

Local suppliers navigate murky waters

By Robert Atuhairwe

John Byaruhanga, 58, a farmer in Buswekera, Busiisi division in Hoima municipality thought he had hit a jackpot. He was to supply fresh foods and vegetables to the oil companies and actually did for a season and earned good money.

Excited, he borrowed sh1.5m from a microfinance company to expand his garden and cultivate more of the foodstuffs. He planted spinach, courgette, broccoli, lettuce, cucumber and radishes, among other crops and the future looked bright.

But the unexpected happened just as he got ready to harvest – demand for the food stuffs in the oil camps slumped.

"I looked for market for the food I had grown, but I failed to get customers. The stuff I was supplying to the oil camps was not native to the area, so the local people were not interested. With the foodstuff unsold, I could not pay back the loan. I had to sell off the motorcycle I had bought with earlier proceeds to pay the loan," he lamented.

Byaruhanga was not the only one in the muddle. Other farmers in the area were in the same tricky position. There were no binding contracts specifying the items they had to supply and for how long.

The farmers under their umbrella organisation, Hoima District Farmers Association (HODFA) had been supplying fresh foodstuffs to the oil camps through Traidlinks, an Irish firm.

The oil companies, their contractors and sub-contractors are required by the Petroleum Act of 2013, to give preference to goods and services produced or available in Uganda and by Ugandan citizens and companies.

But in his 2015 report on implementation of local content in the oil and gas sector, the Auditor General (AG) pointed out that there were glaring gaps in tracking oil commitment to procuring from existing local service providers.

He noted that though \$329.9m was paid out to local service providers by the oil companies from 2010 to 2013, the definition of Ugandan goods/services is still unclear in the law. He noted that the requirement of at least 48% share capital holding for Ugandans may be unrealistic because the oil and gas business is capital intensive.

According to the AG, neither the potential of Ugandan firms to supply the sector nor the different types of goods and services available as well as targets had been established by the Government.

He said this made it difficult to evaluate the performance of the oil companies in



John Byaruhanga, a resident of Buswekera in Hoima supplied foodstuffs to the oil camps, but the market later slumped. Photo by Robert Atuhairwe

promoting national content.

UGANDAN PROVIDERS

Reports submitted to the Petroleum Exploration Production Department (PEPD) by the oil companies indicate that they spent \$1,171.8m on purchase of goods and services from 2010- 2013.

The share of \$329.9m paid to Ugandan service providers was 28% of the total spent for all the companies in the period under review.

The records also show that farmers in the said area were over 1,000 and only supplied sh2m worth of foods a month, which was low, compared to their investment and the investment by the oil companies as of September 2014. As a result, the local farmers were frustrated and they abandoned the production of the crops.

One explanation for non-purchase of local goods and services was that Ugandan companies had not yet developed the capacity to supply high-value goods and services on the terms then required by the oil companies.

It was established that of the three oil companies, only Tullow Oil procured food from the host community area. While Tullow found the food from the host community of satisfactory standards, Total E&P and China National Offshore Oil Corporation (CNOOC) did not.

MSL Logistics, the catering service provider for Total E&P indicated that the

\$329.9m

Local content

\$329.9m was paid out to local service providers by the oil companies from 2010 to 2013 when there was heightened activity

produce of the host community did not meet their standards and so they could not consume it.

Farmers are required to meet the international standards on quality, health and safety.

In addition, they are expected to have the capacity to deliver the right quantities of supply upon demand; ensure timeliness and consistency.

Consequently, after farmers in the host community failed to meet their

requirements, the companies looked elsewhere.

The term 'host' is used to refer to those communities which are adjacent to, or impacted by, a company's operations. In this case, it is the areas, groups, businesses and farmers in the districts of Hoima, Masindi, Buliisa and Nwoya.

However, some of the farmers dispute the assertion that they could not produce to the required standards. They said Tullow had tried to solve that problem and the solution was working.

Tullow had partnered with Traidlinks to develop the local farmers capacity to supply the oil camps. Traidlinks assisted the farmers through their umbrella HODFA to use the correct agricultural inputs and observe hygiene along the value chain up to packaging. It also taught them to maintain proper financial and agricultural records, among other practices.

What they say

CIVIL SOCIETY

Nassa Bbiira Kiwanuka, the executive director at Mid-Western Region Anti-Corruption Coalition (MIRAC) insists little investment was dedicated by government to prepare the population for national content

"Ugandans went into unnecessary less prepared partnerships, they over invested using other people's resources which created over capitalisation of investments yet the market was narrow," Kiwanuka explains.

ENERGY MINISTRY

Gloria Sebikari, a senior communications officer in the energy ministry, defended the Government saying there had been uncertainty on how long the licensees would stay since they were not yet sure of the commercial viability of the oil.

"But the oil companies, as a result of the government efforts, sourced food from local farmers," she said.

According to her, the Government has formulated a local content policy and was awaiting approval of cabinet. In the meantime, she said, stakeholders can utilise the Petroleum Act which

has some provisions and regulations of local content.

RESIDENTS

Rachael Katusime, a student of economics said there is need to sensitize the local people to understand competition and standards as opposed to waiting to get preferential treatment. She said there has been too much expectation by Ugandans to be favoured because they are nationals, yet standards in the oil sector are international.

"There should be a mechanism in terms of competition building like company registration, capacity of existing companies in terms of amalgamation or forming partnerships if locals are to participate" he adds.

Smarting from the loss, Byaruhanga has registered his farm as a company through which he can search for markets outside the oil companies.

He advises others eyeing the local content platform in the oil sector to bear in mind that the market may not be that reliable and so they should produce food for a broad market just in case.

LOCAL CONTENT



ding to Kingfisher oil fields. Residents want to benefit more from local content