



# **LOCAL CONTENT POLICY**



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Table of revisions


## TABLE OF CONTENT

1. Introduction .....	4
2. Bright Holder vision.....	4
3. What is Local Content .....	4
3.1. Workforce development:.....	4
3.2. Objectives: .....	5
3.3. Achieving the objectives: .....	5
3.4. Developing a strategy .....	5
4. Successful strategy.....	5
5. Understanding local context.....	6
5.1. Business expectations. ....	7
5.2. External engagement .....	7
5.3. Capacity development .....	7
5.4. Workforce development.....	8
5.5. Employment policies.....	8
6. Training .....	8
6.1. Accelerated staff progression .....	9
6.2. Training Institutions .....	9
6.3. Implementation phase employment .....	9
6.4. Supplier development.....	10
6.5. Procurement policy.....	10
6.6. Modifying procurement strategies and systems .....	10
7. Implementing and sustaining local content.....	10
7.1. Working with other stakeholders .....	11
7.2. Infrastructure .....	11
7.3. Measuring progress .....	11
7.4. Summary - key success factors .....	12
7.5. Starting early.....	12
8. Taking a long-term perspective .....	13

## 1. Introduction

The new requirements of a firm LOCAL CONTENT plan for projects implemented is well addressed and being into our considerations at highest management meetings, reflecting the necessity of creating job opportunities in the local market and promote enterprise development and accelerate the transfer of skills and technologies from international companies down to the locals in Kurdistan region.

Bright Holder has considered this approach of local content plan as a strategic plan towards transferring of the business standards and experiences down to maximum extent to the local staff.

For the purpose of this document 'local content' captures local community where the small community around the Block of operations exists and national (Kurdistan wide) content in one term. Local content can be measured on a project basis, affiliate basis and/or country aggregate basis.

Bright Holder has an in place local content embedded in the company, as almost 100% of all staff are from Kurdistan; however a local content plan will more focus on the surrounding area of the operation on the block.

The experience of Bright Holder Company suggests that the time and effort invested in developing local content strategy can create social and commercial benefits that progress economic growth and contribute to sustainable development.

## 2. Bright Holder vision

Bright Holder sees that a local content strategy is not a quick fix or a shortcut route to generate benefits. It requires planning, coordination, resources and perseverance to obtain improvements—which are often realized in the long term.

It is essential to communicate within the company the range of business benefits that can be gained through a local content program in order to justify the time and effort involved. This communication can include a wide range of internal stakeholders across different business functions such as human resources, procurement, public and government affairs. An effective local content strategy can assist companies in meeting regulatory requirements, contributing to sustainable development and protecting their commercial interests.

Bright Holder Company is leading the way in developing good practice for managing local content, capitalizing on business benefits while minimizing the challenges. This practitioners' guide draws on that experience and will help in developing corporate support of local content objectives.

## 3. What is Local Content

Local content is the added value brought to a host community through the activities of the oil and gas industry. This may be measured (by project, affiliate, and/or country aggregate) and undertaken through:

### 3.1. Workforce development:

- Employment of local workforce; and
- Training of local workforce (Capacity building).
- Investments in supplier development:
- Developing supplies and services locally; and
- Procuring supplies and services locally.



### 3.2. Objectives:

To hire 10 % - 15 % from Local Content (Local Villagers in affected area, this will be done through coordination with Clinet's community relation officer and local community leader (Mukhtar or village elders).

Using as much as possible the available machinery of Local Villagers.

- To identify the reasons for the effective implementation of the local content policy.
- Develop a framework to promote proper and effective implementation of the policy.
- Effectiveness of local procurement initiatives for the available resources.
- Working with and through Client local community officer.
- Zero troubles with local community

### 3.3. Achieving the objectives:

- thoroughly analyzing the local context;
- starting early in the project life cycle to consider how and when to intervene;
- taking a long-term perspective; and
- Effectively managing information flows and transparency.

Although companies have made considerable progress in advancing local content, it remains an emerging issue. As such, it requires more time and effort to improve practices.

### 3.4. Developing a strategy

Successful local content programs are shaped by a clear understanding of the business benefits and a well-defined strategic plan. Detailed understanding of the local context is imperative. That means avoiding prescriptive solutions.

Practitioners should concentrate on the key drivers in achieving local content: regulatory requirements, business and stakeholder expectations—including those internal to the company. The advantages of having a local content strategic plan include:

- reductions in operational costs by keeping expatriate staff to a minimum;
- smoother flowing supplies of goods and services;
- a consistently renewed license to operate; and enhanced engagement with stakeholders.



With those advantages in mind, the strategic plan should focus on enhancing the capabilities of the local workforce. This is done through employment, training and investment in the local supply base by means of procurement and development.

## 4. Successful strategy

Local content success is driven by:

- **Local context:** Objectives should be based on a thorough understanding of the local context. This knowledge enables planners to define what is realistic and achievable. Particularly important are the

demand-side requirements, the supply- side capabilities, and any barriers that limit local participation.

- **Regulatory requirements:** Regulatory requirements may define explicit targets or objectives for local content development.
- **Business expectations:** There are an increasing number of strategic and commercial reasons behind the move for local content. By identifying them in each case, companies can justify applying the necessary resources and management effort and simultaneously identify the functions and areas of the business that should be involved.
- **Stakeholder expectations:** These should help define objectives, particularly when key stakeholder expectations are not explicitly part of regulatory requirements or the defined business case.

## 5. Understanding local context

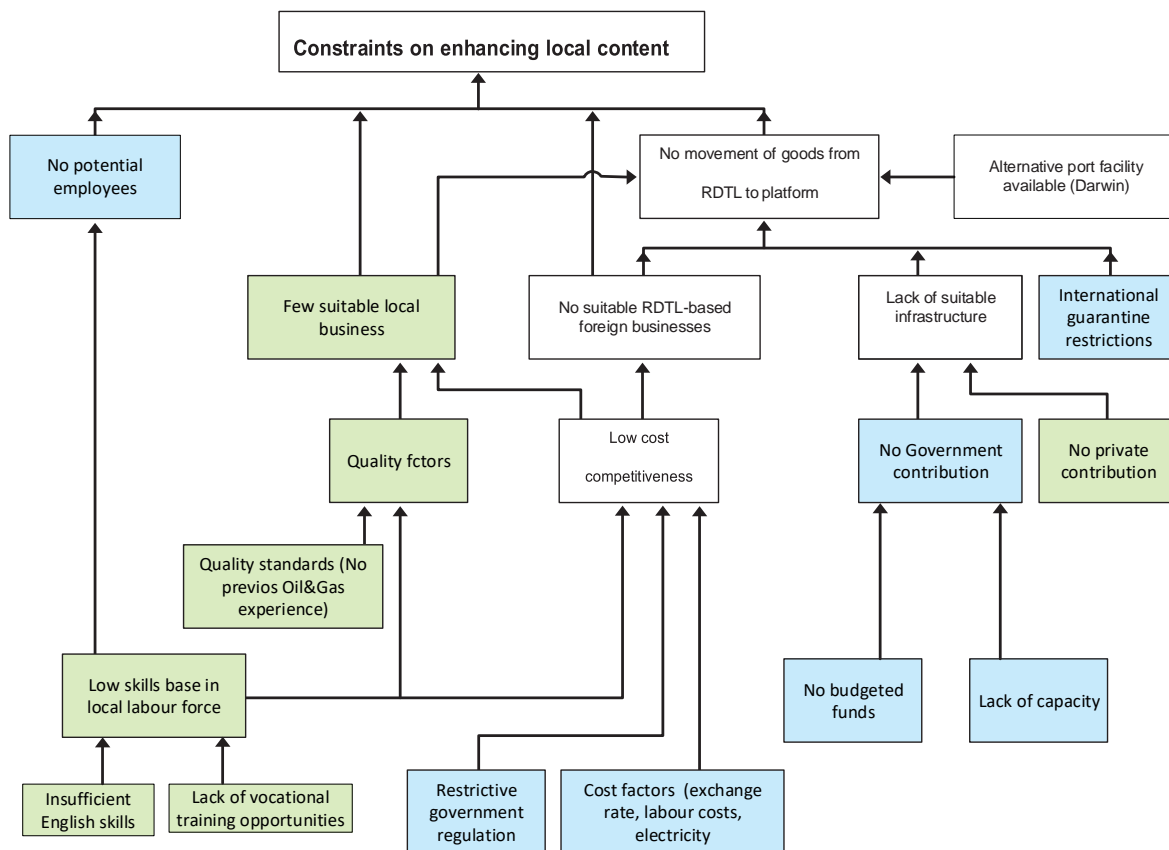
Knowing the neighborhood enables companies to understand the importance of local context in terms of demand-side requirements, supply-side capabilities, and the barriers that limit local worker and local company participation. These factors vary by location, the nature of the project and the stage of the project life cycle.

Experience demonstrates that targets beyond the existing capacity of local industry or the absorptive capacity of particular assets can result in greater costs, lower government revenues and less competition

### Typical analyses that can be used to review the local context and develop a realistic baseline

Analysis of national development priorities	Aligning local content activities with development priorities can greatly enhance the benefits to the company and host country. Depending on the situation, priorities can be identified through formal development plans or through local stakeholder consultations.
Local capabilities study	The existing and potential capabilities is particularly important when operating in new areas.
Supply chain mapping and analysis	These processes enable companies to identify opportunities for local participation. Analyses may include examination of the local content implications of different options in design and procurement, particularly at the conceptual design stage.
Environmental and social risk assessment	Taking into consideration any issues related to local contractors that have not reached international standards of HSE (health, safety and environment) or may not be experienced in local community engagement and social cultural matters.
Cost-benefit analysis	Quantification and analysis of the different levels of benefits, costs and risks associated with different local employment and supply options. It is important to take a long-term perspective on the potential benefits.
Barriers analysis	Analyzing barriers to local content using a problem-tree approach (see Figure 1, overleaf) can identify the interventions required. The exercise can also help to develop the appropriate sequence for these interventions.
Access to finance and business support services	Access to affordable finance is often cited as the primary factor affecting the survival and growth of local businesses, particularly small and medium enterprises. Without such access, local firms are severely limited in their capacity to invest in capital equipment and meet the standards required for inclusion in oil and gas supply chains.
Infrastructure analysis	Infrastructure needs can be directly tied to local business participation. A lack of infrastructure can be a barrier to the provision of local services, and can increase the cost of doing business.

Figure 1 - A problem tree analysis



### 5.1. Business expectations.

The advantages of having a local content strategy may include the following:

- **Government relationship:** Contributing to the stability of the business environment; meeting legislative requirements from the operator's side; and meeting expectations of local communities and business.
- **Supply base:** Maximizing opportunities for achieving higher levels of reliability and quality through local supplier. Proximity is maximizing opportunities for lower costs on some locally-procured goods and services.
- **Workforce:** Increasing access to (and development of) new staff resources, and create new skilled resources.
- **Reputation:** Delivering sustainability and corporate responsibility objectives, and maximizing the impact of community investment resources.
- **Stakeholder expectations:** The implementation of local content programs requires extensive coordination and work. Effective local content management may also require modification of existing business processes and systems, especially project management, procurement and human resource management.

### 5.2. External engagement

Local content programs are inevitably delivered in collaboration with the operator, who play a key role in the process and normally are having their own local content programme enforcing the goals thought the contractors. Bright Holder, therefore benefit from aligning its interests, as far as possible, with those of the operator.

### 5.3. Capacity development

Following the contextual analysis and gaining an understanding of the local drivers, development of a strong

local content strategy can emerge. With a focus on capacity building, the two core areas are in developing the workforce and the supply base.

#### 5.4. Workforce development

Employing local staff is an established objective of the oil and gas industry. To that end, some companies have evolved comprehensive competency development systems' to ensure that local employees can perform effectively and safely in complex and hazardous environments.



#### 5.5. Employment policies

A transparent policy on local employment will help neighboring communities to understand the company's commitment to the available workforce— including the minimum standards that must be met.

It is particularly important to establish a clear policy where recruitment is being used to promote participation of specific groups. These can include women, indigenous people and workers from specific geographical areas or ethnic backgrounds.

Compliance with employment policies will usually be mandatory for major contractors as well.

### 6. Training

An effective local content program usually features training and skills development elements to help local populations achieve the minimum standards required by the company - either in terms of general education or specialist skills. Such training can be an in-house initiative, or the company can look to local institutions to provide any necessary training. In either case, the program should be based on a detailed analysis of local capabilities and a schedule of the skills requirements over the life of the asset.



Aspects of such training can include:

- **Basic education:** depending on the quality of the local education system, training programs may benefit from education in basic capabilities such as numeracy and literacy. Although these fundamental requirements add to the time required to train local employees, the results provide a lasting legacy of improved educational levels.
- **Language training:** essential in cases where the operating language is not widely spoken by potential



employees.

- **Locally-appropriate methods:** as far as possible, training activities should suit the learning needs of participants in terms of language skills, level of education and style of learning.
- **Practical experience:** practical experience is fundamental to building competencies in technical and trades skills and for supervisory and managerial positions. This presents a challenge where comparable working environments are not available locally.
- **Flexibility:** an individual's training period should be determined by his or her rate of progress through a program.
- **Scholarship schemes:** an effective way to attract talented young people into the industry and a valuable social investment activity.

### 6.1. Accelerated staff progression

Companies can encourage the progress of local staff by tailoring training programs to their development.

Personnel are selected for such programs based on their ability to handle a rapid learning process, and need to be carefully selected for their suitability for senior management or technical roles. Such programs usually require both intensive training and one-to-one mentoring activities.

### 6.2. Training Institutions

Deficiencies in local education and training systems can be major barriers to local participation. Investing in local education and training institutions could be a good option. This approach reduces the requirement to provide basic training internally. It has the added advantages of supporting wider skills development in the local economy and promoting the company's long-term reputation as a good corporate citizen. Company investments in these areas can enhance rather than replace statutory funding.

### 6.3. Implementation phase employment

The implementation phase of projects usually offers more employment opportunities than the subsequent operating phase. Companies can maximize local employment through:

- **Skill identification:** Early identification of skill requirements creating the opportunity to train workers for the. Where there are workers who have suitable basic skills but who lack formal trade qualifications, it may be more realistic to recruit such personnel rather than try to develop new skills from scratch.
- **Procurement process:** primary contractors usually to a great extent manage the supply activities. Therefore, the procurement strategy used to engage local personnel to gain knowledge in Specifications and incentives for using local workers as well as requirements to conduct training activities.



- **Information on future contracts:** providing this information in advance may encourage contractors to invest in their local workforce, and thereby strengthen their subsequent bids.

#### 6.4. Supplier development

Local firms' participation in the supply chain—with strengthened capacity to compete—is crucial to the promotion of local content. Two key strategies can help achieve this:

- the modification of procurement systems; and
- the use of dedicated supplier or enterprise development programs.

#### 6.5. Procurement policy

Corporate policy on supplier development can greatly enhance the effectiveness of local procurement initiatives—but only if it provides a mandate and guidance to the personnel responsible for procurement at the operational level.

#### 6.6. Modifying procurement strategies and systems

There are two mechanisms by which local enterprises can enter supply chains. The first is 'direct procurement', which refers to goods and services procured by the oil and gas company itself. Direct procurement gives the company greater control over the procurement process, with the right to reserve contracts solely for local enterprises. The drawback to this approach is that the number and size of contracts suitable for direct procurement are generally limited.

A more realistic opportunity for local firms usually lies in the supply chain of large contractors. This is indirect procurement. Where the existing incentives for larger contractors to engage local enterprises are weak, the construction company's procurement system can be put into play to mandate or provide incentives to contractors to engage local enterprises.

## 7. Implementing and sustaining local content

Since every company is different, there is no single way to achieve a successful local content program. Most successful local content strategies share two common elements: effective internal organization and coordination.

There are several ways to advance coordination, including:

- **Nominating an internal champion:** one designated person—provided he or she has sufficient seniority and expertise—can be a key driver for local content programs. The champion's role is to provide high level endorsement and to motivate others to help promote and implement the program.
- **Integration into business systems:** integration of local content activities into existing business systems maximizes local content outcomes.
- **Performance incentives:** some personnel, particularly those who don't personally experience the benefits of local content, may see attempts to modify existing procedures as interference. To counter this, many companies include local content in staff performance objectives.
- **Information flows:** staffs need to understand the capabilities of local suppliers and how to reach them; local suppliers need to understand when and where opportunities will become available. For these reasons alone, the information needs of key stakeholders should be understood and met.
- **Corporate infrastructure:** recognizing local content as a strategic issue, some companies have established systems and positions at the corporate level to develop and implement corporate standards and to ease communication between different global business



units.

### 7.1. Working with other stakeholders

This section focuses on the benefits—and challenges—of working with stakeholders, with the objective of maximizing local content. For a wider consideration of community engagement.

Several types of organizations have a direct interest in local content. These include:

- National and local governments: the government wishes to maximize the amount of investments in the country and therefore require targets for local content.
- Communities: local people inevitably have expectations about a nearby project. Sustained two-way engagement can enhance companies' understanding about local capabilities and long-term development needs.
- NGOs: where local content development has strong local community dimensions, working with credible local NGOs/CBOs can greatly enhance the chances of success. Specialized NGO can provide useful support services such as partnership building, organizational development and microfinance.
- International organizations: organizations can often provide expertise in local capacity development.
- Other oil and gas companies: while local content is increasingly being framed as a competitive issue, it will often make sense for companies to cooperate in the local content domain—particularly in joint venture developments. The creation of enterprise development centers is one example.
- Lead contractors: since most local expenditure is likely to occur through lead contractors, they will benefit by demonstrating how they contribute to meeting their client's local content objectives.
- Financial institutions: in collaboration with operating companies, banks and similar organizations can help small and medium companies to gain access to sustainable finance.



Benefits from working with external stakeholders include:

- **Resources:** working with others can bring additional resources, expanded capacity and economies of scale.
- **Knowledge, skills and risk sharing:** helping to manage risk can often lead to multi-sector/ multi-partner solutions to the complex problems associated with developing local content programs.
- **Third-party broker:** providing legitimacy, independence and objectivity.
- **Ownership:** enhancing a sense of responsibility over processes and assets.
- **Sustainability:** providing mechanisms for programs to become self-sufficient and sustainable.
- **Legitimacy:** giving greater positive recognition for a company's activities.

### 7.2. Infrastructure

Infrastructure—such as power, water or transport facilities - is critical to the success of local content plans and activities. For example, reliable power can provide direct opportunities for local businesses, and can lead to the provision of more reliable products and services as businesses are no longer burdened with the additional operating costs that result when back-up power/diesel generators are needed.

### 7.3. Measuring progress

Every local content strategic plan should include appropriate indicators that allow the company to measure progress against objectives. Collecting suitable data also helps to meet compliance and reporting requirements. These vary by country and definitions of local content. The environment in which a local content strategy is developed and implemented is likely to be very dynamic. It is therefore essential to review systems and procedures regularly. This review should include:

- the regulatory environment;
- availability of goods and services;
- availability of service providers (e.g. training or educational facilities); and
- social or political change.

#### 7.4. Summary - key success factors

Developing skilled local workers and competitive local suppliers able to perform to the exacting standards of the industry is a difficult—and time-consuming—process. Challenges are compounded by factors outside the company’s control, such as the quality of educational systems, the business regulatory environment, the availability of finance and the condition of infrastructure.



#### 7.5. Starting early

It is essential that local content development be considered as early as possible in the project life cycle to ensure that opportunities are fully realized.

Even some relatively minor decisions, when made soon enough, can have wide-ranging implications.

The importance of starting early is underpinned by:

- Capacity development: effective workforce and supplier development is time consuming. Hence, the earlier these processes are started, the more likely that qualified employees and firms will be available when required. This is particularly important during a development’s construction phase when opportunities are many but time is limited.
- Implications of design and procurement decisions: many decisions made in the early, conceptual stages of a project significantly affect the scope for local participation
- Scheduling: lead times for workforce and supplier development activities need to be explicitly addressed in project scheduling. Projects may need to initiate these activities several years in advance of other on-the-ground activities.
- Information gathering and communications coordination: this can avoid raising unrealistic expectations if performed before final project approval and as part of an integrated external communications strategy.

## 8. Taking a long-term perspective

Taking a long-term view can result in more realistic and sustainable outcomes. Companies and operations with high levels of local participation have typically achieved this over several decades - with long-term benefits in terms of cost reductions and stakeholder satisfaction.

The specific benefits of a long-term perspective are:

- **Skills and capability progression:** employees need operational experience before they can move into supervisory and managerial roles; local firms need to succeed in delivering smaller contracts before moving onto larger, more complicated deals. By planning for this phased progression over a realistic time frame, local content programs can consistently deliver higher value participation.
- **Linkages across project phases:** there may be opportunities to link skill requirements and supply opportunities between exploration, implementation, and operations and maintenance.

Free flowing, transparent information streams Information flows are crucial for developing local content. On the supply side, workers and businesses need to be aware of the opportunities that are available and how to access them. On the demand side, technical end users and personnel from procurement and human resources departments in companies and international contractors need to understand the capabilities available locally. They must also become aware of how best to make links with local suppliers. Language barriers and cultural differences may complicate these processes—particularly in new operating environments.

Key considerations in information management include:

- a. **Locally-appropriate communication:** using local languages and distribution channels makes communication more effective—particularly when linking information on supply and employment opportunities to established channels within targeted communities.
- b. **Future opportunities:** providing information about future requirements and employment opportunities gives local businesses and workers time to invest in capital equipment and to obtain the necessary skills and expertise. It also benefits international contracting companies that may be more willing to invest in training, supplier development, infrastructure and joint ventures if they have a clearer understanding of future projects and contracts. Some oil and gas companies release information about planned activities and requirements up to five years in advance.
- c. **Culture change:** communicating non-confidential information about a company's current and future requirements is logistically straight forward, but may require cultural change in favour of transparency.
- d. **Transparency:** local content programs involve making difficult choices about which parties obtain access to employment and business opportunities. Transparency in the way these decisions are made helps to discourage corrupt practices and may mitigate potential grievances from unsuccessful bidders.

This guidance document is evidence of an emerging body of good practice in the management of local content in the oil and gas industry.