# PROMOTING SMALL AND MEDIUM ENTERPRISES IN THE NIGERIAN OIL AND GAS INDUSTRY

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**Abstract**

Small and medium scale enterprises (SMEs) are generally acknowledged as having huge potentials for employment generation and wealth creation in any economy. Hence interest in their development continues to be in the forefront of policy debates. In Nigeria however, the sector remains relatively small in terms of its contribution to GDP or to gainful employment. Though the Nigerian Oil and Gas Industry has played pivotal role in the economic development of the country since independence, with over 95% of total export revenue currently accruing from this sector, the participation of SMEs in the sector has been largely insignificant. However, the enactment of the Nigerian Content Development Act 2010 provides a number of opportunities for Nigerians to participate in the oil and gas sector. This paper examines the historical trend in the development of SMEs in Nigeria and identifies the several opportunities and competitive advantages now exclusively reserved for Nigerian companies under the Nigerian Content Act. The access to funding for development of the capital base of SMEs is emphasised, and it is suggested that the Act would offer a turning point in the realisation of all the policy trusts formulated for growing SMEs in Nigeria in the future.

**Keywords:** SMEs, Oil and Gas, NOGIC Act, Nigerian Content

## Introduction

Small and medium scale enterprises (SMEs) have been recognised as indispensable components of national development in both developed and developing economies (Abrie and Doussy, 2006; Lai and Arifin, 2011). This sub-sector of the economy is globally acknowledged to contribute substantially in enhancing employment creation or generation, poverty alleviation, equitable distribution of resources, income redistribution, technical and technological innovation, entrepreneurial skills development, more uniform industrial and economic dispersal, and general improvement in the living standard of the populace within an economic region. Moreover, they have been touted as strategic in ensuring food security and encouraging rapid industrialisation and reversal of rural-urban migration (Oyekanmi, 2003; Osalor, 2012).

Although SMEs are seen as veritable and viable engines of economic development, the growth and development of SMEs in Nigeria have been slow and in some cases even stunted, due to a number of problems and challenges confronting this all-important sub-sector of the economy. Some of the problems highlighted in the body of literature as being responsible for their slow growth and development include: deplorable infrastructural facilities; funding and financing challenges; inadequate managerial and entrepreneurial skills; limited capacity for research and development as well as innovations; limited demand for their products and services; burden of multiple taxes; and overbearing actions of government functionaries and agents. Others include difficulties associated with complying with regulatory requirements in the specific areas of operations of the SMEs; problems of under-capitalisation and difficulty with access to bank credits; bureaucratic bottlenecks; corruption and lack of transparency arising from government regulation and regulators; as well as government's lack of interest or focus in addressing the specific factors responsible for the abysmal performance of the sub-sector (Onugu, 2005).

Osalor (2012) argues that the most disturbing among these challenges is funding, but concedes that most new small business enterprises are not attractive prospects for banks as they want to minimise their risk profile. SMEs in Africa have therefore been found to rely largely on own savings, not only to grow but also to innovate, whereas firms often need real services support and formal finance assistance, failing which under-investment in long term capabilities (Training and R & D) may result, (Oyelaran-Oyeyinka, 2003). On the other hand, Oluboba (2011) blamed the poor performance of the Nigerian small scale enterprises on poor management practices, poor access to funds, low equity participation from stakeholders, poor infrastructural facilities, shortage of skilled manpower, multiplicity of regulating agencies and the over-bearing operating environment, societal and attitudinal problems, little access to markets and lack of access to information.

This paper examines the respective strengths and drawbacks associated with the historical trends and efforts at developing SMEs in Nigeria. It identifies and analyses the opportunities provided for the promotion of SMEs in the Nigerian Oil and Gas Industry, through the enactment of the Nigerian Oil and Gas Industry Content Development Act, 2010 (NOGIC Act), and what this portends for investment in the sector. The Nigerian oil and gas industry has continued to play pivotal role in the economic development of the country since independence in 1960. It is currently accounting for over 95% of total export earnings and over 83% of Federal Government revenue, as well as generating more than 40% of GDP. However, the potentials and participation of SMEs in this sector have been reported as largely underutilized and grossly inadequate.

Ebiri (2012) has reported on the projection that as a hub for oil and gas industry, Nigeria was expected to generate an estimated \$191 billion in the next eight years and create over 300,000 new jobs in the sector as a result of the NOGIC Act. He further reported that prior to the Act, Nigeria was buying rather than selling oil equipment, which cost her an estimated \$380 billion and lost job opportunities of about two million. According to the Nigerian Content Development and Management Board (NCDMB), more than 95% of the industry budget was spent abroad over the last 30 years, and the hope has been expressed that in the years before 2020, government would have been able to reverse the situation to one in which over 65% of industry budget would be spent locally (Nwapa, 2012).

**Classification of Small and Medium Enterprises**

An enterprise is a project, an undertaking, a company, a firm, or an individual that is engaged in one form of economic activity or the other, with the aim of producing some goods or services for sale to others. The definition of the size of the enterprise and their classification into micro, small, or medium has been generally based on criteria such as volume of sales turnover, number of workers in employment, or value of assets and investments. Ayaggari, Beck, and Demirgue-Kunt (2003) assert that the definition of small and medium scale enterprises varies according to context, author and country. Classification in USA, Britain and Canada is defined in terms of annual turnover and the number of paid employees whereas in Japan, it is conceptualised as type of industry, paid up capital and number of employees.

It appears that the multiplicity of definitions of SMEs may not be unconnected with the fact that they are substantially heterogeneous. However, they have often been classified or defined in terms of quantitative and/or qualitative variables or characteristics. The quantitative indicators include the number of employees, sales, and capital employed, while examples of the qualitative indicators are legal status, ownership structure, factor intensity and technology (Lawal and Ijaiya, 2007; Onugu, 2005).

With respect to the form, the legal status or the ownership structure, an SME may be constituted operationally as a sole proprietorship, a partnership, or a private or public liability company or even a co-operative. In respect of the kind of activities engaged in, SMEs may be constituted to provide services (like educational and health services), while others may be engaged in manufacturing or processing. It is important to note however that most working definitions of SMEs have been based on quantitative considerations such as the number of employees or annual sales turnover.

In Nigeria, there have been different definitions of SMEs by different institutions. These institutions include the Central Bank of Nigeria (CBN), the Small and Medium Industries Equity Investment Scheme (SMIEIS), the Nigerian Institute for Social and Economic Research (NISER), Federal Ministry of Industry (FMOI), the National Association for Small and Medium Enterprises (NASME), and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). For instance, an SME has been defined by CBN as an outfit with a total capacity outlay (excluding land) of between N2 million and N5 million, while SMIEIS recognises an SME as any industry with a maximum asset base of N200 million, excluding land and working capital, and with the number of staff employed by the enterprises not less than 10 and not more than 300 (Lawal and Ijaiya, 2007).

Oyelaran-Oyeyinka (2012) captures the poor performance of SMEs in Nigeria relative to their counterparts elsewhere by revealing that although about 96% of Nigerian businesses are SMEs compared to 53% in US and 65% in Europe, they contribute approximately 1% of GDP compared to 40% in Asian countries and 50% in both US and Europe. In essence, each economy needs to be able to define the micro-, small-, and medium–sized enterprises in terms of values or parameters that are likely to help enhance the growth and development of the sub-sector as a whole. Similarly, the regulatory environment must be such as would complement the growth and development portfolio of the sector. Government's various policies and guidelines that have formed the regulating environment under which SMEs in Nigeria operate would now be briefly examined.

**Regulatory Environment for SMEs**

The regulatory environment constitutes an important component required to ensure the growth and development of a viable and vibrant SME sub-sector of the economy. It has been posited that the operating environment like government policies, effects of globalisation, activities of financial institutions, local government policies, and SMEs' attitude to work and their inherent characteristics are factors responsible for the challenges that SMEs face in their operations (Onugu, 2005). Regulation is part and parcel of contemporary business life as it helps to shield the businesses, the employees, and the general public from unwarranted risks just as it protects the environment from pollution. Besides, Regulation is the medium through which government targets her policy aims and objectives. The regulatory environment includes all the stipulated conditions, rules and regulations, as well as the government policies and guidelines that dictate the setting up of SMEs, and that influence their mode of operations. In this context therefore, the regulatory environment includes the legal framework, financing regulations, tax administration, as well as ownership and management structure among others.

Policies and regulations targeted at the promotion of SMEs in Nigeria can be traced to include the Nigeria Enterprises Promotion Act No. 3 of 1997; Patent Right and Design Act No. 60 of 1979; and Industrial Development Tax Act No. 2 of 1971, among others. Some micro lending institutions established to enhance capacity and development of SMEs were identified in Ogechukwu (2006) as including the defunct Nigerian Bank for Commerce and Industry (NBCI), National Economic Reconstruction Fund (NERF), and the National Export and Import Bank (NEIB). Others are the Bank of Industry (BOI), Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), National Poverty Eradication Programme (NAPEP), National Economic Empowerment and Development Strategies (NEEDS), Small and Medium Industries Equity Investment Scheme (SMIEIS), Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), and the Microfinance Development Fund (MDF).

SMEDAN was established in 2003 to promote the development of the micro, small, and medium scale enterprises (MSME) sector of the Nigerian economy through facilitation of access to all resources required for their development. The need arose from realisation that poverty is a social malaise that threatens global prosperity in general and national economic growth and development in particular. A well developed MSME sector has proven to be one of the most veritable channels to combat poverty. The overall result of government’s efforts at defining an effective operating environment for SMEs indicates that these policies and regulations do not seem to have achieved the desired results. This is evident from the observation that Nigerian SMEs unlike their counterparts in many other parts of the world are yet to propel the economy as required.

The financial and economic environment appears to be quite crucial to the viability and sustainability of SMEs, since major challenges that impact on the performance of the sub-sector derive from this environment. It was in the bid to solve the funding problems confronting small and medium scale entrepreneurs that the Small and Medium Industries Equity Investment Scheme (SMIEIS) was established (Oyelaran-Oyeyinka, 2012).

The SMIEIS is about the latest of the schemes designed to tackle the problem of financing SMEs in Nigeria, requiring that all banks reserve 10 per cent of their pre-tax profit for equity investment in the industry. However, Inegbenebor (2006) found that the utilization rate of the accumulated fund was only 3 per cent, while the level of awareness of the scheme was only 39 per cent, with a high managerial capacity in the firms but weak capacity to utilize the fund. All the massive attention and support given to SMEs relate to the widely acclaimed fact that SMEs are job and wealth creators. When the SMIEIS was established in 2003, it was expected to help revamp the SMEs as engines of growth in the economy and veritable tools for the development of indigenous technology, rapid industrialization, employment generation for our teeming youths, and as the pivot for sustainable economic development in Nigeria (Sanusi, 2004).

In 2012, the Federal Government approved the sum of N200 billion for operation of the Small and Medium Enterprises Credit Guarantee Scheme (SMECGS) fund. To be operational, the eligibility conditions for applying institutions was to be formulated by the Central Bank of Nigeria (CBN) together with relevant agencies of government (Uko, 2012). While the SMECGS and the Microfinance Development Fund (MDF), which is required to support micro, small and medium enterprises were established simultaneously, interested SMEs may only benefit from these funds if they are viable and satisfy the expected eligibility conditions.

Many SMEs in Nigeria may not be aware of the existence of SMEDAN, the various sources of funds for SME development, the incentives available for them, the legal and regulatory requirements, how to source funds from banks or even the basic procedure for promoting an enterprise. Majority of SME promoters are averse to going into partnership schemes and also to equity participation by banks under the SMIEIS programme. This perhaps explains some of the attitudinal challenges that they need to address in order to over some of their problems.

Typically, smaller enterprises face higher transactions costs than larger enterprises in obtaining credit (Olorunshola, 2003). Poor management and accounting practices have hampered the ability of smaller enterprises to raise finance. Information asymmetries associated with lending to small-scale borrowers have restricted the flow of finance to smaller enterprises. In spite of these claims however, some studies show a large number of small enterprises fail because of non-financial reasons.

**Historical Trends in the Nigerian Oil and Gas Industry**

Since the discovery of crude oil in commercial quantity at Oloibiri Well-1 in 1956 by the joint venture of Shell Overseas Exploration Company and D'Arcy Exploration Company (Shell D'Arcy), the oil and gas industry has continued to serve as the main stay of the Nigerian economy, and literature abound on its role and significance to the nation (Atakpu, 2007). Operations in the oil and gas industry are largely classified into the Upstream and Downstream sectors. The upstream sector involves operations in the area of exploration and production, including seismic surveys, well location preparation, drilling, flowlines and pipelines network, manifolds, flowstations and compressor stations, storage tankfarms, and export terminals. The downstream sector comprises activities for refining of crude oil products, comprising kerosene (DPK), petrol (PMS), diesel (AGO), domestic gas and others, and the distribution, and marketing of these products to final consumers.

In the upstream sector, Shell D'Arcy had enjoyed a monopoly of concession in Nigeria until the period 1960 – 1965 when four additional foreign companies – Gulf Oil and Texaco (Chevron), Elf Petroleum (Total), Mobil (ExxonMobil) and Agip were allowed to join in the exploration and production operations. During the first decade of operation, these multinational oil companies were the only players, with concessions wholly owned by them and the Nigerian state merely content with the passive role of royalty and tax collections.

In 1971, Nigeria became a member of the Organisation of Petroleum Exporting Countries (OPEC) which encouraged members to take control of their petroleum industry by increased state participation through National Oil Companies (NOCs). This led to the incorporation of the Nigerian National Oil Company (NNOC) in 1971, followed by the creation of the Ministry of Petroleum Resources (MPR) in 1975. Whereas the NOCs in some OPEC member countries took direct control of production operations, multinational oil companies in Nigeria were allowed to continue with such operations under joint operating agreements. The merger of NNOC and MPR in 1977 resulted in the Nigerian National Petroleum Corporation (NNPC). Production has since continued especially in the Niger Delta which encompasses about 78 of the 159 oil fields, with its high quality of 'light' and 'sweet' crude distinguishing Nigerian oil from most other OPEC countries, and comparable only to the North Sea oil (Khan, 1994).

The Petroleum Act Cap 350 provides for three classes of grants for petroleum rights in Nigeria. These are Oil Exploration Licence (OEL), Oil Prospecting Licence (OPL), and Oil Mining Lease (OML). An OEL authorizes the licensee to carry out aerial, surface, geological and geophysical surveys excluding drilling below 300 ft. No exclusive right is granted but may be renewed for one year if licensee fulfils the terms and conditions of the licence. On the other hand, OPL grants exclusive right to conduct all exploration work and drilling to any depth and if petroleum is discovered in the area of the licence, to produce and dispose of the same. If the discovery is in commercial quantities the licensee must convert his OPL by making an application to the Department of Petroleum Resources (DPR) for an OML. An OML grants the right to exploration and production, transportation and disposal of production (Stotos, 2010).

Unfortunately, small and medium enterprises have not been adequately accommodated in the industry over the years. The reason for this was attributed by Ariweriokuma (2009) to the low level of local content that had existed, and which industry experts had allegedly based on lack of requisite skills, technical expertise, manpower and production capacity, and capability to compete favourably. A large portion of the accruable revenue was therefore repatriated abroad where most of the equipments are manufactured, thus providing employment opportunities for citizens of other countries. The oil and gas sector in Nigeria has been reported as spending $12 billion annually under the various forms of joint ventures and profit sharing contracts (Momoh, 2011).

**The Nigerian Content Development Act 2010**

The concept of local content law for the protection of national economic interest is not peculiar to Nigeria but a global phenomenon in the oil industry, as it has previously been undertaken by several other oil-producing countries. Prior to the enactment of the Nigerian Oil and Gas Industry Content Development Act 2010 (NOGIC Act), frantic efforts have been made by the Nigerian government towards enhancing the participation of Nigerian companies in operation within the industry. This resulted in the three major business arrangements in the forms of Joint ventures, Production Sharing Contracts, and Service Contracts.

Nwosu, Nwachukwu, Ogaji, and Probert (2006) expatiated on these arrangements whereby the Joint Venture (JV) involved Joint Operating Agreements (JOA) between the Federal Government represented by NNPC and multinational operators such as Shell, Chevron, Agip, Total, ExxonMobil, Addax, especially for productions in the onshore territories, with one of the partners designated as operator of the joint venture. The emergence of offshore oil and gas operations and the granting of deep water acreages to the oil companies led to a shift from the JOA regimes to the Production Sharing Contracts (PSC) involving arrangement between the government and operators. NNPC acts as concessionaire and the operator funds exploration, development and production activities, while both parties share revenues in agreed proportions. McLennan and Williams (2005) have posited that deepwater drilling in offshore operations must have become very relevant and especially attractive to oil companies because of the relatively higher freedom of operation, and the less likelihood of disturbances by local militant attacks.

Service Contracts (SC) has been explained by Nwosu et al (2006) as where Oil Prospecting Licence (OPL) title is held by NNPC while the operator designated as the service contractor provides all funds required for exploration and production operations. By leveraging on the technical know-how and experience of the companies, government is able to focus its energies in other pressing areas of the economy. Despite these arrangements, capital flight continued from the country via monies used in servicing the industry abroad. The need to further deregulate and liberalise the downstream sector to enable Nigerian entrepreneurs with requisite expertise to fill the obvious gap became imperative. Further efforts continued generally within the NNPC to introduce policies that would promote an increase in the local content of goods and services in the industry, through the Department of Petroleum Resources (DPR), the National Petroleum Investment Management Services (NAPIMS), and the Nigerian Petroleum Exchange (NIPEX).

In 2005, NNPC established a dedicated Nigerian Content Department (NCD), charged with increasing the quantum composite value added to, or created in the Nigerian economy through the deliberate utilisation of Nigerian human and material resources and services without compromising quality, health, safety and environmental standards, in order to stimulate the development of indigenous capabilities. Guidelines were issued to companies for realisation of more local content, and these were continuously revised to fine-tune the requirements after receiving feedbacks from industry stakeholders. This local content policy was found to have had very little positive impact in enhancing SMEs participation in the industry, thus necessitating the need for a more stringent local content law (Ihua, 2010).

Nigeria's efforts to pass the local content legislation, with stringent, ambitious targets and stiff penalties drew widespread attention and prompted numerous international workshops, seminars and symposia. The Nigerian Content Bill was eventually signed into law and became effective as the Nigerian Oil and Gas Industry Content Development Act (NOGIC Act) on 22nd April 2010, to stimulate the development of local capacity and capabilities in the Nigerian oil and gas sector through increased indigenous participation, to create linkages to other sectors of the national economy and boost industry contributions to the growth of our National Gross Domestic Product.

The NOGIC Act is principally aimed at ensuring that substantial proportion of activities, material engineering parts and human capital utilised in the Nigerian oil and gas industry are domiciled within the country. It states that the domiciliation should focus on local value addition and promote technology transfer. The law ensures that there is first consideration for Nigerian operators in the award of contracts; provides for the domiciliation of research and development in Nigeria; training opportunities for Nigerians; and continuous growth of indigenous capacity. The law also established the Nigerian Content Development and Monitoring Board (NCDMB) empowered to enforce compliance under a governing Council, as well as the Nigerian Content Consultative Forum (NCCF), and the Nigerian Content Development Fund (NCDF).

**Implementation of the Enterprise Promotion Guidelines**

Direct implementation of the NOGIC Act commenced with the establishment of the Nigerian Content Development and Monitoring Board (NCDMB) in 2010 for enforcement of the law. Failure to comply with Nigerian Content requirements is now a fatal flaw at any stage in the tendering process for contracts in the oil and gas industry .Sections 3(1), 3(2), 12, and 13 of the Act stipulate that Nigerian companies be given first consideration in the award of contracts, and the use of locally manufactured goods where companies demonstrate competences in ownership of equipment and capacity of personnel, and such goods meet the specifications of the industry (NOGIC Act, 2010).

Section 16 of the Act gives a 10% head start over the lowest bidder for a contract by allowing that where a Nigerian indigenous company has capacity to execute such job, the company shall not be disqualified exclusively on the basis that it is not the lowest financial bidder, providing the value does not exceed the lowest bid price by 10 percent. Additionally, Section 14 allows bids with 5% higher Nigerian content to be given consideration over other bids that are within 1% range of each other.

Section 104 of the Act establishes the Nigerian Content Development Fund (NCDF) for the purposes of financing the implementation of Nigerian Content development, and stipulates that 1% of every contract awarded to any company for all projects or transaction in the upstream sector shall be deducted at source and paid into this fund. The fund is to be managed and employed by the NCDMB for projects, programmes, and activities directed at increasing Nigerian Content through development and utilisation of local capacity and capabilities in the industry. The target of this fund is to enhance capacity building, and it has been suggested that SMEs should have access to soft loans from this fund in order to boost capital base.

In order to clarify the NOGIC Act, NCDMB released several guidelines and regulations which set out the procedures for its effective management. In respect of the

NCDF under Section 104 for instance, it has been clarified that where the operator, contractor, subcontractor, alliance partner or any other entity involved in any project awarding a contract has deducted and paid 1% of the total milestone payment, other subcontractors or suppliers in respect of any goods or services which form part of the same contract will no longer be required to make deductions. This is to avoid double taxation, and it is particularly beneficial to SMEs who may benefit from accessing the fund in form of loans, while being shielded from paying back another 1% of the contract sum, since the projects to be executed by SMEs would mostly be subcontracts on which 1% was already deducted in the main contract.

**Requirements for entry into the market**

Every aspiring SME entrepreneur in the oil and gas industry should be acquainted with the competency requirements that would enable entry into the market. The following are basic minimum requirements:

- Corporate Affairs Commission registration as a corporate entity.
- Department of Petroleum Resources registration to obtain permit to enter into contracts in the oil and gas industry.
- Nigerian Petroleum Exchange (NIPEX) registration for access to participate in tendering activities on the e-Marketplace hosted by the NNPC.
- Value Added Tax registration to obtain a number and certificate.
- Established physical presence (office, staff, facilities, etc.).

Qualified SMEs must show that their companies are sustainable entities and demonstrate that they have the capability to get the job done to professional standards, preferably with evidence showing a track record of delivering results on schedule and at agreed cost. There are technical requirements in some of the categories that must be met, and SMEs must demonstrate that they are able to meet these technical specifications by ensuring they have the right certifications, personnel, and equipment. Most opportunities in the industry are advertised in the Nigerian Petroleum Exchange (NipeX) website, and prospective bidders must regularly check this portal in order to have more time to respond to calls for bids and prepare adequately compliant Tenders.

The industry has positioned itself to take advantage of the Nigerian Content Act by setting up associations such as the Petroleum Technology Association of Nigeria (PETAN), a body made up of only Nigerian companies prospecting in the oil and gas industry. The association is represented in the Council of Nigerian Content Development and Monitoring Board (NCDMB), where they act as pressure group and have the advantage of ensuring that

Nigerian content rules are complied with by operators. They also organise regular seminars and workshops for enlightenment of members.

**Opportunities available to SMEs in the Oil and Gas Industry**

Though oil and gas production is mainly in rural communities in Nigeria, indigenes are increasingly forced migrating to cities in order to be able to enjoy the benefits of these resources due to lack of amenities in these rural areas, while multinational companies engage foreigners in actual execution of the works on site. Momoh (2011) blamed the lack of local content for the high unemployment and linked this to the emergence of militancy in the Niger Delta region. The NOGIC Act has now provided the legal framework for stimulating investment in the Nigerian oil industry. It strives to build local capacity by defining minimum Nigerian Content value for particular goods and services, and presents various opportunities within the Schedule to the Act for SMEs participation in both technical and non technical categories. Most entrepreneurs are faced with the challenges of accessing opportunities within the industry due to lack of good knowledge of available resources in the sector.

In the Schedule to the Act, 287 activities and services applicable in the industry are listed under 17 sectors, and the minimum level of Nigerian content required for each activity and service is stipulated. The sectors range from Engineering Design, Fabrication and Construction, Materials and Procurement, and Well Drilling, to Research and Development, Exploration, Transportation, and Health, Safety and Environment. Other listed sectors include Information and Communication, Finance and Insurance, Installation and Commissioning, Inspection and Testing, Project Management, Surveying, Modification and Maintenance, and Shipping (NOGIC Act, 2010).

Activities and operations in some of these sectors are highly capital intensive, with sophisticated equipment beyond the reach of the average small and medium scale enterprise. The NOGIC Act therefore recognises three categories of Nigerian companies as follows:

1. **Nigerian Independent Operator** (an oil company having at least 51% Nigerian equity participation, and the capacity to manage oil blocks, oil field licences, oil lifting licences, and such other oil and gas prospecting, exploration, and production operations).
2. **Nigerian Company** (a company formed and registered in Nigeria in accordance with the provisions of Companies and Allied Matters Act, with not less than 51% equity shares by Nigerians, capable of executing construction and support contracts for Operators).
3. **Nigerian Indigenous Service Company** (a company registered under the laws of Nigeria and is wholly owned or has at least 51% of its equity and ownership structure held by Nigerians). This category caters for the SMEs.

Some of the large Nigerian companies that have been able to take advantage of the Nigerian Content incentives include Lonestar (drilling), SCC Mill (manufacturing of line pipes), Nigerdock (construction of SBM Calm Buoys), Starzs (building of offshore vessels), Nestoil, Baywood, and Oilserve (pipeline construction), among others.

Nevertheless, there are several sectors and activities that are specified for requirement of high level of Nigerian Content (NC) while involving little capital outlay. The most attractive sectors for SMEs include Materials and Procurement where supply of steel plates, flat sheets, steel sections, and steel pipes have 100% NC requirement; Transportation sector with 100% NC requirement for disposal, distribution and waste transport services, and truck package and product transportation services. Similarly under the Health, Safety and Environment sector, affordable services exclusively reserved for Nigerian companies include site clean-up, industrial cleaning, catering, and laundry, while security services, pollution control, and supply of safety materials have very high NC requirement of at least 90%.

Public Address system services attracts 95% NC under the Information and Communication sector, while Auditing services, Life Insurance services, Insurance Broking services, Security Broking services, and Fund Management services are exclusively reserved with 100% NC under the Finance and Insurance sector. The Schedule to the Act further stipulates that in the Installation and Commissioning sector, Pipe Cutting and Bending services, Trenching and Excavation services, and rental of Cranes and Crane barges are under exclusive reserve. Similarly, Geophysical and Hydrographic Site Survey service is exclusively reserved for Nigerian companies under the Survey sector.

Some of the areas of low to medium technical competency level with at least 90% minimum Nigerian Content requirement into which SMEs can venture are presented in the Table below, together with an evaluation of their respective competency levels.

**Table 1:** Activities suitable for SMEs participation under NOGIC Act 2010

| | **Sector** | **Description of Activity** | **Min. NC %** | **Technical** Competency **Level** |
|---|---|---|---|---|
| 1 | Fabrication and Construction | Pipeline systems | 100 | Medium |
| | | Risers | 100 | Medium |
| 2 | Materials and Procurement | Steel plates, Flat sheets, and Sections | 100 | Low |
| | | Steel pipes | 100 | Low |
| | | Low voltage cables | 90 | Low |
| | | Directional surveying services | 100 | Medium |
| | | Cutting injection/disposal services | 100 | Medium |
| | | Pumping services | 95 | Medium |
| | | Well head safety panels | 100 | Medium |
| | | Drilling chemicals | 90 | Low |
| | | Geophysical interpretation services | 90 | Medium |
| | | Mud logging services | 90 | Medium |

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|---|---|---|---|---|
| | | Coring services | 90 | Medium |
| | | 2D seismic data interpretation services | 100 | Medium |
| | | 3D seismic data interpretation services | 100 | Medium |
| 3 | Transportation / Supply / Disposal Services | Barges | 95 | Low |
| | | Accommodation platforms / vessels | 90 | Medium |
| | | Disposal / waste transport services | 100 | Low |
| | | Truck package/ product transportation | 100 | Low |
| 4 | Health, Safety and Environment | Site clean-up services | 100 | Low |
| | | Waste disposal / drainage services | 100 | Low |
| | | Industrial cleaning services | 100 | Low |
| | | Safety/protection/security/fire fighting | 90 | Medium |
| | | Preservation of components services | 95 | Low |
| | | Catering services | 100 | Low |
| | | Cleaning and laundry services | 100 | Low |
| | | Security services | 95 | Medium |
| | | Pollution control | 90 | Medium |
| 5 | Information / Communication Svs | Public address system services | 95 | Low |
| 6 | Marine, Operation and Logistics | Ship chandler services | 90 | Medium |
| | | Moving services | 100 | Low |
| 7 | Finance and Insurance | Security broking and fund management | 100 | Medium |
| | | Auditing services | 100 | Medium |
| | | Life insurance services | 100 | Medium |
| | | Pension funding services | 100 | Medium |
| | | Insurance broking services | 100 | Medium |
| 8 | Installation, Hook-up, Commissioning | Pipe cutting and bending services | 100 | Low |
| | | Trenching and excavation services | 100 | Low |
| | | Cranes/ crane barge/ Heavy lift vessels | 100 | Medium |
| | | Decommissioning and abandonment | 90 | Medium |
| 9 | Inspection, Testing & Certification | Surface treatment inspection services | 90 | Low |
| | | Pressure testing services | 90 | Low |
| 10 | Project Management/ Consultancy | Decommissioning consultancy | 90 | Medium |
| | | Subsurface consultancy | 90 | Medium |
| 11 | Surveying/ Positioning Services | Geophysical and Hydrographic survey | 100 | Low |
| 12 | Modification and Maintenance | Car wash equipment maintenance | 90 | Low |
| | | Canopy equipment maintenance | 90 | Low |
| | | Engineering modification & maintenance | 90 | Medium |
| 13 | Shipping | Tow of oil vessels to Nigerian waters | 90 | Medium |

***Source:* Based on NOGIC Act 2010** **'Min. NC' means minimum Nigerian Content.**

NCDMB has now made it mandatory that any equipment that will be supplied for use in Nigerian oil and gas industry must have certain components manufactured locally. This is targeted at increasing participation of SMEs as the Original Equipment Manufacturers (OEMs) would seek to get local representatives to partner in setting up and domiciling such equipment component manufacturing in Nigeria.

**Conclusion**

The Nigerian Content implementation has been described as a roadmap for industrialisation, with an observable marked increase in the proportion of contracts awarded to Nigerian companies rising to between 70% and 85% since commencement of the NOGIC Act. The industry is reported to have achieved between 85% and 90% NC in engineering, and fabrication tonnage has risen to over 50%. However, the real Nigerian content value is based on the proportion of these contract sums spent within the Nigerian economy especially on Nigerian made goods and services rendered with Nigerian owned assets and equipment. This now hovers between 12% and 18%, a rise of between 9% and 13% over the last two years (Nwapa, 2012).

There is need to support SMEs in the oil and gas industry in terms of enabling single-digit financing for projects, the relaxation of registration requirements by DPR, NAPIMS and the Nigerian Joint Qualification System (NJIQS) of the Nigerian Petroleum Exchange (NIPEX). Currently, the period between contract award and the start of work can be lengthy; unnecessarily tying up working capital. Reducing this waiting period will open up more opportunities for local company participation in the industry. In terms of patronage, once a supplier has a record of delivering on performance, repeat business with these companies will guarantee the SME a continuing revenue stream, provided the demand exists and compliance to specifications are met. Longer-term contracts would make it easier for SMEs to obtain financing; as it gives more assurance that initial investments would be recouped.

There is need for major players active in both the upstream and downstream sectors of the oil and gas industry to engage more of small and medium enterprises for sourcing of their human and material inputs, especially at the host community level. Moreover, the oil and gas industry can only make sustainable progress if all agencies of stakeholders, particularly the sector regulators, have a common understanding and a willingness to work together. To build a common understanding for its mandate, the NCDMB must maintain good relationship with relevant ministries, departments and agencies (MDAs) connected with the oil and gas industry and the Nigerian Content implementation. Some of these MDAs would include Ministry of Interior, Ministry of Information and Technology, Ministry of Trade and

Investment, Central Bank of Nigeria (CBN), Bank of Industry (BOI), Nigerian Maritime Administration and Safety Agency (NIMASA), Niger Delta Development Commission (NDDC) and Nigerian Investment Promotion Council (NIPC).

The introduction of the NOGIC Act has no doubt proved to be a catalyst in the development of capacity and provision of opportunities for SMEs' participation in the oil and gas industry. This local content legal framework and implementation needs to be expanded beyond oil and gas industry to related sectors of the Nigerian economy such as downstream refining sector, power generation and distribution as well as information technology industry. This would ensure a holistic realisation of government's intention of making SME the source for poverty alleviation in Nigeria.

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