Catalysing In-Country Value: Qatar's way forward to a sustainable and resilient economy

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Context

Under the country's leadership and direction of the Vision 2030 strategy, Qatar has made a number of significant achievements, including development of world class infrastructure, winning the bid to host the 2022 FIFA World Cup, and overcoming regional geopolitical and economic challenges in recent years. Despite this significant progress, Qatar remains dependent on oil and gas (O&G) revenues and, facing some challenges to its economic security, must continue to build a more diversified and resilient economy.

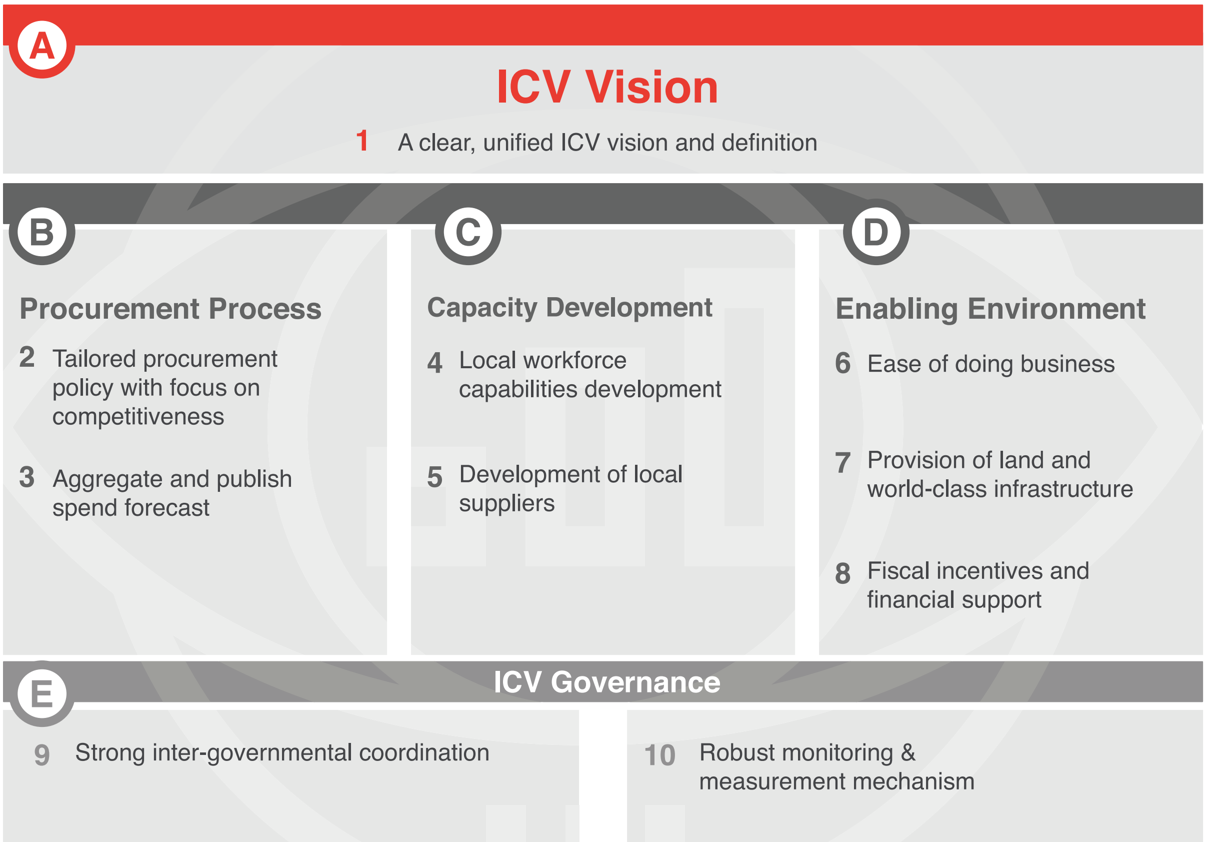
Qatar's economic challenges are primarily related to economic diversification and development of national capabilities. Most importantly, the country is dependent on O&G revenues, representing a significant share of government revenues. Additionally, the country relies heavily on imports of goods and services from international suppliers. Finally, there is a strong drive to continue developing local talent and capabilities, while also creating a culture of innovation and entrepreneurship within Qatar.

In light of this, Qatar should continue to pursue a national agenda focused on catalysing In-Country Value (ICV) in order to continue reducing reliance on imported goods and services, building capabilities of the local population, and attracting investment to Qatar to achieve a competitive and resilient economy.

What is ICV and how does it benefit the local economy?

By encouraging international companies to invest locally through foreign direct investment, joint ventures, and local content policies, resource-rich countries have long aimed to take advantage of their natural resources wealth to develop local industry, create jobs, transfer technology, and build human capital. Government ministries, national oil companies, and other public entities have enacted policies – often referred to as localisation policies - to encourage directing spend towards companies with activities that add value to the local economy. Hence, companies with higher ICV in their supply chain that are contributing to the local economy are given a competitive advantage over others.

While there are varying definitions and interpretations, ICV can broadly be defined as the total spend that remains within a country, benefitting the development of local companies and human resources, and contributing to strengthening economic productivity, diversification, and resilience. Depending on each country's unique business and economic situation, there are a number of different ways in which this can be achieved. To do so, however, there are 5 fundamental elements which must be considered to ensure successful implementation of ICV: clear vision, tailored procurement process, focus on capacity development, fostering of enabling environment, and sound governance.



[1]**Source:** PwC team analysis
[2]**Source:** PDO Annual Report 2014, PwC Analysis

While requiring a significant commitment, focus, and sound policy decisions, ICV can bring significant benefits to different sectors of a national economy.

Benefits to government:

- Growing and diversifying the economy by increasing demand for and supply of local products and services; especially, from small and medium-sized enterprises (SMEs).
- Creating high-skilled jobs
- Catalysing development in remote regions
- Developing and fostering a knowledge economy
- Increasing private sector share of GDP (particularly important for resource-rich countries)

Benefits to the private sector:

- Overcoming barriers to entry (HSE standards)
- Increasing competitiveness
- Developing organizational capabilities and know-how
- Promoting entrepreneurship and innovation at the firm level
- Boosting the role of SMEs in the national economy

Benefits to national oil companies and state-owned enterprises

- Improving efficiency and resiliency of the enterprise-wide supply chain
- Shorter procurement lead times
- Ensuring availability of spare parts, maintenance support, and other critical services
- Reducing the overall cost of goods and services on the long run

Lessons derived from other countries' ICV development strategies

ICV policies have seen success in various resource rich countries around the world. Norway was one of the first countries to devote effort to increasing value in the local supply chain. Initially, Norway predominantly leveraged foreign companies to develop oil and gas resources in Norwegian waters. The government, seeing benefits from foreign investment in Norway's resources, decided to implement a series of policies to bolster ICV:

- Requiring usage of local suppliers in procurement activities
- Mandating International Oil Companies (IOCs) to enter into joint R&D agreements with the Government and Norwegian research institutes
- Obligating IOCs to enter into training agreements, as well as, providing theoretical and practical field training for local human resources – this included mandating that a certain share of employees be Norwegian

Norway has witnessed success from its localisation policies; because of a focus on transferring skills and increasing local know-how, a number of professional services companies, including PGC, Seadrill, and Aker Solutions now provide O&G products and services around the world. Indeed, ten percent of all international services contracts are provided by Norwegian companies.[1] Focusing on adopting advanced technology and transferring knowledge allowed Norway to become one of the most developed O&G sectors in the world.

GCC countries have also taken advantage of oil and gas wealth to drive ICV. Oman, faced with increasing unemployment, a young population, and a somewhat undiversified economy, realised the importance of using the benefits of O&G revenues and government spending to bolster localisation. Given these unique challenges, Petroleum Development Oman (PDO) along with the Omani Government and 12 other O&G related companies launched in 2012 an ICV program to increase employment of local resources (Omanisation), develop local capabilities, and increase the contribution of local suppliers.

To achieve this, PDO, along with other organisations in the O&G sector, launched training programs for low, medium, and high-skilled workers, and provided incubators to develop local contractors in the O&G industry. The training programs created opportunities for Omanis to obtain certifications in vocational fields, like welding. Likewise, accredited courses were made available to highly-skilled employees, including engineers and white-collar positions. As a result, Oman's ICV program successfully added over 14,000 jobs to the economy and increased the share of local contractor in the O&G value chain.[1]

Implementing ICV in Qatar

Qatar should take advantage of lessons learned from countries with similar challenges. It should enact ICV initiatives to diversify and develop the local economy and strengthen the resilience of the national supply chain. To do this, Qatar must establish the right vision for in-country value, align the core focus areas mentioned above, and establish sound governance.

Although Vision 2030 has been defined for Qatar, the remaining 2 fundamentals of ICV implementation require additional effort in order to reap the benefits of localisation. To date, there is not a country-wide formula that defines "what" and "how much" is local. The first step in implementing ICV for Qatar is to define a formula which calculates ICV across the end-to-end value chain for goods and services.

Secondly, Qatar must ensure that the local capabilities are equipped with the proper knowledge, tools, and know-how prior to shifting critical spend back to Qatar. Countries around the world, who have pushed ICV, have undergone a prioritisation activity to develop a localisation roadmap of goods and services. This allows countries to focus on "critical" and "possible to localise" items rather than localising the full spend. It is imperative to focus on specific categories of goods and services when localising spend and ensure that the local supply base is prepared to take on the additional capacity.

Thirdly, it is imperative that Qatar fosters a "business-friendly" environment to enhance the ease of doing business and attract foreign investment. Qatar ranks 83rd in ease of doing business[2] and this can potentially limit its ability to boost ICV; businesses may grow reluctant to support Qatar if the legal regulations become a hurdle rather than an enabler.

Finally, once the vision and enabling environment is put in place, Qatar must introduce a strong governance model. Governance of localisation initiatives is critical to the implementation, the sustainability of the program, and the resilience of the country. Although there are different localisation governance models used around the world, each country has put in place an entity to drive, monitor, and enforce the ICV agenda across industries. Without a proper governance model, Qatar may risk introducing a program which businesses view as another "tick in the box."

In conclusion, Qatar is well-positioned to embark on its localisation journey. With a wealth of natural resources, a strong talent pool, and a promising upcoming agenda, Qatar can use this to its advantage to ultimately enhance the sustainability and resilience of its economy. However, the foundation must be reinforced to ensure a successful implementation of ICV in Qatar.

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- Localisation vision and strategy
- Category localisation roadmap
- In-Country Value program and framework development
- Supplier development
- In-Country Value certification
- Supplier In-Country Value strategy development
- Local workforce capabilities development

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