Nigerian Local Content Policy in the Nigerian Petroleum Sector

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Abstract

This study is predicated on the application of the Nigerian local content policy in the Nigeria downstream petroleum sector. The study provides empirical evidence of the influence of LC policy on local value creation in the oil and gas industry in Nigeria, with particular reference to indigenous oil firms’ participation, backward linkages and job creation. The study adopts the ex-post-facto research design and qualitative method of data analysis. The method of data collection will be based on documentary evidence which is a broad category to include data obtained from the secondary source. The theoretical framework will be anchored on the Rentier State theory. Our findings prove that there are benefits associated with the adoption and implementation of LC policy on all of these factors. The results confirm that LC policy has a positive and significant impact on increasing local value creation, vis-à-vis, increased local firms’ participation and backward linkages development. We also found that local firms’ participation and backward linkages have positive and significant direct effects on job creation. Our results indicate that the interaction between LC policy and infrastructure is positive but marginal. The impact of infrastructure on local entrepreneurs’ participation is found to be positive and statistically significant, but its effect on backward linkages is not significant. Similarly, we found that LC policy has a positive significant indirect effect on job creation through indigenous oil firms’ participation and backward linkages. However, the results show that local value addition created as a consequence of LC policy is less than average.

Keywords: Local, Content, oil, Gas, Industry, Downstream, Sector, Nigeria

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Background to the Study

The Oil and Gas Industry (O and GI) in Nigeria has played a crucial role to the sustenance of the nation and fuels her economic and development activities. The industry has been widely described as the nation's live wire and literature abound on its role and significance in Nigeria (Agusto, 2002; Atakpu, 2007; Odulari, 2008). Nonetheless, an estimated $8 billion is spent annually on servicing the industry in operations such as fabrication, engineering, procurement, construction (EPC), Front End Engineering Design (FEED), conceptual designs and seismic studies. This figure is projected to hit $15 billion within the next few years (Business Day, 2008). Regrettably, despite these huge sums of money spent in servicing the industry, only a very little proportion of the accruable profit is spent in Nigeria. Majority of the amounts are repatriated abroad, where most of the equipment is manufactured; and providing employment opportunities for citizens of other countries. The inability to properly manage the huge oil resources coupled with weak indigenous technological base has resulted in the dominance of Nigeria's oil industry by the international oil companies (IOCs). Thus, the contribution of Nigeria oil and gas sector to national GDP remains unimpressive despite the stupendous resources the sector provides.

The 2008 energy report shows that the oil and gas sector in Nigeria accounted for less than 38% of national GDP (cited in Akindelano, 2008). The noticeable absence or minimal involvement of indigenous participation in the oil industry, given that over 80% of the goods and services needed for projects are imported from foreign countries has also accounted for this unpleasant development (Sule, 2013). The domination of the international oil companies (IOCs) in Nigeria's oil and gas industry and the huge amount of money spent in maintaining the expatriates has resulted in huge capital flight. Available information shows that, only $190 million dollars out of the $4.7 billion spent in the industry in 2002 remain in the Nigeria, the rest was spent abroad on procurement of goods and services needed for the industry. The major reason for this situation has been attributed to low local content (LC), which is a situation where most of the service contracts are awarded to foreign firms because local indigenous firms lack the requisite skills, technical expertise, manpower and production capacity and capability to compete favourably.

Oladele (2001), posited that low LC in the Nigerian O&GI results from: Deficient capitalization arising from the tendency of Nigerian entrepreneurs to operate as 'one man' businesses; Capital and structural deficiencies associated with poor training and low managerial ability; and inability to attract funds due to lack of suitable collateral and positive corporate image. Aneke (2002), and Heum et al. (2003), expanded the above reasons for low local content in Nigeria to include: low technological capacity; lack of funding from financial institutions; inadequate and incoherent policies/legislations; inadequate infrastructure; unfavourable business climate; lack of partnership between indigenous contractors and technically competent foreign companies.
Statement of the Problem

One major challenge facing Nigeria today is how to achieve sustainable development. Nigeria in recent times has witnessed deteriorating economic situations and decline in human capital development. It is an established fact that the backbone of any nation is her economy. Nigeria like other developing countries of the world is paying attention on how to accelerate her growth rate through the various sectors of her economy. However, evidence in extant literature shows that Nigeria depends on the export of crude petroleum for economic growth and development. But in recorded history, the production of oil in Nigeria has been profitable for the international oil companies. These companies-initiated oil exploration and production in Nigeria and have dominated the industry for many years. In other words, the Nigerian oil and gas industry has been vibrant since the discovery of crude oil in 1956 by the Shell Group.

Available evidence in extant literature shows that, the Nigerian oil industry was originally the exclusive domain of the International Oil Companies (IOCs) in areas ranging from exploration to production, refining and trading. But however, intervention by the Federal Government resulted in the nationalization of assets of the major oil players. In 1991, the Federal Government sought to demystify the oil industry by awarding onshore and offshore oil blocks to Nigerian entrepreneurs through competitive bidding. Despite the seeming progress narrated above, the “Nigerianization” process in the lucrative upstream has been comparatively negligible. Research done in 2008 concludes that although the oil and gas industry accounts for 90% of Nigeria’s revenue. To address this anomaly, the Federal Government of Nigeria in the early 2000s introduced the “Local Content” (LC) policy, christened Nigerian Content (NC) and it was primarily aimed at enhancing increased participation of local indigenous firms in OGI. The policy was targeted at transforming the industry through the development of in-country capacity and indigenous capabilities in the area of manpower development, facilities and infrastructure towards ensuring that a higher representation of local indigenous companies participate actively in the industry (Lawal, 2006; MacPepple, 2002 and Nwapa, 2007). It was also aimed at reforming the industry into becoming the economic hub for promoting higher SMEs participation, job creation and base for industrial growth, as well as for checking capital flight away from the country (Binniyat et al, 2008; Chukwu, 2005 and Gilbert, 2007).

Among the NOGICD Act's most controversial measures is a stipulation of a maximum of 5% of management positions for expatriate workers and a schedule containing minimum levels of Nigerian content in any project. This schedule sets minimum targets in engineering, fabrication, materials and procurement, services, research and development, shipping and logistics, and many other categories. Included in the Nigerian content regulations are also minimum levels of Nigerian content in finance, including 100% of general banking services, 70% of monetary intermediation, and 50% of the amount of loans for credit. Finally, the NOGICD Act also gives the NCDMB authority to hand out hefty penalties – 5% of the project sum for each project or cancellation of the project. It is the on the above backdrop that this study seeks to ascertain whether the implementation of the local content policy since 2010 has enhanced the participation of Nigerians in the technical area of the petroleum sector.
Gbegi and Adebisi (2013) contend that the desire for an increased contribution to the local economy and society, and a strategic intent to pursue local content go beyond philanthropy. According to them, there are lots of challenges of managing local content policy in the extractive industry, such as:

1. Lack of a stimulating government regulatory framework;
2. Deficient infrastructural facilities;
3. An improved educational infrastructure is needed;
4. Lack of adequate finance, insufficient pertinent technical expertise and unhelpful multinational company’s attitude;
5. Corruption and mismanagement or opaque accountability
6. Unstable and even volatile political and economic environment in Nigeria
7. Lack of appropriate materials.

The Nigerian Oil and Gas Industry Content Development Act 2010 (the Act) seeks to increase indigenous participation in the oil and gas industry by prescribing minimum thresholds for the use of local services and materials and to promote transfer of technology and skill to Nigerian staff and labour in the industry. The Act is comprehensive, running into 107 sections and applies to all operators, contractors and other entities involved in any project in the oil and gas industry. It takes precedence over all other existing enactments and laws in respect of all matters and operations industry pertaining to Nigerian content carried out in the oil and gas.

Sule (2011), examined the impact of the NLC Act on the petroleum industry human capital development and the role the Petroleum Training Institute (PTI) could play for effective implementation of the Act. She found out that the PTI due to some challenges such as funding and lack of adequate empowerment in terms of training of their staff in key technical positions could not measure up to expectations. According to her:

*Nigeria’s main obstacle to development of local content are its thin industrial base, lack of adequate power, water and other infrastructure to support an expanded manufacturing base, cumbersome bureaucratic obstacles to development of small and medium sized enterprises, and underdeveloped capital markets. Compared to other countries with similar history of petroleum development, Nigeria lags on almost all metrics from gross domestic product (GDP) per capita to local participation in the industry. The challenge therefore is to create the proper framework within current economic, political and industrial constraint (Sule, 2011:42).*

She opined further that despite the performance of Petroleum Technology Development Fund (PTDF), the Nigerian oil and gas industry still lacks worldwide reputation for technical capability, capacity, reliability, integrity and professionalism in terms of local content. She noted that this is a major setback for Nigeria, especially in her drive to attract foreign investment.

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They noted that the factors listed above amongst others have been the major obstacles to the proper implementation of the local content Act in Nigeria.

Odujinrin and Adefulu (2007), examined the NLC policy in the Nigeria oil and gas industry. According to them, the early 2000s witnessed a more aggressive and focused approach to local content led by three (3) major studies – National Committee Report; INTSOOK Report and Synchronized Report. This provides the foundation for the Nigerian Content Development Bill which was later signed into law by President Goodluck Ebele Jonathan in 2010.

Ovadia (2013), in his study questioned the process or measurement of local content policy. He argued that local content policy sets very specific targets in 280 separate oil and gas activities. The targets are expressed as percentages in terms of overall spend, hours of labour, tonnage, or other defined measures. He quoted Ernest Nwapa, who stated thus:

But the Nigerian Content measurement is an issue, when you call an IOC and ask them how they are doing with the Nigerian Content, they will give you numbers like 70-85% and they may be right because what they are measuring is the fact that out of a hundred million dollars that they would have spent on their projects, they’ve given 85 million dollars to Nigerian companies. So considering the fact that a few years ago it used to be about 255% - everybody is clapping for themselves - we are all saying that we are doing Nigerian Content. But if you check, the real Nigerian content they do is not for us. How much of that 85 million dollars that is given to Nigerian companies is spent in Nigeria? Then you will know that we still have a long way to go (Ovadia, 2013:15).

Neff (2005), argued that Nigeria can increase the quantity of local content if it builds its capacity around certain candidate technologies. He contended that expanding local content, or creating “value added”, means that companies with ownership and or infrastructure in Nigeria continue manufacturing and service production in the country. This can be achieved by either stimulating the development of indigenous companies or encouraging foreign investments and participation to build industrial capacity in a viable and sustainable manner. According to him:

Nigeria’s main obstacles to development of local content are its thin industrial base, the lack of adequate power, water and other infrastructure to support an expanded manufacturing base, cumbersome bureaucratic obstacles to development of small and medium sized enterprises, and underdeveloped capital markets. The challenge for the government is to create the proper framework within its current economic, political and industrial constraints (Neff, 2005:1).
They noted further that lack of stimulating government regulatory framework; deficient infrastructural facilities; lack of adequate finance, insufficient pertinent technical expertise and unhelpful multi-national attitude, corruption and mismanagement of opaque accountability; unstable and volatile political and economic environment and lack of appropriate material in Nigeria are some of the impediments to the proper implementation of the local content policy and they should be properly address.

Edemhanría (2010), provided detailed implications of the local content Act of the Nigerian state when he noted that beyond the issue of creation, the law also has far reaching implications for technological advancement, long term cost effectiveness, post-amnesty programme in the Niger Delta and the improved impact of oil and gas industry on Nigeria's Gross Domestic Product (GDP). He noted further that the law made provision for exclusive consideration of Nigerian indigenous service companies which demonstrate ownership of equipment, Nigerian personnel and capacity to execute jobs and as such, all regulatory authorities, operators, contractors, sub-contractors, alliance partners and other entities involved in the project, operation, activity or transaction in the industry shall consider Nigerian content as an important element of their overall project development and management philosophy for project execution.

Writing on the challenges facing the Nigerian local content in the oil and gas industry, Omenikolo and Amadi (2010), notes that in spite of the huge financial investment made by the Nigerian government in the oil and gas industry of the economy, it has not translated into a significant benefit for Nigerians. According to them:

The local content (LC) in the oil and gas industry is still very low as over 60% of their major exploration, drilling, production, well intervention and service provision remains primarily co-managed by multi-national oil companies. Only minor contract have been awarded to local contractors. Several challenges, ranging from infrastructural development, political stability, good investment climate, project financing, transparency, high educational standards, legal policy, resource management, research and development, fiscal policy, environmental policy are some of the factors impeding the target by the federal government to achieve 70% in 2010 (Omenikolo and Amadi, 2010:6).

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The local content which is an effort at the domiciliation of most of the operations of oil and gas activities in Nigeria showed how abysmally low the level of participation of indigenous personnel had been over the years in the oil industry. Akinyosoye (2009), captured these concerns thus:
The theory of rentier state can be applied in the Nigerian case with respect to the Nigerian content policy in oil and gas sector. The Nigerian state is, indeed, a rent-seeking state relying on oil revenue received from rents or royalties paid by oil and gas multinationals in their exploration and exploitation of oil and gas in Nigeria. For instance, oil and gas constitute nearly 90% of Nigerian revenue and foreign exchange earnings showing that Nigeria is a mono-cultural economy where oil is the mainstay of the economy. Rents, therefore, predominate in Nigeria.

He further noted that the NLC law seeks to measure the percentage of the money retained in the domestic economy from the oil and gas operations in the country.

Theoretical Framework
This study is anchored on the Rentier State theory as propounded by Mahdavy (1970), and popularized by Beblawi and Luciani (1987). The Rentier state theory (RST) is a political economy theory that seeks to explain state society relations in states that generate a large proportion of their income from rents, or externally-derived, unproductively-earned payments. Rents are most commonly royalties or other payments for oil and gas exports, but other income such as fees and aid typically are considered rents as well. As its most basic assumption, RST holds that, since the state receives this external income and distributes it to society, it is relieved of having to impose taxation, which in turn means that it does not have to offer concessions to society such as a democratic bargain or a development strategy. RST emerged as scholars began to digest the political impacts of the two oil “boom” periods that began in the mid-1970s. The first of these was due to the oil embargo that Iran and several important Arab oil states placed on the United States and other key states that supported Israel in the 1973 Arab-Israeli War.

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Thus, the Nigerian state satisfies all the characteristics enumerated above by Beblawi, which qualifies it to be referred to as a rentier state, specifically a rentier-oil state. In Nigeria, for example, rents or royalties accrue directly to the Nigerian state and only few, that is, the government functionaries are engaged in its generation, the rest are involved in its distribution. The implication of the above is that the Nigerian state is an allocation or a distributive state, and not a production state. Even the few productive activities in Nigeria are confined to the level of primary production, specifically exploration and production of oil and gas (i.e. upstream oil sub-sector) by the oil and gas multinationals.

Following from the above, the Nigerian state does not rely on taxation of its citizens for generation of (internal) revenue but rather on external revenue derived from rents on oil and gas. Some of these external revenues are used to subsidize the economy for the
wellbeing of the citizens making them docile, corrupt, complacent and parasitic. One other characteristic that demonstrates the rentierism of the Nigerian state is the predominance of the public sector over private sector and even in the case of latter the informal sector dominates over formal sector. The implication of this is that the government is the largest and ultimate employer of labour creating a situation where the bureaucracy is grossly inefficient and ineffective.

The above explains the reason why Nigerian National Petroleum Corporation (NNPC) and the Nigeria Content Development and Monitoring Board (NCDMB) lack the administrative or institutional capacity to effectively monitor and enforce compliance of Nigerian content policy in oil and gas multinationals. Similarly, by relying on external rents from oil and gas instead of concentrating on how to generate revenue from domestic source like taxation the Nigerian state unwittingly diminishes its administrative capacity. As a result of this, state agencies like Nigerian National Petroleum Corporation (NNPC), Nigerian Content Division (NCD), and Nigeria Content Development and Monitoring Board (NCDMB) lack administrative/institutional capacity to build local capacity to absorb available opportunities created by the Nigerian content policy let alone monitor and enforce compliance.

Methodology
The study interrogates the application of the Nigerian local content policy in the downstream petroleum sector. The study adopts the ex-post-facto research design. This design explains what happened before the time of the study taking cognizance of the prevailing first observation and then what happened after the introduction of the independent variable (x) taken to be the test tool the second observation. The method of data collection is based on documentary evidence which is a broad category to include data obtained from the secondary source. This involves information contained in the works of authors both published and unpublished, Journals, Periodicals, Government Publications and Encyclopedias, among others. The study adopts the qualitative descriptive method of data analysis. This method is noted for the following advantages:

i. The method is descriptive
ii. It is dialectic and interactive

It is not aimed at statistical test (and interpretation) of hypothesis (Nnabugwu, 2006: 373-374). The method is holistic and multi-dimensional. Nevertheless, qualitative descriptive method of data analysis involves vigorous thinking sufficient evidence and alternative considerations based on a sequential and logical analytic order.

Results and Findings
An effective local content development policy seeks to promote inclusiveness and integration of the sector with the rest of the economy to ensure that the country and its people benefit from the ownership of these significant reserves. It also seeks to promote local employment and the use of local goods and contractors so that a country’s citizens
are involved throughout the entire supply chain. Other desired outcomes include the increase of domestic capabilities and competencies over time, improvement of national technological capacity and to manage the equal distribution of wealth across the country.

Traditionally, major International Oil Companies (IOCs) have dominated the oil and gas sector in Nigeria due to their technological and financial advantages, alongside a lack of proper regulation in the past. This has meant that local content development has been lacking due to the isolated bubble which the IOCs operated in and a critical lack of infrastructure to support processing and refining locally. For example, prior to 2010, nearly US$380 billion and 2 million jobs were estimated to have been lost as the majority of construction, engineering and procurement undertaken by the IOCs were carried out overseas.

However, the landscape in Nigeria is gradually changing with new regulations and policies aiming to put local content development at the heart of the country’s natural resources sector, ensuring it are in-line with international best practice. In addition, we can now see indigenous oil and gas companies such as Seplat and Oando competing directly with the IOCs, leading the way in promoting local content development around the regions they operate in. More than 30,000 direct and indirect jobs have been created for local Nigerians in the sector since 2010. Indigenous companies such as Seplat have been instrumental in maximizing opportunities for local content development at their operations. In 2018, 99% of the Company's entire workforce is Nigerian and Nigerians account for nearly 80% of the Company’s top management positions. The Company also has a rigorous Workforce Capacity Development training programme to ensure its workforce has the necessary skills and knowledge required to operate to an international standard.

The NOGICD Act has led to a sizeable portion of the goods, services and equipment vital for the every-day running of operations to be sourced locally. The number of contracts awarded to indigenous contractors and sub-contractors has increased over the years, thereby guaranteeing increased local employment and ensuring the emergence of more local companies. Indigenous companies are increasingly providing programmes specifically designed to support local contractors and businesses. Seplat operates their annual flagship Community Contractors’ Capacity Building programme which equips local contractors with the necessary skills to help them develop their business processes to an international standard. Since 2014, over 300 contractors from the Delta and Imo states have benefitted from this programme. This has enabled up to 40% of host community contractors to gain technical skills which were lacking at the time they originally registered as contractors. In addition, 98% of Seplat’s contractor are Nigerian companies – in line with the provisions of the NOGICD Act. Since 2013, contracts worth up to US$1bn have been awarded to Nigerian companies.

Until recently, activities such as engineering, welding and construction were done outside of Nigeria as there were no international standard dockyards or construction sites in place in-country. There have been huge strides in this area with industry leading
construction yards built by companies such as Total, Aveon and Saipem to ensure projects can be completed in-country, providing thousands of local jobs. A key example of this is the recent construction of the Egina Floating Production Storage and Offloading Vessel (FPSO), the largest vessel of its kind ever installed in Nigeria. 77% of the construction was completed in-country, a ground-breaking achievement for the country. This confirmed that the Nigeria’s well-equipped construction yards met international standards and were successfully managed by competent local personnel.

Supply performance relative to Domestic Gas Supply Obligation (DGSO) has greatly improved across indigenous operators including Seplat, Frontier Oil and Gas, and Energia. These companies have been heavily investing in gas production in order to capitalize on the announcement made by the Ministry of Petroleum in 2014 that the DGSO prices were to increase from $0.3/Mscf to $2.5 / Mscf. For example, Seplat's average daily gas supply was above 230% of its DGSO in 2017, making it one of the leading domestic suppliers of gas in the country. In addition, it currently contributes 3.5% of the total gas production in Nigeria. The aim of the 2014 price increase was to encourage investment in-country in order to deliver the envisaged 30GW generation, up from the current 5GW level. Ultimately this will guarantee access to reliable, affordable power for local Nigerians, a vital step to achieve accelerated economic growth.

Summary/Conclusion
This study provides empirical evidence of the influence of LC policy on local value creation in the oil and gas industry in Nigeria, with particular reference to indigenous oil firms’ participation, backward linkages and job creation. Our findings prove that there are benefits associated with the adoption and implementation of LC policy on all of these factors. The results confirm that LC policy has a positive and significant impact on increasing local value creation, vis-à-vis, increased local firms’ participation and backward linkages development. We also found that local firms’ participation and backward linkages have positive and significant direct effects on job creation. Our results indicate that the interaction between LC policy and infrastructure is positive but marginal. The impact of infrastructure on local entrepreneurs’ participation is found to be positive and statistically significant, but its effect on backward linkages is not significant. Similarly, we found that LC policy has a positive significant indirect effect on job creation through indigenous oil firms’ participation and backward linkages. However, the results show that local value addition created as a consequence of LC policy is less than average. It can also be argued that the policy outcome in Nigeria may not be as substantial as for other oil exporting countries such as Norway and Venezuela (see Tordo et al. 2013; UNCTAD, 2006). In addition, when infrastructure was excluded from the main model, our results suggest that LC policy on its own still has a significant direct effect on local value-addition in the oil and gas sector and has an indirect impact on job creation through local firms’ participation and backward linkages. However, it was observed that the indirect link between LC policy and job creation operated more through a three-path than a two-path effect. This reinforces our notion that LC policy has the potential in
increasing oil firms' participation in business activities and developing backward linkages. In short, this study may provide some insight into the current debate regarding the efficacy of LC policy and its benefits for indigenous oil companies, the people (particularly the host communities) and the economy. It can also be argued that increased participation of indigenous entrepreneurs could bring rapid transformation to the oil sector. Such development could lead to integration of several entrepreneurial activities, with more direct and indirect job opportunities, and this would benefit not only the oil communities in the Niger Delta but also the nation as a whole. This could reduce unemployment in Nigeria, which is one of the major causes of violence in the country. This study recommends close monitoring of the LC policy implementation to ensure its efficacy towards increasing economic development. Efforts should be made to provide efficient infrastructure facilities, especially power supply and transportation, in order to enhance development of medium to large-scale indigenous firms. This would consequently increase job creation and guarantee a stable economy. Furthermore, for the oil resources to benefit the majority, LC policy should focus on two important issues. First, special attention should be given to local firms' capacity building, vocational training and development of standard education. This would improve local skills and efficiency, as well as enhancing the competency of local entrepreneurs. Second, the policy should promote the use of domestic input materials to create more job opportunities and to increase value-added in the domestic economy. Some limitations are noted in this study that may warrant further research. For instance, we did not consider the direct effect of LC policy (and infrastructure) on job creation. It is possible that this path may provide other information, but estimation of the path was not necessary to achieve the objectives of our study. Another limitation is that our survey focused only on the perceptions of the first-tier oil service suppliers. Future studies could incorporate subcontracting suppliers to observe whether their impact produces any differences.
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