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The Role of commercial banks towards building local content capacity in upstream oil and gas industry in Kenya

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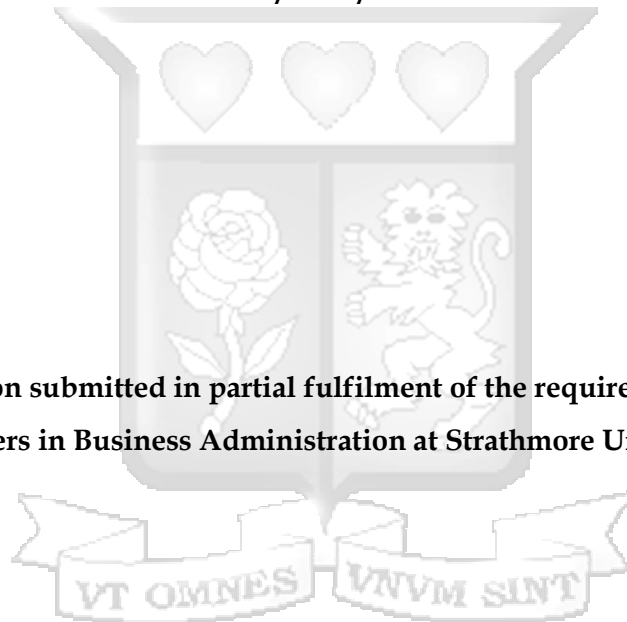
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**THE ROLE OF COMMERCIAL BANKS TOWARDS BUILDING LOCAL CONTENT
CAPACITY IN UPSTREAM OIL AND GAS INDUSTRY IN KENYA**

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**A Masters dissertation submitted in partial fulfilment of the requirements for the Degree
of Masters in Business Administration at Strathmore University**



07th June 2019

DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other university. To the best of my knowledge and belief, this dissertation contains no material previously published or written by another person except where due reference is made in this dissertation itself.

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Date: 07th June 2019



ABSTRACT

The discovery of commercially viable crude oil reserves in Kenya in 2012 and the delineation of “Oil, Gas and Other Minerals” as a new sector in the economic pillar of Kenya Vision 2030 suggests that the country is poised to start engaging in notable activities in upstream oil and gas. It is expected that oil exploration companies and the Government will identify and target local content initiatives as a means to create and share value from the exploitation of oil and gas deposits in Kenya. A robust and resilient banking sector in Kenya will be essential for the growth of local content capabilities in upstream oil and gas. This research study therefore sought to establish the extent to which the services currently provided by commercial banks in Kenya support local content development in upstream oil and gas sector in the country. The study recognizes that the upstream oil and gas sector is highly capital intensive and financing activities in this sector also involve unique, complex risks, which may require specialised knowledge. For this reason, the research study also sought to determine the lending capabilities of commercial banks in Kenya in financing upstream oil and gas transactions. The final objective of the study was to determine the strategies that commercial banks in Kenya can adopt to effectively support local content capabilities in upstream oil and gas. The research study employed both qualitative and quantitative approach. The primary target population of the study were commercial banks in Kenya. The source of primary data and unit of analysis were individual professionals within the banking industry. Data was collected through semi structured questionnaires. Additional data was also collected through interviews with the Kenyan oil and gas contractors in upstream oil and gas sector to validate the findings from the banking industry. The findings from the research study indicated that commercial banks have a major role to play in the development of local content capabilities in the upstream oil and gas industry. However, most banks lacked the technical capability to assess counterparty risks, formulate risk mitigation structures and provide solutions that can meet the unique requirements of the upstream oil and gas sector. The research study recommends that commercial banks adopt an ecosystem approach to offering banking services to local enterprises venturing into upstream oil and gas. The study proposes that further research be done to establish the initiatives that the Government of Kenya can introduce to encourage the use of commercial banks in Kenya in financing transactions in upstream oil and gas.

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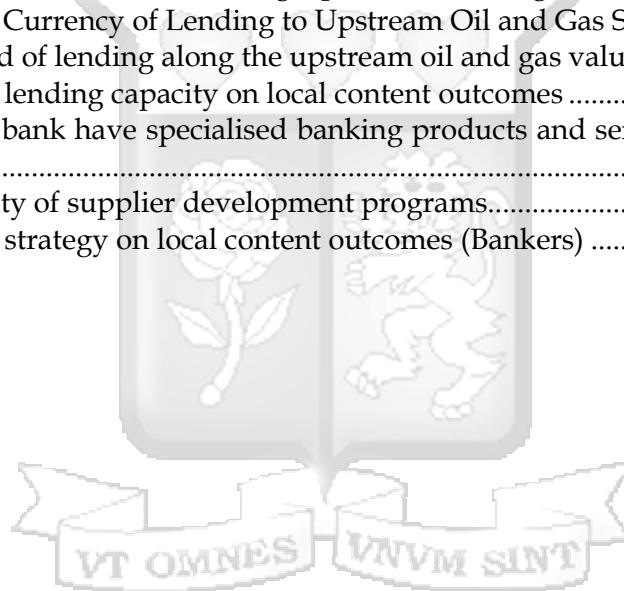
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KEY DEFINITIONS

- I. **Downstream sector.** This is the segment of oil and gas industry that deals with the distribution and the sale of petroleum products through outlets such as petrol stations and other petroleum products distribution companies (PSAC, 2016).
- II. **Local Content.** This refers to the added value brought to the Kenyan economy from the extractive industry through systematic development of national capacity and capabilities and investment in developing and procuring locally available work force, services and supplies for the sharing of accruing benefits (Government of Kenya, 2018).
- III. **Local commercial banks** .These are commercial banks that are licensed by the central bank of Kenya (CBK) to provide commercial banking services in the country.
- IV. **Local companies.** These are enterprises which are either 100% owned or majority owned by Kenyan shareholders and are domiciled in Kenya.
- V. **Midstream sector** – deals with the refining, shipping and storage of the crude oil retrieved from upstream oil production.
- VI. **Oil Exploration Company.** These are companies licensed by the Government to carry out exploration and production activities in upstream oil and gas sector.
- VII. **Oil field services** .These are good and services that are provided to companies involved in the exploration and production of oil and gas. The services can either be specialised such as drilling services, seismic appraisal, logistics and freight or non-specialised in terms of levels of skill and technical capability such as accommodation services, office supplies, cleaning services and others.
- VIII. **Upstream sector.** This refers the sector of oil and gas that is involved in the exploration and production of crude oil and natural gas

LIST OF ABBREVIATIONS

ASI – Adam Smith International

AFDB- Africa Development Bank

BBL - Barrels

CBK - Central Bank of Kenya

CBR – Central Bank Reference Rate

E&P – Exploration and Production

FID - Final Investment Decision

FSD – Financial Sector Deepening

GOK – Government of Kenya

IFC - International Finance Corporation

IFRI- French Institute for International relations

IPIECA- The global oil and gas industry association for environmental and social issues

KBA – Kenya Bankers Association

KNBS - Kenya National Bureau of Statistics

MoPM – Ministry of Energy & Petroleum

OCC – Office of the Controller of Currency

OEP- Oil Exploration Companies

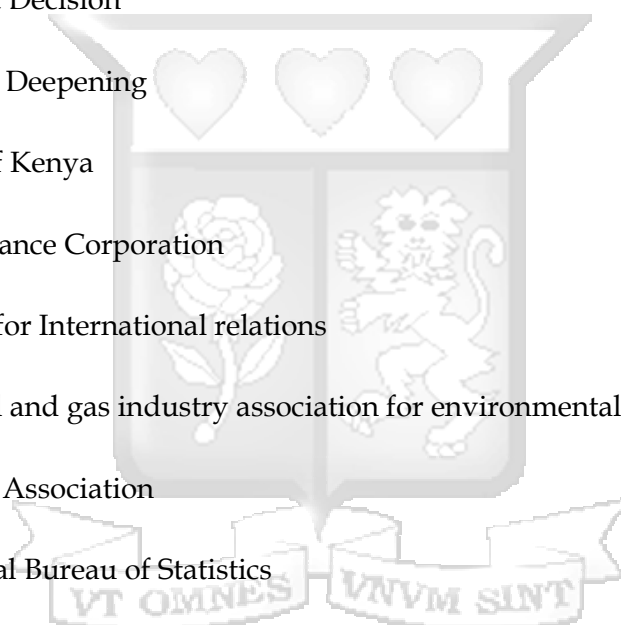
OGCA Kenya - Oil and Gas Contractors Association of Kenya

OMC- Oil Marketing Company

OPEC- Organization of Petroleum Exporting countries

PWC – PriceWaterhouse Coopers

SME – Small and Medium Enterprises (SMEs)



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CHAPTER ONE: INTRODUCTION

1.1. Introduction

This chapter commences by providing a background to the research study. The thrust of this background is an overview of the oil and gas industry and the banking industry in Kenya. This overview provides inputs for structuring a suitable problem statement, study research objectives and appropriate research questions for the research.

1.2. Background to the Study

The oil and gas industry is a fundamental driver of economic growth. The industry provides fuels for transportation, raw materials used in construction and for manufacturing chemicals among other benefits (Office of the Controller of Currency, 2016). The French Institute for International relations (IFRI) argues that the scale of benefits that communities derive from the development and exploitation of extractives industries such as oil and gas are closely related to the level of linkages of this activity with the local economy (IFRI, 2015). According to the global oil and gas industry association for environmental and social issues (IPIECA) (2016), resource developers and their host countries identify and target local content objectives as ways to create and share value from oil and gas developments. Local content in this context are the local resources an oil and gas project utilises along its value chain while invested in a host country. The local content outcomes may include employment of nationals of the host country, development of enabling infrastructure, improvement of local technical capabilities, improvement of local skills and capacity of local enterprises (IPIECA, 2016).

Oil and gas exploration in Kenya commenced in 1954. However, it was not until 2012 when Tullow Oil Company (Tullow) discovered an oil potential of approximately 300 Million barrels at its Ngamia-1 drilling well in Turkana, Northern Kenya. By 2014, Tullow had discovered an accumulated resource potential of more than 600 Million barrels of oil in the East African Rift Basin across Block 10BB and the adjacent Block 13T (PWC, 2015). It is estimated that at peak production, the country will be producing nearly 70,000 barrels per day (WoodMackenzie, 2015). This amount may change when a final investment decision (FID) is made by Tullow oil and its exploration partners. The discoveries of commercially viable crude oil reserves in the Lokichar Basin, Turkana County in 2012, suggest that Kenya is likely to join the group of oil producing countries thereby engaging in notable activities in upstream oil and gas.

In Kenya, local content has been articulated more explicitly in the proposed Local Content Bill (2018). The bill defines local content as the added value brought to the Kenyan economy from the extractive industry through systematic development of national capacity and capabilities and investment in developing and procuring locally available work force, services and supplies for the sharing of accruing benefits (Government of Kenya, 2018). According to PriceWaterhouse Coopers (2015), the capital expenditure and procurement of goods and services in the emergent upstream oil and gas sector is expected to have a substantial multiplier effect that will stimulate economic development in Kenya. Access to finance and other advisory services will be very critical in the development of the local content capabilities in this sector (PWC, 2015).

The banking sector in Kenya has grown significantly in size and complexity in tandem with the economy of the country. According to the Central Bank of Kenya (CBK), the Kenyan banking sector comprised 43 commercial Banks (**see appendix I**) as at 31st December 2017 (CBK, 2018). However, three banks i.e. Chase Bank, Imperial Bank and Charterhouse bank had been put under statutory management as at that date. The CBK (2018) valued the total net assets in the banking sector at KES 4.0 Trillion as at the end of December 2017. Local public and private commercial banks accounted for sixty eight percent of the total nets assets in the sector while the foreign owned commercial banks account for the remaining thirty two percent (CBK, 2018). Under clause 38 of the proposed local content bill 2018, the Oil Exploration and Production Companies (OEPs) will be required to maintain a bank account with a local Kenyan Bank and transact business through the commercial banks in the country. The Government of Kenya (GOK) also intends put in place initiatives that will encourage the use of local financial institutions in financing extractive operations in Kenya (GOK, 2018).

Oramah (2007) argues that financing is a major constraint in promoting domestic supply chains in the oil and gas sector. A robust and resilient banking sector will be essential for the growth of local content capabilities in upstream oil and gas. The main objective being to capture the funds paid to service providers and integrate the upstream oil and gas sector in the economy by creating industry clusters with strong local content (PWC, 2015). Therefore, this research study seeks to examine the role that commercial banks in Kenya can play in Kenya in building local content capacity in upstream oil and gas as the country prepares to join the league of oil producing nations in the world

1.2.1 Oil and Gas Industry

Globally, the oil and gas sector is divided into three segments namely upstream, midstream and downstream. The Organization of Petroleum Exporting countries (OPEC), defines the upstream sector as the part of the oil and gas industry that is involved in the discovery of oil fields and bringing the oil up from the ground(OPEC, 2013). According to Oil and Energy Services(OES) (2015) the upstream oil and gas value chain is divided into five stages namely licensing, exploration and appraisal, field development, production and decommissioning and abandonment.

Licensing occurs before an oil exploration company engages in prospecting for oil and gas. According to oil and energy services OES (2015) the licenses are provided in the form of a Production Sharing Contract (PSC) and indicates the terms under which the company is licensed to explore for oil and gas, its obligations and also the obligations of the Government. The PSC also set out the terms of compensation if the results of exploration are successful. It is instructive to note that the same does not apply if the exploratory results are unsuccessful. Exploration involves drilling of wells to a certain depth to confirm the presence of oil and gas reserves while the appraisal stage confirms the quantity and quality of the discovered oil and gas findings and to confirm if the finding is commercially viable (OES, 2015).Field development will involve formulation a plan for the front end engineering design, required infrastructure and also the cost and target markets for the discovered quantities of oil and Gas. Production involves the extraction of the oil and gas to the surface for onward transportation to the refineries where it is distributed to the final consumers as either petrol, diesel or Kerosene. According to OES (2015),once an oil or gas field no longer contains sufficient quantities in its reservoir to justify its economic viability, it undergoes decommissioning and subsequently abandonment.

The midstream segment deals with the shipping and storage of the crude oil retrieved from upstream oil production. This involves transporting the crude oil using a pipeline, railway or tankers to the refinery centres to be processed into the various petroleum products such as gasoline, gasoil, kerosene and lubricants among others. In Kenya, the midstream segment is represented by the Kenya Pipeline Corporation (KPC) and the defunct Kenya Petroleum refineries Limited (KPRL) which stopped processing crude oil in 2013.

Finally, the downstream segment involves the distribution and the sale of petroleum products through outlets such as petrol stations and other petroleum products distribution companies

(PSAC, 2016). According to the Ministry of Energy & Petroleum (2015) there were 71 Oil Marketing Companies (OMCs) licensed to import petroleum products in Kenya. The operators in the downstream OMCs in the country consists of a mixture of subsidiaries of multinational oil companies and local independent OMCs (MoPM, 2015). Currently, Kenya imports her entire oil and gas requirements. According to the Kenya National Bureau of Statistics (KNBS) the country imported 6.3 Million Metric tonnes of petroleum products in 2017 amounting to approximately KES 265.3 Billion (KNBS, 2018). The discoveries of commercially viable crude oil reserves in Kenya in 2012, presents the country with an opportunity to start engaging in notable activities in upstream oil and gas.

1.2. 2 Role of Commercial Banks in Promoting Local Content in Upstream Oil and Gas

Evidence from oil producing countries indicate that the banking sector has played a key role in developing the capabilities of domestic supply chains in upstream oil and gas. Brazil discovered its first oil in 1864 but it was not until 1939 that commercial quantities of oil were discovered in the country (Tordo, Warner, Manzano, & Anouti, 2013). To support local content development, the Federal Government of Brazil created Programa de Mobilizacao da Industria Nacional de Petroleo e Gas Natural (PROMINP) to play a major facilitation role by identifying the challenges to the implementation of local content policies and training programs (Tordo et al, 2013). One of the most relevant initiatives under PROMINP is the Petrobras Supply Chain Financing Program, Progredir (Tordo et al, 2013). The Progredir program was launched in 2011 in partnership with six of the largest retail banks in Brazil i.e. Banco de Brazil, Bradesco, Caixa Economia Federal (CEF), Itau, HSBC and Santander (PWC Brazil, 2013). The program allowed local companies contracted by Petrobras and its subsidiaries to obtain loans from the accredited banks using the supply contracts signed with Petrobras as guarantees. According to the African Development Bank (2016) the average local content ratio in Brazil increased from 57 per cent to 75 per cent since PROMINP was launched.

A number of Oil Exploration Companies in Nigeria launched local content initiatives in partnership with Commercial banks in the country as a result of the enactment of the Nigerian Oil and Gas Industry Content Development (NOGICD) act in 2010 (Ovadia, 2013). For example, Shell Petroleum Development Company of Nigeria Limited (SPDC) also launched a community initiative in 2011 known as the Shell Kobo fund. The initiatives were aimed at increasing the Niger Delta contractor base and grow their capacity and capability to provide services to the oil and gas industry. The Fund was a USD 27 Million community contractor

financing scheme set up by the SPDC in collaboration with three leading banks in Nigeria i.e. First Bank of Nigeria (FBN), United Bank of Nigeria (UBA) and Zenith Bank (SPDC, 2013).

Ecobank research (2014) estimated that the upstream oil and gas sector in Kenya will require no less than USD 16 Billion (approx. KES 1.6 Trillion) to produce commercially viable quantities of crude oil. This translates to approximately 23 percent of Kenya's total GDP of USD 71 Billion (KES 7.1 Trillion) (World Bank, 2017). According to Adam Smith International (2015), multinational companies are also estimated to place contracts on average between KES 800 Million to KES 1 Billion with the local oilfield Service providers. This is the amount that is expected to remain in Kenya during the exploration and construction stage (ASI, 2015).

The CBK (2018) valued the total net assets in the banking sector at approx. KES 4.0 Trillion as at 31st December 2017. From the analysis, the estimated KES 1.6 Trillion investment required to develop upstream oil and gas will be approximately 40 percent of the net assets of the commercial banks if it were to be financed locally. According to CBK (2018), the largest proportion of the banking industry gross loans and advances were channelled through the Personal/Household, Trade, Real Estate and Manufacturing Sectors. These four economic sectors accounted for 73.08 percent of gross loans in December 2017. The Energy Sector only accounted for 5.18 percent of the total advancements (CBK 2018). This reveals that the banking sector appetite for this sector is still low as compared to other sectors of the economy. There is also no mention of any banking initiatives to support the emergent upstream oil and gas sector in the country.

1.3 Problem Statement

The upstream oil and gas sector in Kenya is currently dominated by foreign investments in terms of supply of technical exploration, production skills, goods and services (ASI, 2015). However, following recent discoveries of oil in Kenya, the upstream oil and gas sector is now an emergent sector that presents opportunities for local suppliers to develop and expand their businesses. Access to finance and other advisory services will be very critical in building local capacity and developing successful enterprises who can deliver a wide range of goods, services and skills to international standards.

The banking industry in Kenya is in a unique position to support local enterprises to enter the upstream oil and gas supply chain and increase their ability to compete as service providers or even as oil exploration companies. However, PWC (2015) argue that despite the evident growth in the banking sector in Kenya, the significant level of funding required to support

activities in upstream oil and gas may not be within the lending capacity of the local market. They also argue that local commercial banks have limited currency reserves, small asset bases and as such funding will be limited to ticket sizes not exceeding KES 2 Billion in USD denominated facilities. According to OCC (2016), financing activities in the upstream oil and gas sector also involve unique, complex risks that require specialised knowledge and controls. These may not be readily available in the banking sector in Kenya due to the fact the country imports all her petroleum requirements and the oil sector has been a predominantly a downstream market.

The purpose of this research study was to examine the role that commercial banks in Kenya can play in building local content capabilities in upstream oil and gas sector in the country. The research sought to establish the extent to which the services currently provided by commercial banks in Kenya promote the development of the capabilities of local enterprises in upstream oil and gas. The study also sought to determine the lending capacity of the commercial banks in Kenya to finance transactions in upstream oil and gas. Finally the research study aims to determine the strategies that the commercial banks in Kenya can adopt to effectively support the development of local content capabilities in upstream oil and gas sector

1.4 Research Objectives

The general research objective is to determine the role of commercial banks in building local content capacity in the upstream oil and gas industry in Kenya. The specific objectives of the study were to:

- I. Establish the extent to which the services currently provided by Commercial banks in Kenya support the development of local content capabilities in upstream oil and gas.
- II. Determine the lending capacity of commercial banks in Kenya to finance transactions in upstream oil and gas.
- III. Establish the strategies that the banking industry in Kenya can adopt to effectively support the development of local capabilities in upstream oil and gas sector.

1.5. Research Questions

- I. To what extent do the services currently provided by commercial banks in Kenya support the development of the capabilities of local enterprises in upstream oil and gas sector?

- II. Do commercial banks in Kenya have the lending capacity to finance transactions in upstream oil and gas sector?
- III. What strategies can commercial banks in Kenya adopt to effectively support development of local capabilities in upstream oil and gas?

1.6. Scope of the Study

The focus of this research study was on the upstream oil and gas sector in Kenya generally without a limitation on regions. For commercial banks, the scope of the study was forty (40) out of the forty three (43) banks commercial banks licensed by the Central Bank of Kenya as at 31st December 2017. Three private commercial banks i.e. Charterhouse Bank, Imperial Commercial Bank and Chase Bank, which at the time of the research study were under statutory management by the CBK and were excluded from the scope of this research study. The population of study comprised local public commercial banks commercial banks which are either one hundred percent or majority Kenyan shareholding, local private commercial banks and subsidiaries of foreign owned commercial banks operating in Kenya. The oil and gas contractors interviewed for this research study were local enterprises which provide goods and services to oil exploration companies in upstream oil and gas. These are local enterprises who were included as members of oil and gas contractors association of Kenya (OGCA) at the time of the research study.

1.7. Significance of the Study

The study will be beneficial to all the stakeholders in the upstream oil and gas industry. This includes the banking industry in Kenya, oil exploration companies licensed to operate in Kenya, OGCA Kenya and the Government of Kenya. From the study, the commercial banking sector will be able to identify the opportunities that are available within the value chain of the emergent upstream oil and gas sector in Kenya. This will enable Commercial banks in Kenya to develop products and partnerships that will facilitate the development of the capabilities of local enterprises venturing or interested in opportunities in the emergent upstream oil and gas sector in the country. Banks will also be able to act as conduits of information by providing advisory services to local enterprises interested in various opportunities from the upstream oil and gas sector. The study will also be beneficial to the local oil and gas contractors. They will be able to identify areas where they can partner with the commercial banks in the country to take advantage of the opportunities in the emergent upstream oil and gas sector. The Government will also be able to formulate policies that will integrate the upstream oil and gas sector in the Kenyan economy by creating industry clusters with strong local content.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

This chapter begins with a review of theories that support the role of commercial banks in local content development in upstream oil and gas. The second part of this chapter involves the review of the empirical literature showing how commercial banks can promote local content development in upstream oil and gas. The empirical review was based on international and local studies where primary and secondary data was collected and analysed in relation to this research study. The chapter ends by presenting a conceptual framework for the study.

2.2 Theoretical Review

2.2.1 Linkages Theory

The linkages theory was developed by Albert Hirschman who, in Hirschman (1958), suggested that there are three types of links i.e. forward, backward and financial links. Forward linkages relate to an output of one industry being the input of another while backward links relate to the demand of one industry for the output of the other industries. Financial links refer to the taxes paid by the industry to the Government which are then used to provide essential services to the population. The theory examines inter sectoral relationships in the economies of oil producing nations (IMF 2007). According to Hassel (2015), the goal of local content development in the petroleum industry is also dependent on a resource holding country's ability to create linkages between the petroleum related industry and the other sectors of the economy. It is instructive that World Bank is currently promoting the use of local content policies (LCPs) to enhance linkages between the oil and gas sector and the other sectors of the economy. The bank argues that LCPs will help countries maximize the gains of foreign direct investment (FDI) through the promotion of local participation in FDI and the use of local raw materials by investors.

In the context of this research study, it is expected that other than the increased activity by local suppliers in the upstream oil and gas industry, suppliers from other sectors will also benefit from the demand of goods and services along the oil and gas supply corridor (PWC, 2015). The provision of these services may require financing and other advisory services from commercial banks in Kenya. This will also depend on the capacity of the banks to finance transactions in upstream oil and gas. Banks will be required to process the technical capability

to evaluate risks as well as the liquidity required to finance transactions in upstream oil and gas sector.

2.2.2. Financial Intermediation Theory

The financial intermediation theory considers banks as financial intermediaries both individually and collectively since they collect deposits from customers and lend these to a different segment of borrowers (Warner 2015). The researcher further argues that banks create liquidity by borrowing from depositors with short maturities and lend to borrowers at longer maturities. Banks also target the market segments and industries whose needs they are most effectively able to service (Financial Services Deepening, 2015). According to De Young & Yom (2008), banks' contribution to economic development depends on how effective they are in managing their balance sheets as well as sources of funds available to them. They further argue that banks must clearly understand which sectors of the economy generate the biggest returns and must identify sustainable sources of funds which the sector can rely on. This theory is relevant to the study at hand since it helps to determine how the banking industry perceives the upstream oil and gas sector and the extent to which commercial banks in Kenya are able to support suppliers and other stakeholders in the industry from a local content development perspective. The banking sector in Kenya is expected formulate strategies that will enable them to effectively cater for the unique needs of the upstream oil and gas sector. According to OCC (2016), financing activities in the upstream oil and gas sector also involve unique, complex risks that require specialised knowledge and controls. This requires the banking sector in Kenya to develop capacity to evaluate risks for transactions involving upstream oil and gas.

2.3. Empirical Literature Review

This section presents the empirical studies conducted on local content development in upstream oil and gas and the role of commercial banks in supporting local content development in the sector.

2.3.1. Local Content

The World Bank defines local content as the extent to which the output of the extractive industry sector generates further benefits to the economy beyond the direct contribution of its value added, through links to other sectors (Tordo, Warner, Manzano & Anouti, 2013). IPIECA (2016) also defines local content as local resources an oil and gas project utilises along its value chain while invested in a host country. The Oil exploration and production (OEP)

companies generally require high level of capital expenditure to obtain and develop reserves from which they can generate returns (OCC, 2016). The OEPs are also supported by various service companies that provide other ancillary services. According to Adam Smith International (2015), international companies provide majority of the services required in this sector leaving the local and regional companies to non-specialist services, which, require less expertise and the level of investment required is lower.

A study by the National Committee on Local Content development (NCLCD) in Nigeria in 2002 established that the local content of goods and services in the upstream oil and gas sector was less than 5 percent. According to section 52 of the NOGICD Act, all operators, contractors and any other entity engaged in business transaction with the Nigerian Oil and gas industry requiring financing, shall engage only the services of Nigerian financial institutions except for situations where it was deemed impracticable to do so (Ugwuanyi, 2015). A research study by Ugwushi (2010) pointed out that small and medium enterprises (SMEs) in Nigeria could not obtain support from local commercial banks unlike their foreign counterparts who often had the support of commercial banks in their home country. The respondents further pointed out that the local commercial banks even preferred to offer credit support to the foreign firms much to the detriment of the local firms which were regarded as risky.

A case study by IPIECA identified Brazil as one of the success stories for local content development in oil and gas. According to the study by IPIECA (2016), to facilitate credit for domestic suppliers in Brazil, the PROMINP entered into partnerships with both private and public commercial banks to formulate financing mechanisms such as the Progedir Program in conjunction with 11 banks in Brazil. Other initiatives included collaboration with the Brazilian National Development Bank (BNDES) to provide a special line of credit to foster research and development, increase local content, increase supplier capacity and also reduce costs to SMEs (IPIECA, 2016). Research study by PWC Brazil (2013) on the Progedir Program discovered that there were cost reductions in the borrowings ranging from 20% to 50% for requests for funding that were submitted through the Progedir Portal to all of the accredited participating banks. According to PWC (2013), the benefits were as a result of increased competition between the participating banks. This coupled with the transparency of information and security resulted in reducing the financial costs to the suppliers.

The evidence from Brazil and Nigeria suggest that the involvement of Kenya's banking sector in the upstream oil and gas industry in Kenya is expected to impact on the number of oil and

gas contractors; number of loans to local upstream oil and gas contractors; skills and knowledge transfer in evaluating opportunities in upstream oil and gas and new products specifically targeted at developing local content in upstream oil and gas. This will form the local content outcomes that this study intends to investigate.

2.3.2. Banking Services to Promote Local Content in Upstream Oil and Gas

The Banking sector in Kenya comprised of 43 commercial Banks as at 31st December 2017 (CBK, 2018). These included 22 local private commercial banks, 3 public commercial banks and 15 foreign owned Banks. The remaining three local private commercial banks are currently under statutory management by the CBK and were therefore excluded from the scope of this research study.

According to FSD Kenya (2015) commercial banks target the market segments they are most effectively able to service. This reflects their strategic orientation and limitations imposed by their approach to risk management. Some of the bank specific risk factors identified by FSD Kenya (2015) as obstacles faced by commercial banks in Kenya in financing local enterprises include lack of credit risk assessment capacity, low risk appetite, difficulty in designing new products and bank infrastructure. Murungi (2015) also identified information asymmetry as one of the challenges affecting local content development in Kenya. The study points out that local suppliers interviewed including commercial banks only provided investors with routine non-specialised services. Murungi (2015) argues that these entities need to have a better understanding of the oil and gas industry in order to formulate innovative solutions that meet the investors' needs.

According to Addison and Roe (2018) extractive companies such as oil exploration companies may consider supporting local enterprises through joint financing mechanisms. This includes either partnerships with commercial banks or through non-traditional forms of collateral financing such as invoice factoring or discounting. Findings from a study by International Finance Corporation (IFC) indicated that in the past commercial banks had difficulty in profitably serving Small and Medium Enterprises (SMEs) clients due to information asymmetry, high transaction costs, high credit risk and regulatory obstacles (IFC, 2012). To mitigate these challenges, IFC (2012) argue that Banks should develop non-financial services (NFS) such as training, offering information services and consulting to help business owners grow their enterprises. The non-financial products also provide differentiation and increase their competitive edge in the market. IFC (2012) further states that commercial banks will be

required to decide which types of services they should develop, whether these services are beneficial to their overall strategy and capable of scale.

A local bank, Chase Bank (now SBM Bank) formed a fully-fledged Oil and Energy unit whose objective was to offer tailor made solutions to a diversified client portfolio covering Energy and Oil and Gas sectors with a strategic emphasis on local content. Koranteng (2015) points out that the Bank had earmarked USD 30 Million to support Energy, Oil and Gas financing. Some of the local financing solutions the Bank offered include Supplier Financing, receivables discounting, Trade finance, Asset Finance and advisory services. However, there is no evidence of any transaction that was successfully executed by the bank from a local content perspective. The Bank was placed in receivership in 2016.

Stanbic Bank Kenya (Stanbic) who through their parent Standard Bank Plc have leveraged on their international reach to provide industry expertise in the oil and gas sector. The bank indicates that the Kenyan team combines their understanding of the local market dynamics and Standard Bank's experience in other emerging markets to develop solutions that are unique to the clients in the oil and gas sector (Stanbic, 2016). This includes customized product offerings such as reserved based lending and other commodity rated financed structures.

2.3.3 Lending Capacity of Commercial Banks in Kenya

Brogan (2015) argues that the oil and gas industry has an immense appetite for capital as compared to other capital intensive industries. According to OCC (2016), the traditional role of bank credit in upstream oil and gas has been to finance capital expenditure related to exploration and production (E&P). They argue that prudent lending in upstream oil and gas requires specialised expertise. This includes management and staff that have the knowledge and experience to recognize, assess, mitigate, and monitor the risks that are unique to E&P. OCC (2016) also point out that nature of exploration and production lending can also result in higher liquidity risk especially for smaller banks in areas where changes in oil and gas supply and demand strongly affect the local economy. However, Oramah (2007) contends that local content promotion should be a priority in countries with new oil and gas discoveries such as Kenya. He points out that financing is still a major challenge in promoting domestic supply chains in the oil and gas sector. He argues that the indigenous oil service companies have limited experience in oilfield services, limited or no track record of borrowing, confusing corporate structures and usually require financing in excess of equity capital (Oramah, 2007). These characteristics make it difficult for the entities to attract commercial bank financing.

Brogan (2014) also contends that independent oil exploration companies face greater challenges than their larger peers in attracting financing on reasonable terms. Brogan (2014) asserts that for an entity to qualify for credit, lenders are looking for companies led by a strong management team with a combination of a good reputation in the industry, quality projects or assets, financial track record and the ability to deliver on promises.

The guidelines provided by CBK (2013) also prohibits commercial banks in Kenya from advancing credit facilities, financial guarantees and other liabilities in respect of one entity at any time exceeding twenty five percent of its core capital. According to PWC (2015), commercial banks in Kenya have limited currency reserves, small asset bases and as such funding to upstream oil and gas will be limited to ticket sizes not exceeding KES 2 Billion in USD denominated facilities. Furthermore, studies by the World Bank (2013) indicate that one of the criticisms of the Kenyan banking sector is that the cost of credit is high. Murungi (2015) also argues that high interest rates and low risk appetite for start-up companies and exploration firms as some of the challenges facing investment in the oil and gas sector in Kenya. According to Murungi (2015) implementation of local content will be difficult without availing sufficient credit to Kenyan enterprises venturing into the oil and gas sector.

Despite capping of commercial bank lending rates at 4 percent above the central bank reference (CBR) rate, the Kenya Bankers Association (KBA) argues that this has resulted in more stringent credit conditions so as to price risk within the rate caps and portfolio realignments away from risky segments (Olaka, 2017). The caution around risk management and the pressure to deliver an appropriate return to shareholders has led commercial banks in Kenya to introduce tighter lending conditions locking out some local enterprises who are considered high risk borrowers but are interested in the commercial opportunities in the emergent upstream oil and gas sector in the country.

Data from the Central Bank of Kenya (2018) shows that the gross loans and advances amounted to approx. KES 2.2 Trillion as at as at 31st December 2017. According to the CBK (2018) the largest proportion of the banking sector gross loans and advances were channelled through the Personal/ Household, Trade, Real Estate and Manufacturing Sectors. These four sectors accounted for 73.08 percent of the total loans disbursed by commercial banks in Kenya. Disbursements to the energy sector comprised approximately five percent of the total disbursements in the economy (CBK, 2018). Despite the relatively little activity by Banks in funding energy projects, some commercial banks in Kenya have identified the emerging

opportunities in upstream oil and gas and have subsequently financed few projects in the sector. Oil and Review (2013) identified a transaction where Barclays Bank of Kenya extended a loan of USD 13 Million (approximately KES 1.3 Billion) to an exploration company, Marriott Drilling Africa Limited. The loan was a five-year asset financing deal earmarked for the purchase of oil rigs to be used in the company operations in Kenya. There is no evidence of other transactions by commercial banks in Kenya to support of activities in upstream oil and gas. It is against these background that this research study seeks to determine the capacity of commercial banks in Kenya to finance transactions in the upstream oil and gas sector.

2.3.3 Commercial Banks Strategy for Local Content Development

Oramah (2007) argues that local commercial banks can benefit from partnerships with multilateral funding institutions such as AfriExim Bank to provide funding to local oilfield services companies. He argues that a company size need not be an impediment if the deals are properly structured and the contract counterparties are credible. According to Oramah (2007) the domestic suppliers benefit from the partnership through cheaper and matching currency funding. He further argues that the economy also benefits from greater participation in the oil and gas sector by local suppliers and commercial banks thereby creating viable industry clusters.

ASI (2015) argues that there is need to develop a cross sector supplier development programme in order to build local content capacity in the extractive Industries in Kenya. The programme will target local SMEs, lead contractors, oil and gas companies. The supplier development program can be developed in partnerships with the commercial banks to enable access to funding by the local contractors interested in participating in the upstream oil and gas Industry. Evidence from a study by the UK department for international development (DFID) recommends that the local commercial banks can also partner with Development Finance Institutions (DFIs) and other networked banks to access international currency funding(DFID, 2015).They argue that international currency funding is attractive due to the low interest rates as compared to borrowing in Kenya Shillings (KES) According to the World Bank (2015), DFI funding would be attractive to the oil and gas sector as it would be tied to the local economic development of the host country in addition to other social and developmental considerations.

2.4. Research Gap

Local content development will be critical in the generation of in-country capability to support the long term development of the emergent upstream oil and gas sector in the Kenyan economy. This is borne by several research studies on the development of local content framework in the country. However, there is very little information on the interventions or strategies that commercial banks in the country have put in place to specifically develop local content capacity in upstream oil and gas in Kenya. This research study intended to examine and make recommendations that can be adopted by commercial banks in Kenya to promote local content development in upstream oil and gas industry in the country.

2.5 Conceptual Framework

Literature reviewed shows that commercial Banks in Kenya have a role to play in the development of local content in the emergent upstream oil and gas sector in the country. The relationship between role commercial banks (independent variable) and local content outcomes (dependent variable) is shown in the figure 2.1 below.

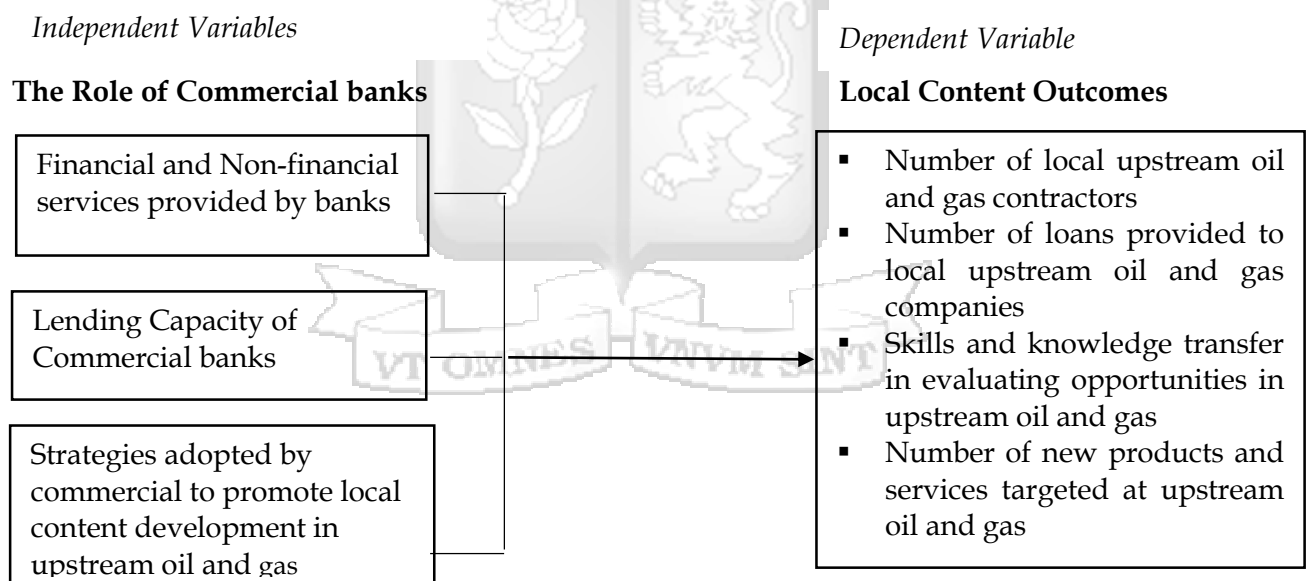


Figure 2. 1 Conceptual Framework Source (Author, 2019)

In this conceptual framework illustrated in figure 2.1, local content is the dependent variable and is operationalised by four quantifiable variables. These variables are: number of oil and gas contractors; number of loans to local upstream oil and gas contractors; skills and knowledge transfer in evaluating opportunities in upstream oil and gas and new products specifically targeted at developing local content in upstream oil and gas. Commercial banks are expected to formulate strategies and adopt risk management techniques that will enable

them to effectively support local development in the emergent upstream oil and gas sector in the country. The relevant financing structures to support local content will also be dependent on the stage that the oil exploration companies are in the oil and gas value chain. The framework is built on the premise that the extent of the services provided by commercial banks, lending capacity of the bank and the banks' local content strategy are likely to influence the local content outcomes mentioned. This will form the independent variables for this study.



CHAPTER 3: RESEARCH METHODOLOGY

Introduction

The purpose of this chapter is to provide a description of the process of using empirical evidence to provide answers to the research questions. The research design, population, sampling approach, data collection method and statistical analyses are discussed herein. In addition, this chapter provides insights on how research quality and ethical considerations were ensured during the study.

3.1 Research Design

To address the research questions, this research study employed a mixed research design using both qualitative and quantitative approach. Qualitative and quantitative data was gathered through the use of semi structured questionnaires and interviews from the target population.

3.2 Population and Sampling

3.2.1 Population

There were two sets of respondents that were targeted for this research study. The primary target population for this research study were the 40 commercial banks licensed by the CBK and actively operating in Kenya as at 31st December 2017 (see **Appendix I**). Three commercial banks i.e. Charterhouse Bank, Imperial Bank and Chase Bank Kenya Ltd which at the time of the study were under statutory management by the CBK were excluded from the study. The secondary population comprised local oil and gas contractors. The researcher interviewed six local oil and gas contractors who are members of the Oil and Gas Contractors Association of Kenya (OGCA Kenya) to obtain their perspectives on the research questions. These were the members that were listed on the association's website www.ogcakenya.or.ke at the time of study. This additional step was deemed necessary for content validity whereby the responses from the oil and gas contractors were used to validate the findings from the banking sector.

3.2.2. Sampling

Saunders, Lewis and Thornhill, (2009) encouraged the use of census where the target population is small and within reach. Since the target population was only 40 for commercial banks and six for oil and gas contractors as listed by OGCA Kenya (see **appendix III**) a census design was adopted. The target respondents from the banking sector were specifically drawn from corporate, commercial or business banking and treasury departments to allow for

insightful, in-depth inferences on the research objectives. The researcher, who is a practitioner in the field relied on his networks and expertise to contact interviews that allowed for flexibility in inquiry from the banking sector and other industry stakeholders such as oil and gas contractors.

3.3. Data collection

The research study used semi structured questionnaires (see appendix IV) and semi structured interviews (see appendix V) to collect data from the respondents in the banking sector and the oil and gas contractors respectively. The questionnaires were mainly distributed through an online platform and where not possible, through physical distribution. The interviews with the respondents from the oil and gas industry took place within the respondents' premises. However, data from two respondents in the oil and gas industry was collected through telephone interviews. The interview guide consisted of both multiple choice and open ended questions to allow respondents to express their views without any limitations.

3.4 Data Analysis

The data collected from the respondents using questionnaires and. The study also employed content analysis through coding of the completed questionnaires. The coding process involved the identification of the various factors affecting local content creation from the respondents' views and the exploration of themes within the content. Descriptive statistics and content analysis were used to gain initial insights on the respondents' characteristics and constructs of interest. The main descriptive tools used were summative charts and graphs depicting the various quantities and proportions captured in the questionnaires.

3.5. Research Quality

3.5.1 Validity

Content validity, the extent to which a study measures pertinent constructs, was partly ensured by basing the research instrument on the empirical literature that was reviewed in chapter two. In addition, the research study addressed criterion-related validity. This refers to the applicability of research outcomes to other contexts. Construct validity for the study was verified by pretesting the data collection tool using a sample of four respondents, two respondent each from the banking industry and oil and gas industry. From the pilot study, the researcher confirmed that as designed, the questionnaires were effective data collection tools for banking professionals while oil and gas contractors preferred face to face interviews.

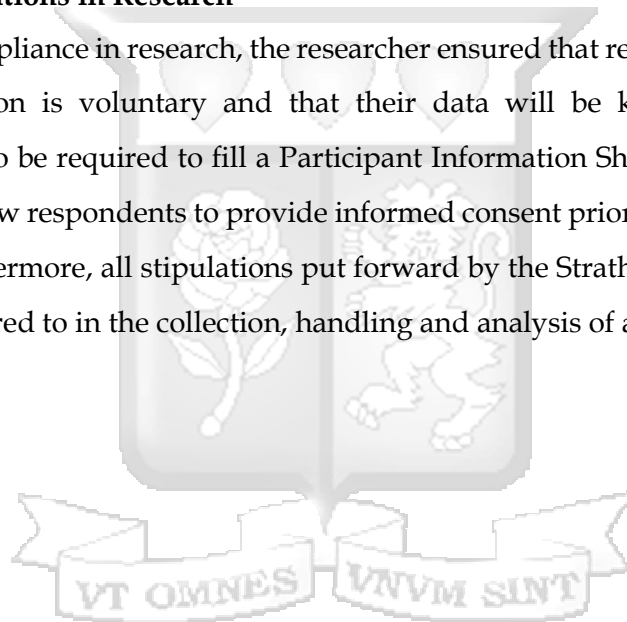
These findings influenced the adoption of a mixed research design using both qualitative and quantitative approach to conduct the research study.

3.5.2 Reliability

Reliability is the degree to which inferences from one researcher can be achieved by another from the same data. Reliability can therefore also be defined as the level to which an assessment tool produces stable and consistent results (Kolbe & Burnett, 1991). Reliability in the research study was ensured through corroboration of inferences with supervisors to eliminate bias-based deductions from the data and to enhance objectivity in the construction of themes from the data.

3.6. Ethical Considerations in Research

To ensure ethical compliance in research, the researcher ensured that respondents are notified that their participation is voluntary and that their data will be kept confidential. The respondents were also be required to fill a Participant Information Sheet and Consent Form (**Appendix VI**) to allow respondents to provide informed consent prior to participating in the research study. Furthermore, all stipulations put forward by the Strathmore Ethical Conduct procedure were adhered to in the collection, handling and analysis of all data.



CHAPTER FOUR: PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

This chapter presents an analysis and interpretation of the data collected from the respondents from the banking industry and the oil and gas industry. The purpose of this analysis was to determine the role played by commercial banks in building local content capacity in the upstream oil and gas industry in Kenya. The resulting descriptive statistics have been presented using graphs and tables in the order of the research objectives.

In addition, analysis was carried out to examine the influence of the identified independent variables on the four local content outcomes namely, number of local upstream oil and gas contractors, the number of loans provided to local upstream oil and gas companies, skills and knowledge transfer and knowledge transfer in evaluating opportunities in upstream oil and gas and finally the number of new products and services targeted at upstream oil and gas. An analysis of the median of the responses from the four local content outcomes for each respondent from both the banking sector was done for each research objective and trend line plotted to display and confirm extent of the impact of each research objective on local content development in upstream oil and gas.

4.2 Response Rate

Table 4. 1 Response Rate

Population	Sample Size	Respondents	Response Rate
Banking Sector	40	33	83%
Oil and Gas Contractors	6	6	100%

Source: Survey data

The researcher received responses from 33 of the target population of 40 commercial banks. The researcher further conducted interviews of six companies who are members of the Oil and Gas Contractors Association of Kenya (OGCA Kenya). As shown in table 4.1, the total representation of the banking sector was therefore 83% whereas that of the oil and gas industry was 100% as per the members listed on the OGCA Kenya website (<http://www.ogca.or.ke>) as at 01st March 2018. The achieved response rate was deemed adequate and therefore permitted analysis of the data collected.

4. 3. Demographic Analysis of Respondents

This section presents a summary of the general characteristics of the respondents. The purpose of the section was to provide the necessary context for subsequent sections addressing the specific objectives of the study.

4.3.1 Job Title

The questionnaire was administered to a total of 40 respondents in the banking sector. The analysis of the respondents within the banks and their designations is shown in figure 4.1 below. The respondents were specifically chosen on account of their specific roles in the banking sector with respect to the subject of this study.

The job titles are presented in order of seniority, where the lowest ranked is a bank officer and the most senior of the respondents is a Director. The largest group of responses (13) was from Relationship managers representing 39% of the total responses while 4 responses were received from respondents with the title Bank officer and Treasurer representing another 24% of the total responses. All other respondents had varying job titles although all held managerial positions with relevant responsibility on oil and gas customers.

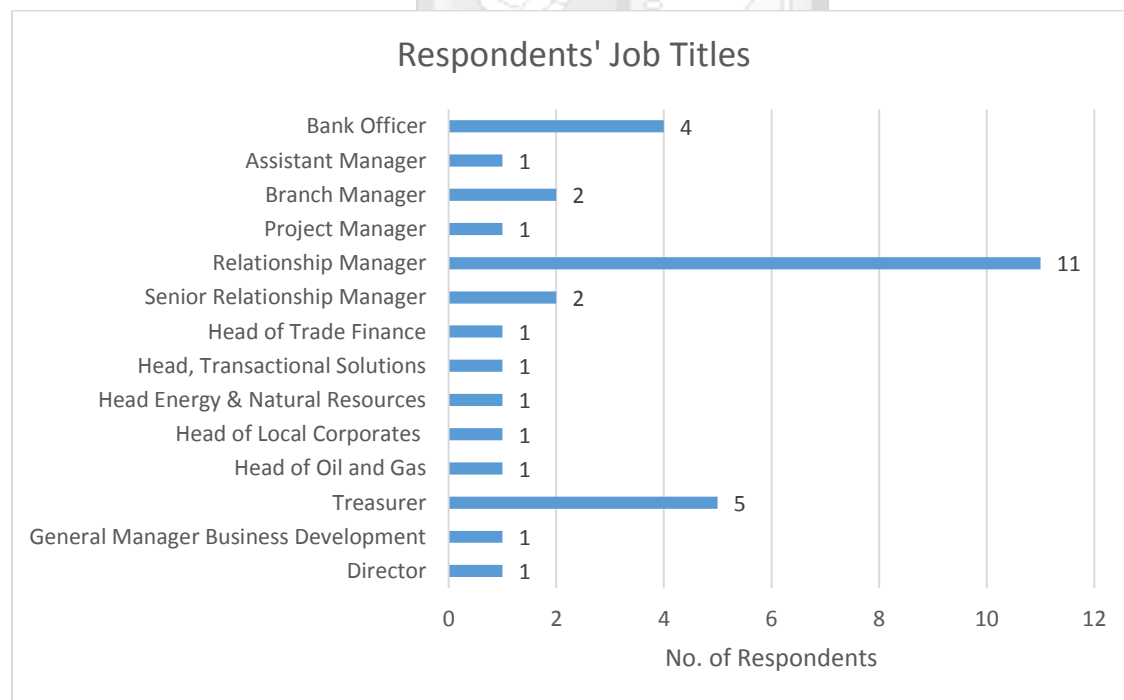


Figure 4. 1 Job titles of the respondents from the banking sector

4.3.1.1. Oil and Gas Contractors

Three general business types were considered under oil and gas: oil exploration companies, oil field services providers and oil and gas contractors. Of the six businesses, all provide services to oil exploration companies. Among the services rendered by the companies were consultancy services, feasibility and market studies, health safety, security and environment (HSSE) training, domestic and local supply, freight and logistic support, logistical services, professional services and value chain analysis.

4.3.2. Ownership Structure

As shown in figure 4.2. below, 40% (13) of the bank respondents reported the ownership structure of their bank as Local Private Commercial Bank. Another 33% (11) of the respondents indicated ownership structure as a foreign Commercial Banks, followed by Local Public Commercial Bank at 24 % (8) and 1 respondent indicated the ownership structure of their bank as a local subsidiary of a global commercial bank.

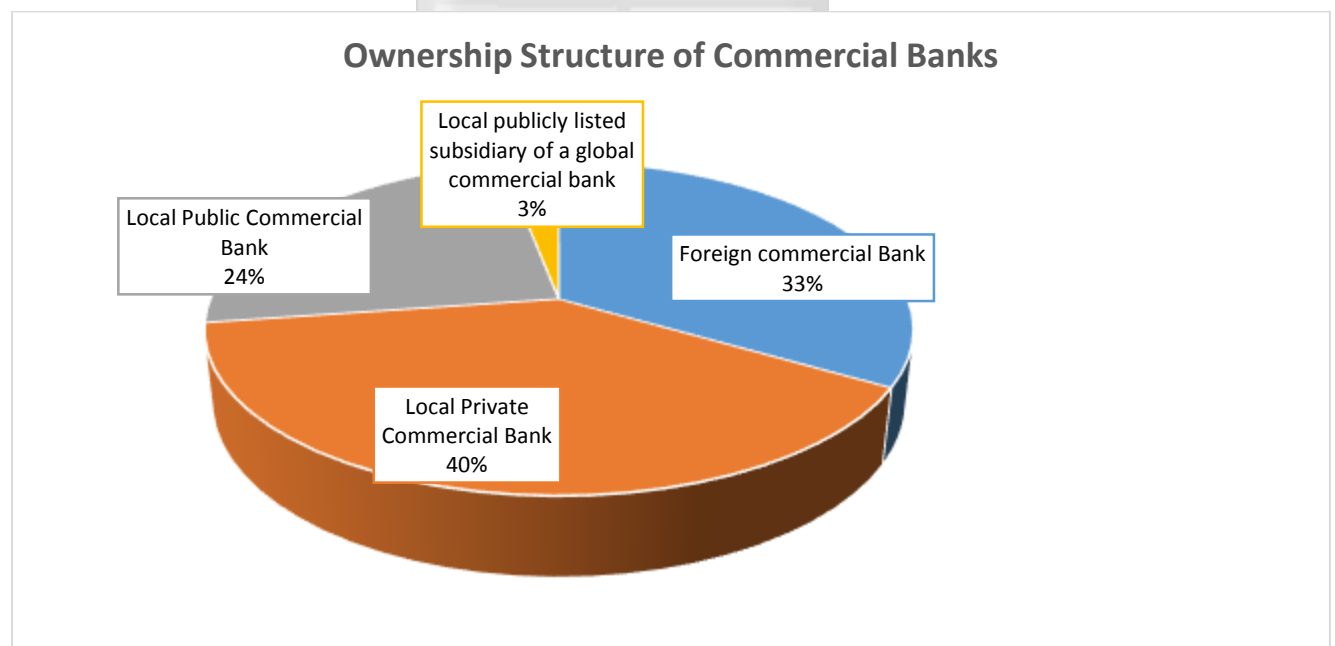


Figure 4. 2 Ownership structure of the commercial banks surveyed in the research study

Inferences made subsequently were therefore more representative of the local private commercial banks in Kenya than they were of any other mentioned segment. According to CBK (2018) the local private commercial banks account for the majority of the banks at 55 % (22) of the commercial banks in the industry followed by foreign commercial banks at 38% (15) and the remainder being local public commercial banks. It therefore follows that local private commercial banks a bigger representation amongst the respondents of study.

4.4. Findings

This sections presents findings from the qualitative and quantitative analysis of the data with regards to the objectives of this research study.

4.4.1 Banking Services to Promote Local Content in Upstream Oil and Gas

An analysis of the financial services provided by commercial banks in Kenya to promote local entities venturing in upstream oil and gas indicated that business loans were the most common financial services offered by banks to this sector as indicated by 87% of the respondents. This was followed by trade finance and asset finance at 84% and 77% of the responses, respectively. Project finance had almost equal numbers of bankers offering and not offering it (15 and 13, respectively). Reserve based lending was the least offered, offered by only 3 banks indicating that they provide the services out of 21 who responded to this question.

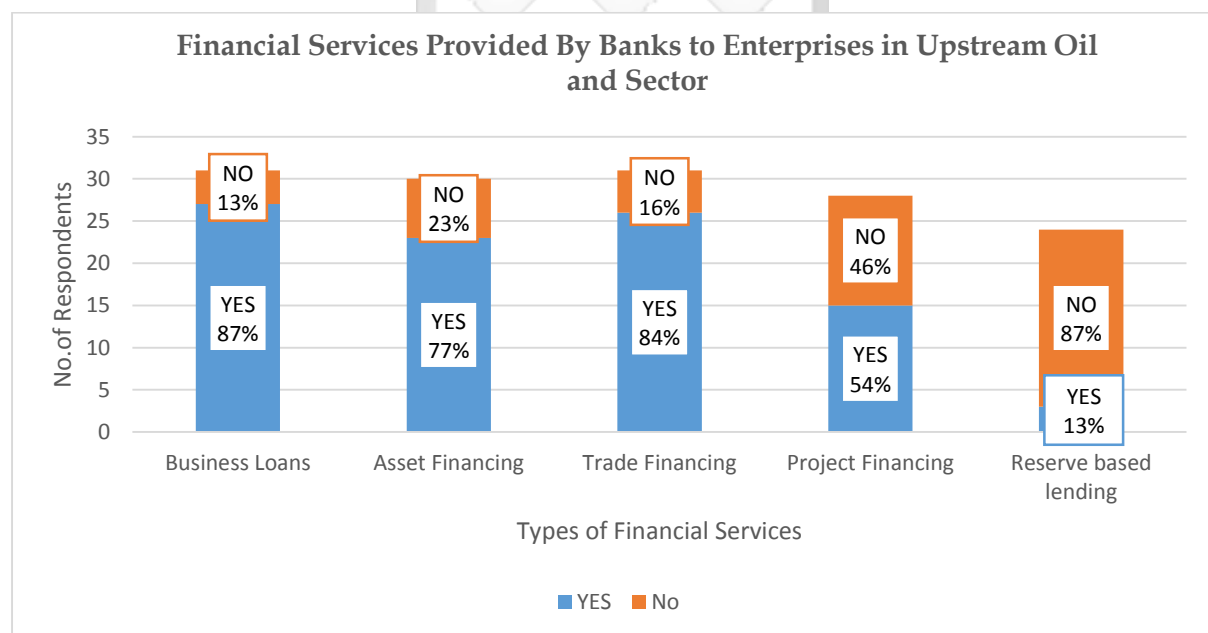


Figure 4. 3 Financial Services provided by commercial banks in Kenya to Enterprises in Upstream Oil and Gas sector

4.4.1.1 Other Financial Services Offered by Banks

Seven bank respondents indicated that their institutions offered forex services while five respondents cash management as an additional service offered by banks. Other mentioned services included hedging services, letters of guarantee, overdrafts, local purchase order and insurance services each of these was mentioned by one respondent. Additionally, other

services included universal banking services, value chain financing, and receivables financing.

4.4.1.2 Financial Services Required by Oil and Gas Contractors to Support Local Content

To complement the findings from the commercial banking sector, the oil and gas contractors were required to rank the most important financial service/product that commercial banks should provide to support local content development for upstream oil and gas. The ranking was done on a scale of 1 to 5 (where 1= least important and 5=Most Important). The median was chosen as the best measure of central tendency due to the ordinal nature of the data.

The findings from this investigation as shown in figure 4.4 indicate that the industry players regard project financing with a median score of 5 as the most important service that commercial banks should provide to promote local content followed by trade finance, asset finance and business loans, all with a median score of 4. The least important service based on the responses received was cash management which had a median score of 2. The findings may suggest that the local oil and gas contractors are also interested in participating in the more capital intensive, specialist activities which as indicated by ASI (2015), are currently dominated by foreign investments in terms of supply of technical exploration, production skills, goods and services.

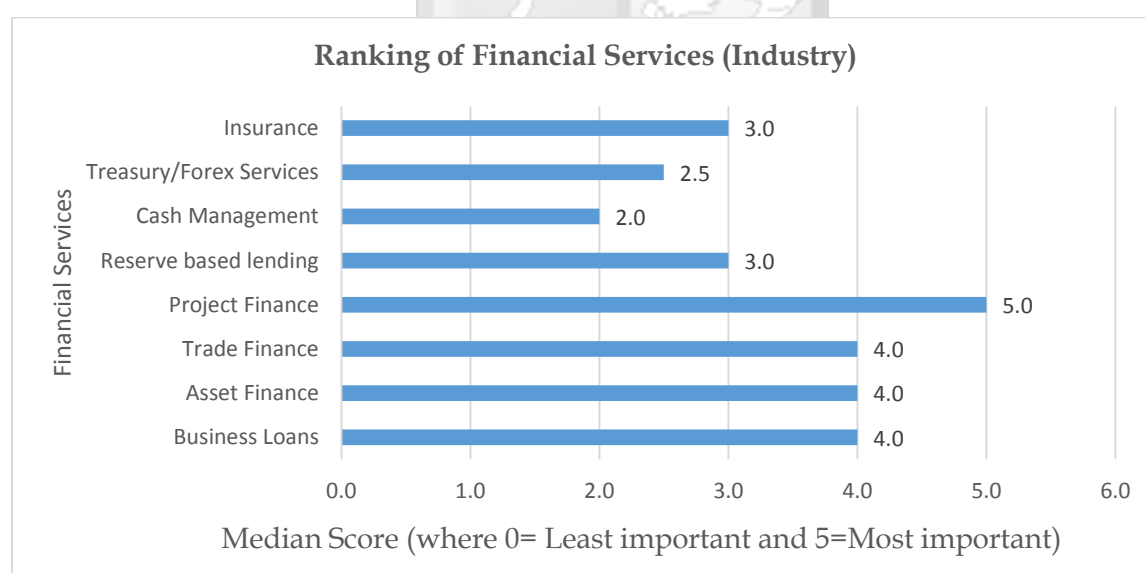


Figure 4. 4 Ranking of financial services required to promote local content development

4.4.1.3 Impact of Financial Services on Local Content

The respondents from the banking sector were asked to determine on a scale of 0 to 4 (Where 0= No extent and 4=Very large extent) the extent can to which financial and non-financial

services provided by commercial banks in Kenya lead to the achievement of the four local content outcomes in upstream oil and gas sector in Kenya. An analysis of the median of the responses from each respondent on each four of the local content outcomes for this objective was done and a trend line plotted to display and confirm the reported extent of the impact of the research objective on local content development.

An assessment of perception among bankers of the impact of financial services on local content showed a negative trend. As shown in figure 4.5 below, as the median increased, the frequency of selection decreased. This showed that the general impression was that financial services offered by banks had little impact on local content.

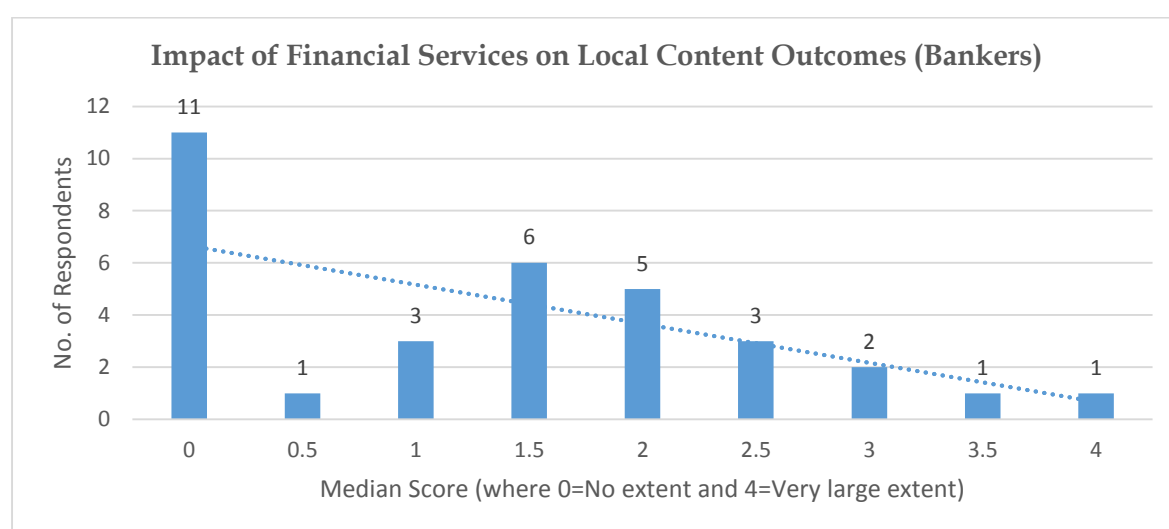


Figure 4.5 Impact of Financial Services on Local Content Outcomes as reported by commercial banks

4.4.1.4 Non-Financial Services Offered by Banks

From the analysis in figure 4.6 below, most banks indicated that they provided non-financial services to local enterprises venturing into upstream oil and gas. About 59% (19) of the banks indicated that they provided advisory services including due diligence services to local business venturing in upstream oil and gas while 52% (16) of the banks indicated that they provided business development advice to the industry. Training and business clubs were the services least provided by the banking industry with only 38% (12) and 43% (13) of the respondents indicating that they provide these services. However, of the six responses received from the industry, only two companies indicated that they received non-financial services from commercial banks and this was limited to sector reports.

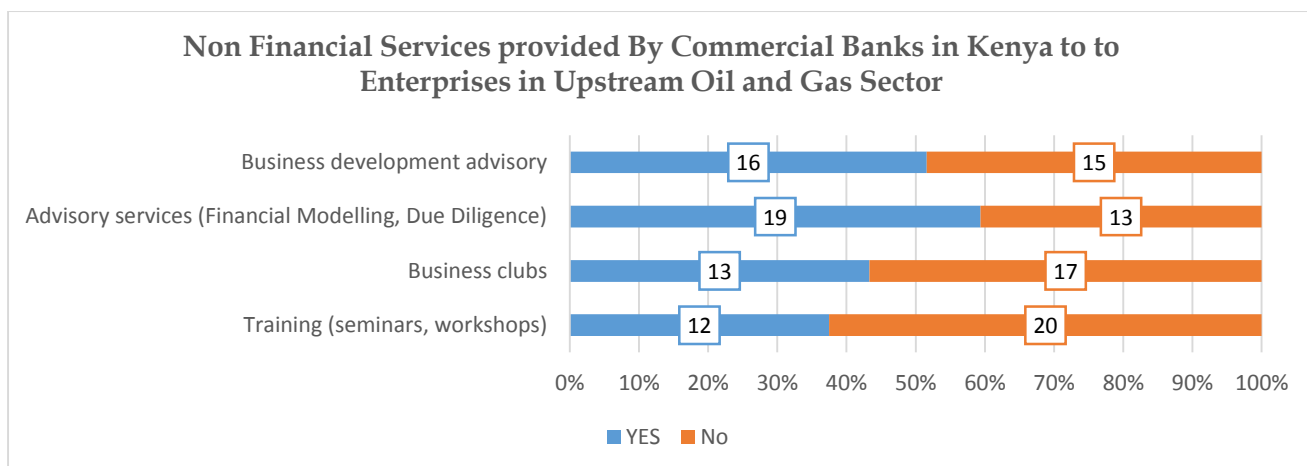


Figure 4. 6 Non-Financial Services Provided By Commercial Banks in Kenya to promote local content in Upstream Oil and Gas Sector

4.4.1.5 Non-Financial Services Required by Oil and Gas Contractors

To complement the findings on the non-financial services provided by the commercial banking sector, the oil and gas contractors were required to rank the most important non-financial service that commercial banks should provide to support local content development for upstream oil and gas. The ranking was done on a scale of 1 to 5 (where 1= least important and 5=Most Important).Subsequently, the median was chosen as the best measure of central tendency due to the ordinal nature of the data.

The findings from this investigation as shown in figure 4.7 indicate that the industry players regard business development advisory with median score of 4.5 as the most important service that the bank would provide to promote local content followed by advisory services (financial modelling, due diligence) with a median score of 3.5.The least important service from the study was sectorial reports with a median score of 2. The findings may suggest that the local oil and gas contractors would want commercial banks to take the lead and act as conduits of information when it comes to upstream oil and gas.

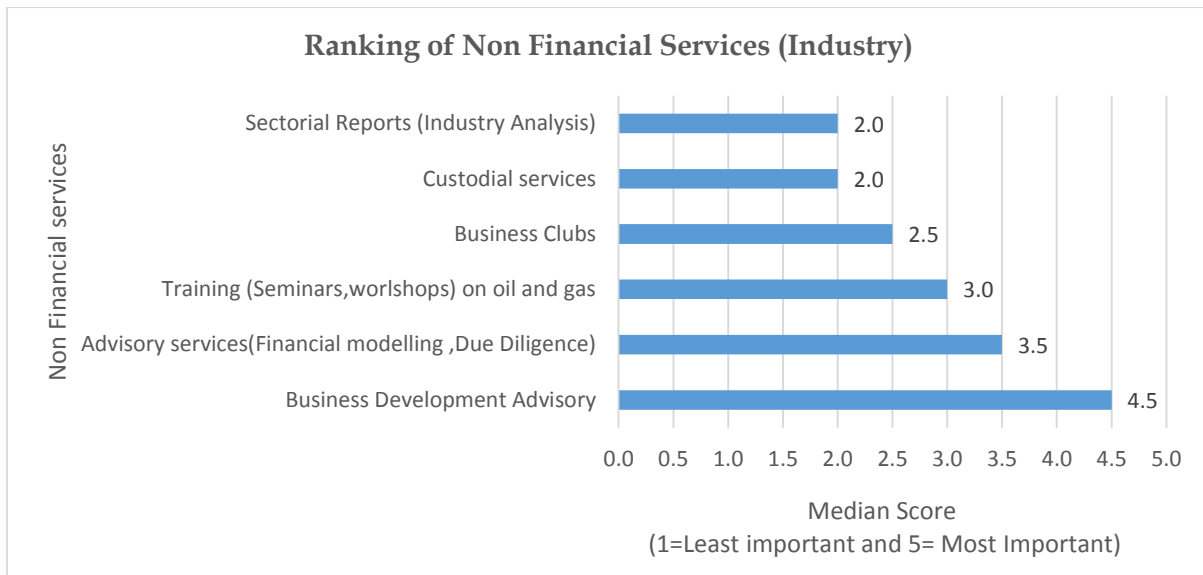


Figure 4. 7 Ranking of financial services required to promote local content development

4.4.1.6 Impact of financial services on local content

Additional analysis of the frequencies of the median scores as shown in figure 4.8, there appeared to be a negative trend. Despite providing non-financial services to enterprises in upstream oil and gas as shown in figure 4.8, the negative trend indicates that among bankers, the general perception was that the non-financial services currently provided by the industry had little impact on local content development in upstream oil and gas.

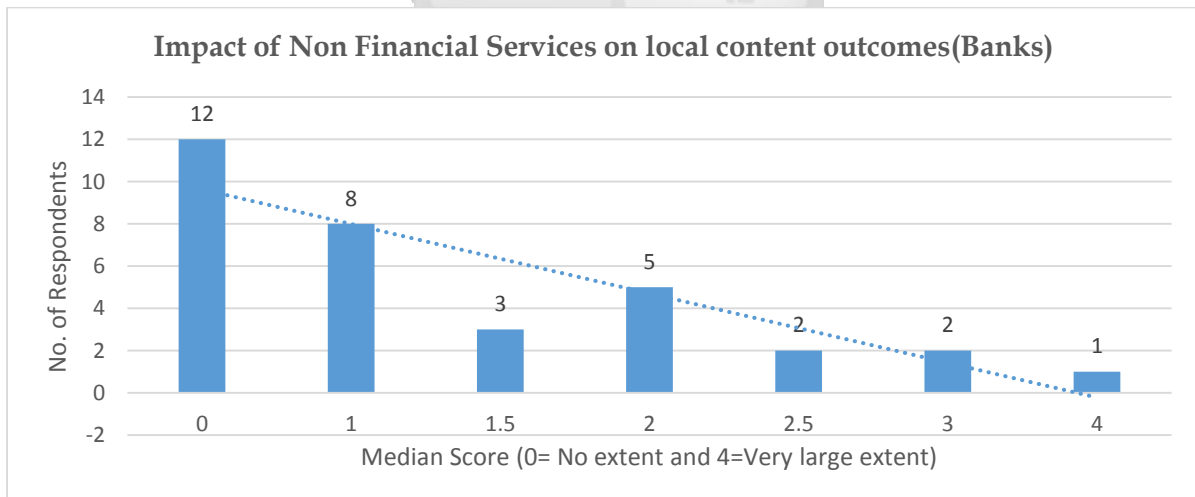


Figure 4. 8 Impact of Financial Services on Local Content Outcomes as reported by oil and gas contractors

4.4.2 Lending Capacity of Commercial Banks in Kenya

This section addresses the second objective of the study through descriptive statistics.

4.4.2.1 Perception of lending capacity

Approximately 70% (27) of respondents from the banking sector affirmed that commercial banks in Kenya have the lending capacity in financing transactions in upstream oil and gas. The findings were consistent with the responses from the oil and gas contractors, with 5 out of 6 respondents interviewed agreeing that the banking sector in Kenya has the capacity to finance transactions in the banking sector. However, from the respondents from the industry further confirmed that while the banks have the balance sheet to finance transactions in upstream oil and gas, they lacked the expertise to evaluate risks and opportunities in this sector.

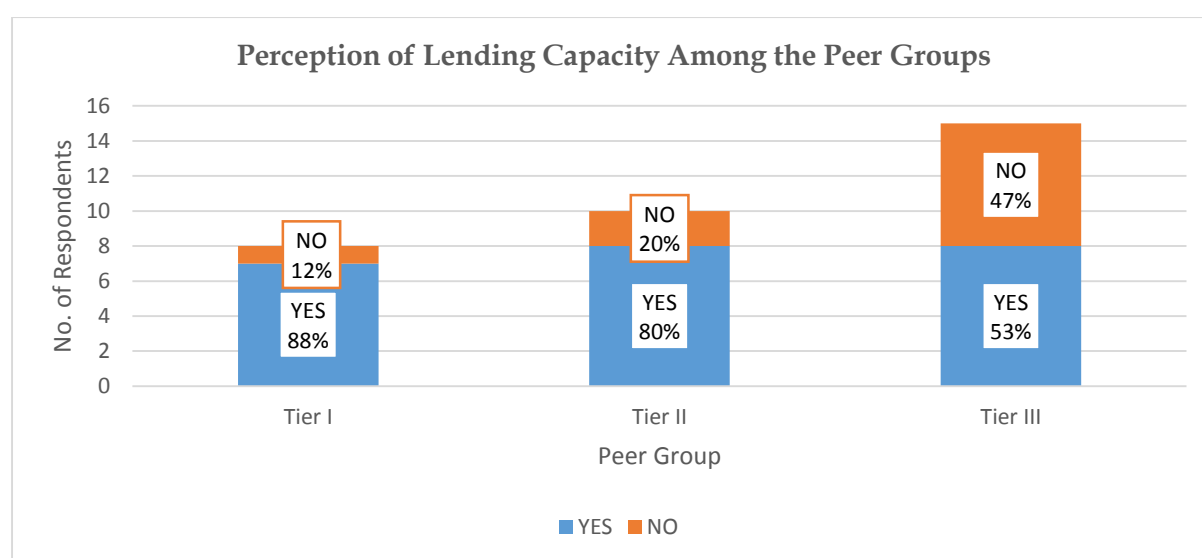


Figure 4. 9 Perception of lending capacity among commercial banks peer groups

On further analysis, the perception of lending capacity was noted to be highest amongst the large peer group (Tier I) of banks. As shown in figure 4.9, 88% (7) of the respondents in this category agreed that commercial banks in Kenya have the lending capacity to finance transactions in upstream oil and gas. This was followed by 80% (8) in the medium peer group (Tier II) while the small peer group had 53% (8) agreeing while another 43% (7) disagreeing with this finding. This may suggest that most tier III banks do not consider their balance sheets adequate to finance transactions in upstream oil and gas.

4.4.2.2 Perception of risks in financing transactions in upstream oil and gas

As shown in figure 4.10 below, 85% (28) of the respondents from the banking sector agreed that financing activities in the upstream oil and gas sector involves unique, complex risks that

require specialized knowledge and controls while the remaining 15% (5) were of a contrary opinion. This corroborates the feedback received from the industry on the capacity of banks to evaluate risks and opportunities in the upstream oil and gas sector.

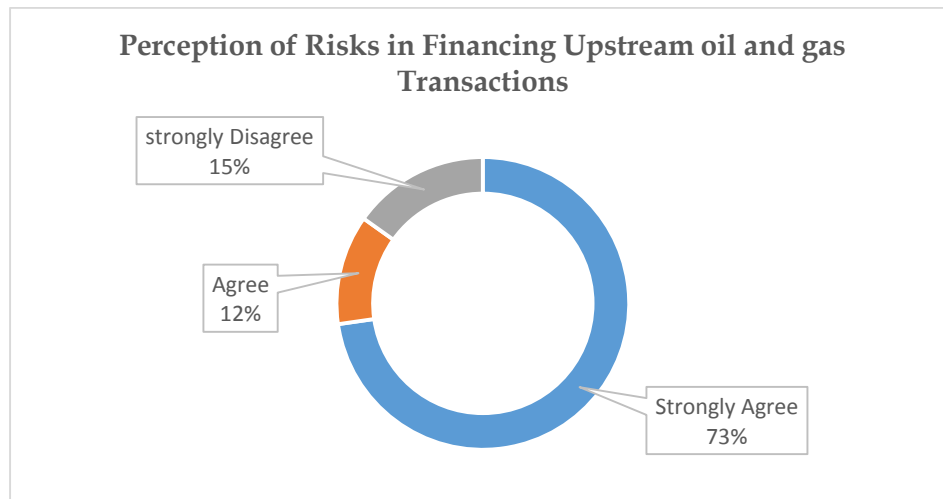


Figure 4. 10 Perception of Risks in Financing Upstream oil and gas Transactions

4.4.2.3 Currency of lending to the customers in upstream oil and gas sector

As shown in figure 4.11 below, the US Dollar (USD) is the most preferred currency amongst commercial banks in Kenya when lending to the upstream oil and gas sector. It was selected by the highest number of respondents (27 out of 31). It also had a low frequency for the least preferred currency. Among the currencies examined, the least preferred currency was the Great Britain Pound (GBP), which was indicated as the least preferred by the highest number of respondents (20 out of 31).

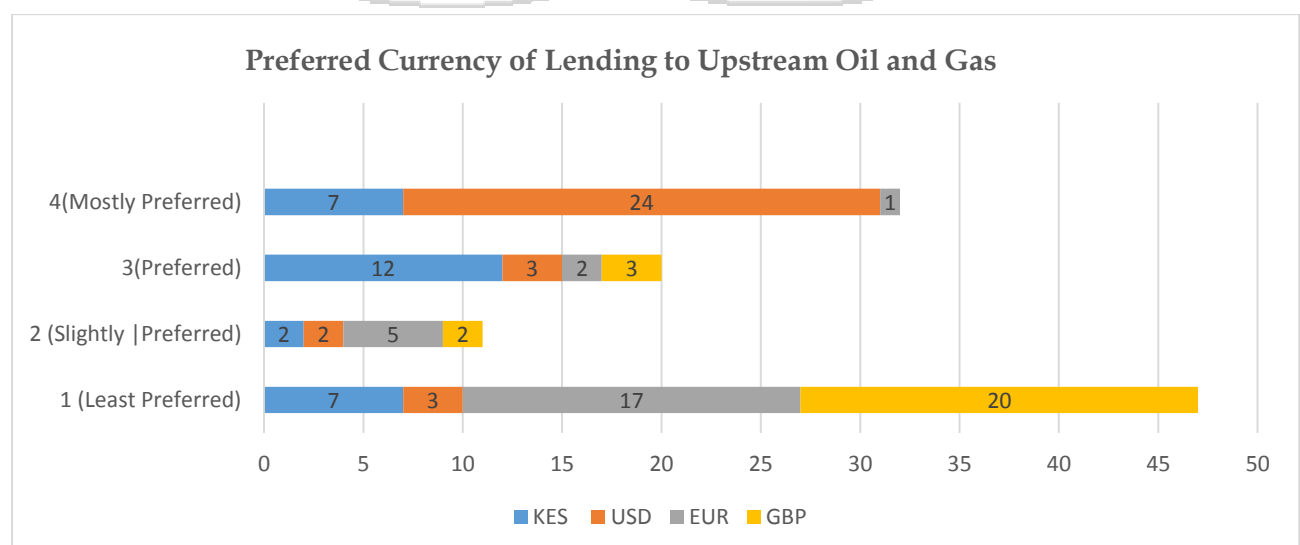


Figure 4. 11 Preferred Currency of Lending to Upstream Oil and Gas Sector

The USD was also the most preferred currency of borrowing according to the respondents interviewed in the upstream oil and gas industry. USD denominated loans were most preferred since oil and gas transactions are mostly denominated in USD and clients borrow in the same currency to mitigate against the risk of foreign exchange losses.

4.4.2.4 Stage in Upstream Oil and Gas Value Chain

The analysis of the upstream oil and gas value chain that is made hereafter is informed by the framework proposed by OES (2015) who opine that the upstream oil and gas value chain is divided into the following four stages:

- I. Licensing,
- II. Exploration and appraisal,
- III. Field development,
- IV. Production
- V. Decommissioning and abandonment.

Respondents from the banking sector indicated that they consider what stage of the upstream oil and gas value chain a project is before lending to an entity in the same sector. This finding was corroborated by evidence from the oil and gas industry with 4 out of 6 respondents interviewed having a similar view. These findings suggest that the stage in the oil and gas value chain is an important consideration for financing transactions in upstream oil and gas.

Findings from the banking industry survey indicated that commercial banks are most likely to lend at the production stage of the upstream oil and gas segment. As shown in figure 4.12 below, 16 respondents indicated they are most likely to lend at the production stage while another 7 respondents indicating they are likely to lend at that stage. The least desirable stages of the oil and gas value chain were licensing stage and decommissioning and abandonment stage. A total of 22 respondents from the banking sector indicated they were unlikely to lend at decommissioning and abandonment while another 23 respondents indicated that the bank is unlikely to lend an entity at the licensing stage. The pattern was influenced by the fact that there is certainty of cash flows at the production stage and banks find it less complicated to evaluate opportunities at this stage of the oil and gas value chain.

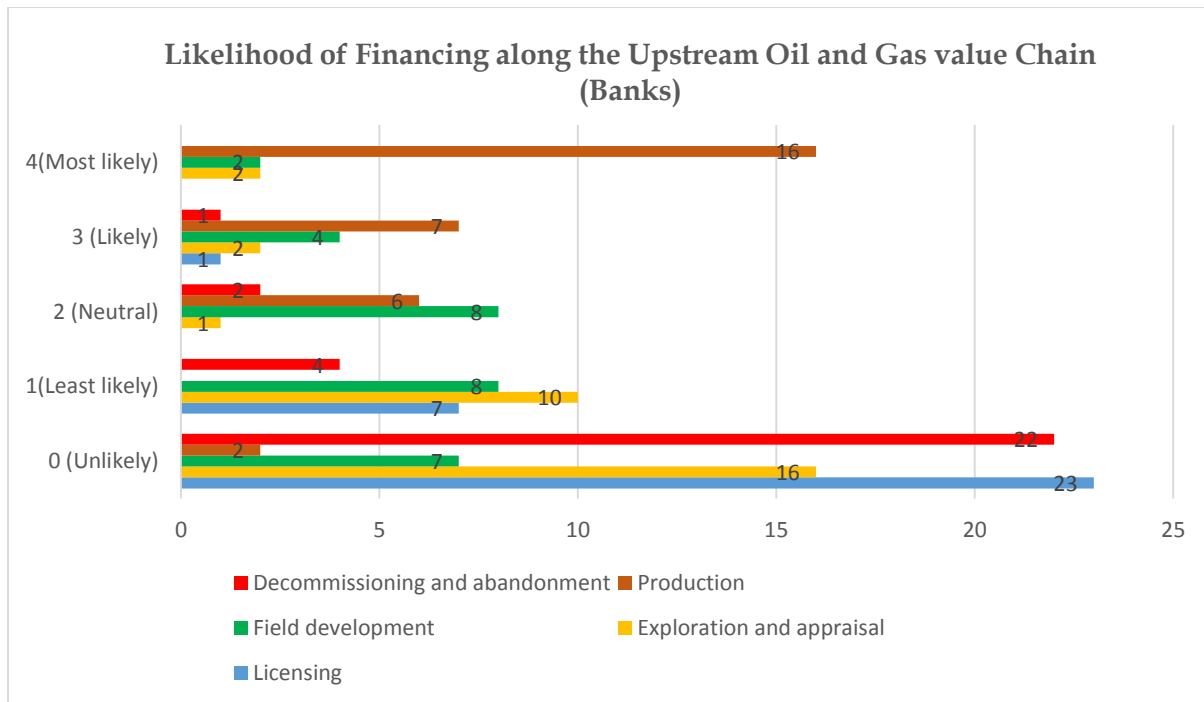


Figure 4. 12 Likelihood of lending along the upstream oil and gas value chain

The above findings have been supported by the responses from the industry players five of the six respondents indicated that they are most likely to get funding at the production stage while another four respondents indicating that it is unlikely for them to get funding at the licensing stage.

4.4.2.5 Impact of lending capacity on local content outcomes

The respondents were asked to determine on a scale of 0 to 4 (Where 0= No extent and 4=Very large extent) the extent can to which the lending capacity of commercial banks in Kenya will lead to the achievement of the four local content outcomes .An analysis of the median of the responses from each respondent on each four of the local content outcomes for this objective was done and a trend line plotted to display and confirm extent of the impact of the research objective on local content development.

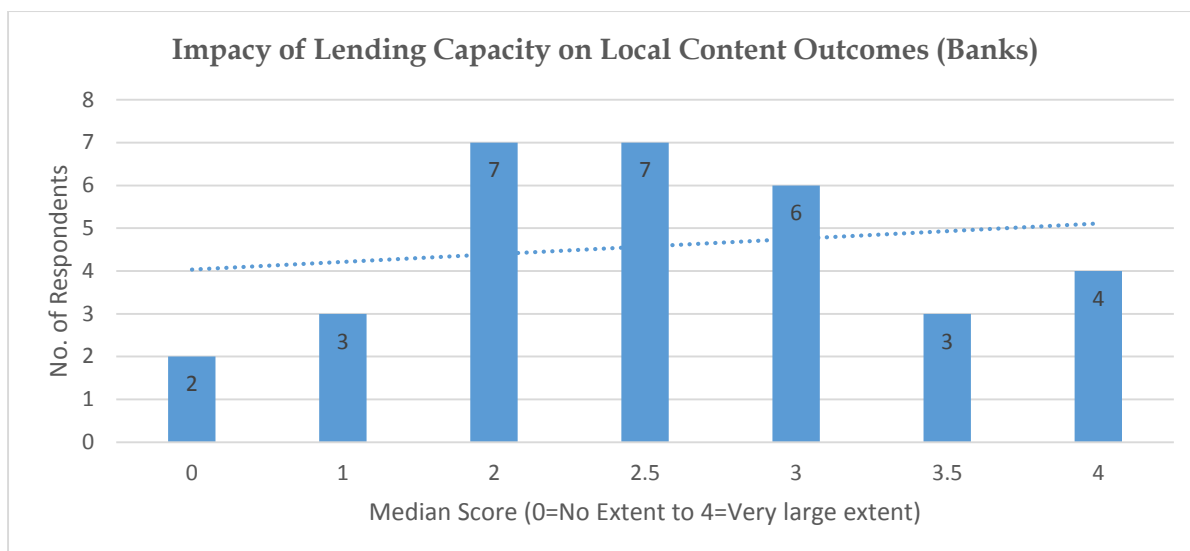


Figure 4. 13 Impact of lending capacity on local content outcomes

As shown in figure 4.13 above, 16 out of 32 respondents believe that the lending capacity of commercial of banks in Kenya will lead to the achievements of local content outcomes to a large extent with another 6 indicating that the impact will be to a very large extent. This is inferred from the positive association between the computed increase in lending capacity (as indicated by median ratings) and frequency of the Respondents. The finding of positive correlation between blending capacity of commercial banks and local content developments was also shared with the oil and gas contractors. The industry players agree that banks have an important role to play especially as providers of capital

4.4.3 Strategies to Promote Local Content in Upstream Oil and Gas

4.3.3.1 Specialized Products Targeting Upstream Oil and Gas Sector

Additional inquiry regarding whether the banks surveyed had specialised products targeting upstream oil and gas sector is show in figure 4.14 below. A large proportion, 70% (23), of the respondents from the banking sector indicated that their institutions did not have any specific products targeted at local entities venturing into the upstream oil and gas sector. Only 30% (10) of the respondents indicated that their banks have specific products for this sector. One of the respondents indicated that the bank had set up incubators that local companies can access in order to better understand opportunities in the upstream oil and gas sector. There is no any other mention of any local content initiatives from any other bank.

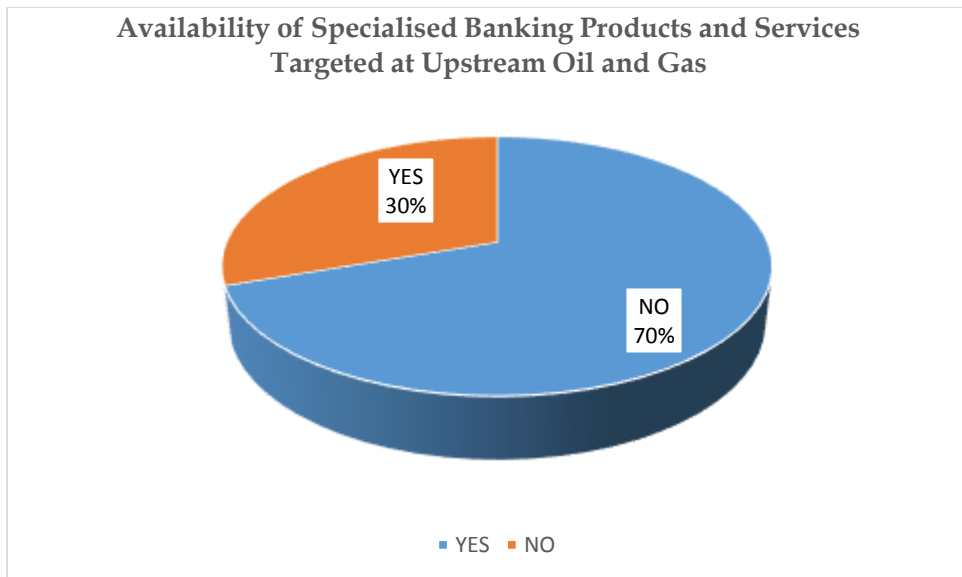


Figure 4. 14 Does the bank have specialised banking products and services for upstream oil and gas?

4.4.3.3. Dedicated Supplier Development Programs

The researcher sought to find out whether the commercials in the study had any supplier development programs aimed at promoting local development in their institutions. As shown in figure 4.16, 91% (29) respondents indicated unavailability of such programs. Only three banks indicated that they have some initiatives in the pipeline including reverse factoring programs that outsource risk to anchor clients mostly oil exploration companies and supplier engagements to showcase opportunities in upstream oil and gas. This finding was consistent with the observation that most banks did not have specialized departments aimed at addressing the needs of the industry.

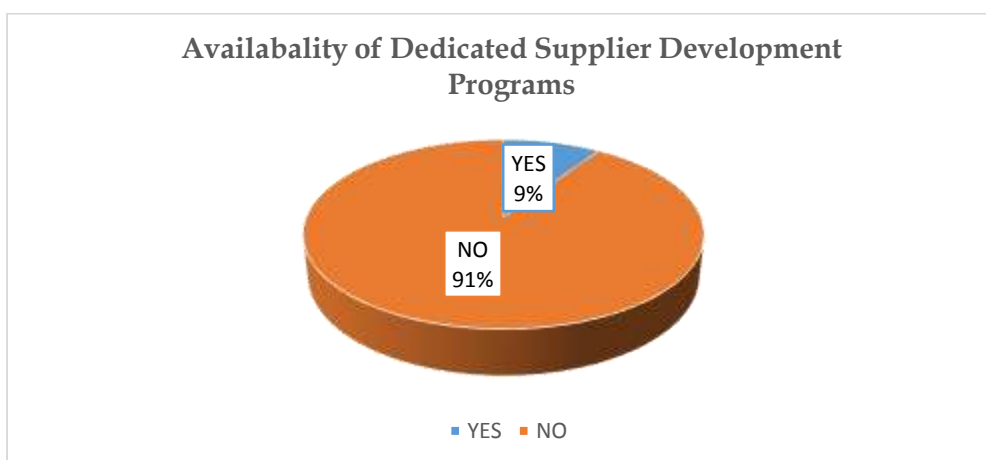


Figure 4. 15 Availability of supplier development programs

4.4.3.4. Partnerships to Develop Local Content Capacity in Upstream Oil and Gas

Respondents (90%) in the banking sector believe that there are no existing partnerships to develop local content capacity in upstream oil and gas. The results were corroborated by 4 out of 6 of the oil and gas contractors who also indicated that such partnerships do not exist. However, two respondents from the oil and gas industry indicated that one commercial bank (which is a subsidiary of a foreign bank) has approached them with a view of arranging forums for potential suppliers to showcase the developments in the upstream sector including areas that they could potentially tap into to develop local capacity.

4.4.3.5. Strategies to Promote Local Content Development in Upstream Oil and Gas

The most widely recommended strategy by bankers to promote local content development for upstream oil and gas was training and skilling the workforce at 50% (13). Emergent themes were provision of sufficient funding to local banks at 23% (6) and a need for collaboration in the industry 19% (5). Other issues raised included a broader perspective of assessment of the industry (with regard to the full value chain and multiple stakeholders) and the pivotal role of DFIs in ensuring adequate and efficacious financing. In particular, a lack of skills and specialization among oil and gas companies presented as a major deterrent to lenders. With regard to policies and framework, it was reported that both were insufficient in the upstream oil and gas sector. Respondents from the banking sector also emphasised the need for more specialized approaches to lending due to the unique risks in this sector. One respondent highlighted the need for risk-dependent structuring of lending to ensure a fit between market and financier needs.

Two themes were most apparent in the responses sought from the oil and gas contractors. This included a need for partnership between suppliers and financial institutions (3 mentions) to ensure alignment of strategies and priorities particularly as relates to the creation of local content. The other theme was revolved around skills and knowledge transfer. The industry noted that that oil and gas expertise in the banking sector was lacking hence investment in knowledge transfer would allow for better evaluation of opportunities in upstream oil and gas.

4.4.3.6. Impact of banking strategy on local content outcomes

The respondents were asked to determine on a scale of 0 to 4 (Where 0= No extent and 4=Very large extent) the extent to which the strategies adopted by commercial banks in Kenya will lead to the achievement of the four local content outcomes. An analysis of the median of

the responses from each respondent on each four of the local content outcomes for this objective was done and a trend line plotted to display and confirm extent of the impact of the research objective on local content Development. Analysis of median ratings as shown in figure 4.17 below revealed that positive trend where the median score is generally associated with an increase in respondent numbers. This indicated that most respondents in both sectors perceive the implementation of strategies adopted by commercial banks as pivotal to the achievement of local content outcomes.

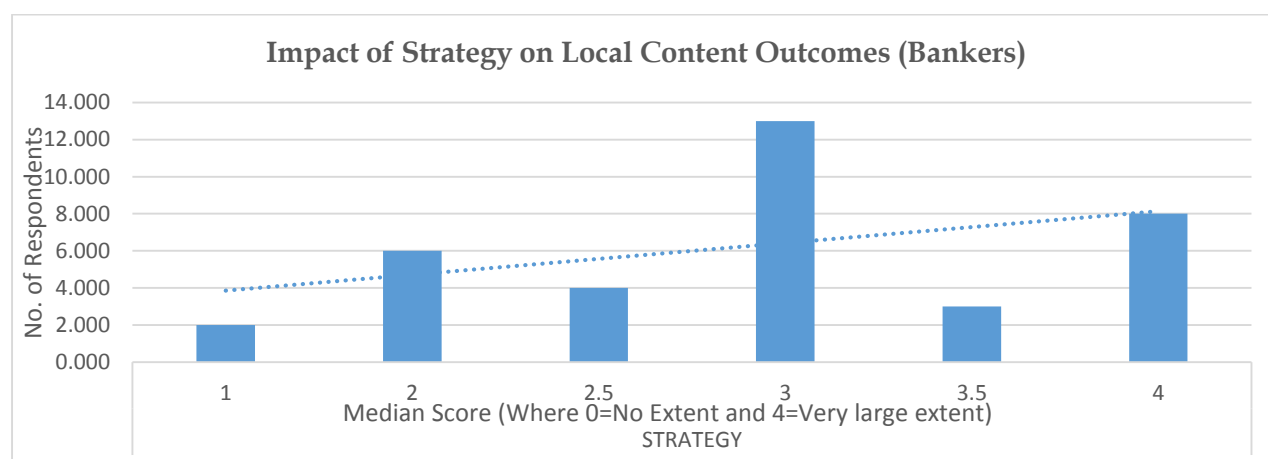


Figure 4. 16 Impact of strategy on local content outcomes (Bankers)

4.5. Summary of Findings

It is evident from the study that commercial banks have a role to play in the development of local capabilities in the upstream oil and gas in Kenya. Findings from commercial banks indicated that there are number of financial and non-financial services that the commercial banks currently provide to local entities venturing in upstream oil and gas. The result was a negative correlation between both the financial and non-financial services provided and the local content outcomes.

Respondents from both the banking sector and oil and gas industry agreed that commercial banks in Kenya have the capacity to finance transactions in upstream oil and gas. However, capacity was perceived from a balance sheet perspective and this was higher in tier I and tier II banks at 88% and 83% respectively. However, the banking industry generally agreed that financing transactions in upstream oil and gas involved complex risks and most banks in the industry lacking the capacity to evaluate risks and opportunities in this sector. It was also evident that banks consider the stage at which an upstream oil and gas project is before lending to an entity. The production stage was most preferred by most banks since at this

stage there is certainty of cash flows and so banks can be able to ring fence their exposures accordingly.

The study tested some of the strategies to promote local content that were suggested at the literature review stage in this research study. For instance, 90 % of the respondents indicated that there were no existing partnerships between the banking and oil and gas industry or supplier development programs intended to develop local content capabilities in upstream oil and gas in Kenya. The most widely recommended strategy by bankers to promote local content development in upstream oil and gas was training and upskilling in evaluation of risks and opportunities in this sector. This confirms that the finding that financing transactions in this sector involves unique and complex risks that may not be available in the banking sector at the moment. Respondents also indicated that commercial banks ought to partner with direct finance institutions to access cheaper source of funding in foreign currency especially USD to on lend to local entities venturing into upstream oil and gas. There was a positive correlation between the strategies adopted by banks and the achievement of local content outcomes under consideration in the research study

4.6. Conclusion

The different methods applied in the analysis of data produced outcomes that are consistent with each other indicating a high reliability of data. The findings from the descriptive and inferential analysis indicate that commercial banks have a role to play in the development of local content capabilities in upstream oil and gas. The analysis of the responses from both the banking sector and the oil and gas contractors indicate that the lending capacity and strategies adopted by commercials will have large impact on local content outcomes. However, it is important to note that the findings are different when measuring the impact of the services currently provided by commercial banks in Kenya to the upstream oil and gas sector on local content outcomes. The perception of the banking sector is that the services currently offered by the commercial banks in Kenya have little or no impact on local content development.

CHAPTER FIVE: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter commences by answering the research questions from the study while highlighting key findings that provide answers to these questions. The chapter also includes a conclusion section highlighting key contributions made by this research study. Finally, a discussion is made on the recommendations and as well as suggestions on areas for further research based on findings from the study.

5.2. Discussions

5.2.1. Banking Services to Promote Local Content in Upstream Oil and Gas

The research study sought to establish the extent to which the services currently provided by commercial banks in Kenya support the development of local enterprises venturing into the upstream oil and gas sector. Findings from the banking sector indicated that business loans and trade finance services were the most popular financial services provided to local entities venturing in upstream oil and gas while project finance and reserve based lending were the least provided services. However, local oil and gas contractors indicated project finance as the most important financial service. This may suggest that the local contractors are desirous to participate in the more capital intensive projects that are currently dominated by foreign contractors.

However, feedback from the interviews with the industry players indicated that commercial banks in Kenya did not provide any non-financial services aimed at promoting local content capacity in oil and gas. This contrast suggests the existence of information asymmetry between banks and upstream oil and gas businesses. These findings lead the researcher to concur with the observation by Murungi (2015) that development of non-financial services will be critical in bridging the information gap. This view is also upheld by IFC (2012) who argued that Banks should develop non-financial services (NFS) such as training, offering information services and consulting to help business owners grow their enterprises. The non-financial products also provide differentiation and increase their competitive edge in the market.

While seeking to answer the research question on banking services, the study sought to find out whether commercial banks in Kenya provide any specialized products and services targeted at local enterprises venturing into upstream oil and gas sector. About 70% of the respondents from

the banking sector indicated that the banks represented did not have such products with only one bank indicating that they can provide reserve based lending solutions to local entities venturing into upstream oil and gas. This view supports the arguments by Murungi (2015) that commercial banks in Kenya only provide investors in upstream oil and gas with routine non-specialised services. Stretching the argument further, the researcher (Murungi) opined that local banks need to have a better understanding of the oil and gas industry in order to formulate innovative solutions that meet the investors' needs. The services currently provided by the banking sector in Kenya do not support local content development in upstream oil and gas. Indeed, the findings indicated a negative correlations with the local content outcomes investigated in the research study. As indicated by IFC (2012), commercial banks will be required to decide which types of services they should develop, whether these services are beneficial to their overall strategy and capable of scale.

5.2.2. Lending Capacity of Commercial Banks in Kenya

This research study also sought to assess the lending capacity of commercial banks in Kenya in financing transactions in upstream oil and gas. According to PWC (2015) the significant level of funding required to support activities in upstream oil and gas may not be within the lending capacity of the local market. Respondents from both the banking sector and oil and gas industry confirmed that commercial banks in Kenya have the lending capacity to finance transactions in upstream oil and gas. The oil and gas contractors viewed commercial banks as providers of capital and also key enablers of growth especially to local communities through financial inclusion in the remote locations where the oil and gas deposits have been found. The study found out that tier I and most tier II banks had balance sheets that can accommodate funding either in KES or USD. The most preferred currency of lending by local commercial banks was USD in line with the globally accepted currency of oil and gas transactions. However, Respondents from the banking sector and the oil and gas industry acknowledge that financing activities in the upstream oil and gas sector also involves unique, complex risks that require specialized knowledge and control that may not be locally available in the country due to the nascent nature of the industry. This supports the view advanced by OCC (2016) on the same subject.

The study also established that commercial banks considered which stage of the upstream oil and gas value chain a project is before financing any transaction related to that project. This view was also supported by oil and gas contractors interviewed in the study. The banks were likely to lend an entity if the project was already at the production stage. The industry indicated that at this stage there is certainty of cash flows and so it is less complicated to evaluate risks associated with a project. Looking at the value chain market segmentation, it is instructive to note that the only oil exploration company that seemed to have discovered commercially viable reserves of crude oil in Kenya is Tullow Oil and is yet to make a final investment decision on whether to move to the production stage. However, the research study established that most banks perceive the extent of the impact of their lending capacity on local content outcomes to be large. This is inferred from the positive association between increased lending capacity (as indicated by median ratings) and frequency of respondents.

5.2.3. Commercial Banks Strategy for Local Content Development

The final objective of the research study was to establish the strategies that commercial banks in Kenya can adopt to effectively support the development of local capabilities in upstream oil and gas sector. The research sought to establish whether commercial banks in Kenya partner with any development finance institutions (DFIs) to support local enterprises venturing into the upstream oil and gas sector in Kenya. Most respondents from the banking industry indicated that no such partnerships existed. However, three tier I banks confirmed that they have had a partnership with DFIs with one citing a partnership with European Investment Bank (EIB) for the establishment of credit lines to on lend to local enterprises in upstream oil and gas. This supports the argument by Oramah (2007) that local commercial banks can benefit from partnerships with multilateral funding agencies to provide funding to local oilfield service companies. The researcher argues that domestic suppliers stand to benefit from such partnerships through cheaper and matching currency funding.

This research study further sought to establish whether banks in Kenya have any dedicated supplier development programs that are intended to build the capacity of local enterprises venturing into the upstream oil and gas sector in the country. About 91% of the banking sector respondents indicated that no such programs exist. This view was corroborated by the oil and gas contractors interviewed in the study. This reinforces the argument by ASI (2015) that there is need

to develop a cross sector supplier development programme in order to build local content capacity in the extractive Industries in Kenya. Overall, the feedback from respondents in the banking sector and the industry underscored the need for the banking sector to develop suitable products to support local content in upstream oil and gas. Respondents indicated that commercial banks should partner and collaborate with relevant government agencies to ensure their products and services are suitably tailored to support the needs of local enterprises venturing in the sector.

5.3 Conclusion

The research study confirmed that commercial banks in Kenya have a role to play in the development of local content capacity in upstream oil and gas industry. Access to finance and other advisory services will be very critical in the development of the local content capabilities in this sector. Findings from the research study indicate that the commercial banking sector perceives the impact of the banking services provided to be very low on the achievement of local content outcomes in the upstream oil and gas. The study concluded that commercial banks in Kenya are not providing sufficient information on developments in the upstream oil and gas sector resulting in information asymmetry between the banks and the industry stakeholders. For this reason, banks are unable to develop innovative solutions that meet the industry requirements. The study established that emphasis should be made on the development of non-financial services such as training, offering information services and business consulting to assist local enterprises take advantage of opportunities in the emergent oil and gas upstream industry. The development of non-financial products will also provide differentiation and increase their competitive edge in the market.

The upstream oil and gas sector is capital intensive and the implementation of local content policies in Kenya will not be successful without availing sufficient credit to the local enterprises venturing into this sector. Further evidence from the research study indicates that commercial banks in Kenya have the lending capacity to finance transactions in upstream oil and gas from a balance sheet perspective. However, the banks lack the technical capacity to assess risks and have not built in the appropriate risk mitigation measures that could be used to evaluate opportunities at each stage of the upstream oil and gas industry value chain.

The research concluded that one of the key strategies in successfully building local content capacity in upstream oil and gas sector in Kenya is through partnerships. Partnerships between

commercial banks in Kenya and Development Finance Institutions (DFI) can provide local entities that are interested in venturing into upstream oil and gas with access to cheaper funding than if they were to borrow locally. Commercial banks in Kenya can also partner with stakeholders in the industry to develop cross-sector supplier development programs to build capacity of local entrepreneurs interested in opportunities in upstream oil and gas.

5.4. Recommendations

The research study proposes that commercial banks in Kenya should create a platform that can be used by stakeholders in upstream oil and gas for exchanging ideas. This is similar to the PROMINP program developed by Petrobras in Brazil in conjunction with commercial banks in the country. The platform will also facilitate the knowledge and skills transfer that is required by the commercial banks in evaluating opportunities in this sector.

The study recommends that commercial banks in Kenya establish partnerships with Development Finance Institutions (DFIs) and multilateral lenders to access international currency funding that would be attractive and cheaper for the local enterprises venturing into the upstream oil and gas sector. The study also recommends that commercial banks set up local content incubators that local enterprises can tap into in order to better understand opportunities and access tailor-made banking solutions that can meet the unique requirements of the upstream oil and gas industry.

It is recommended that commercial banks adopt an ecosystem approach to offering banking services to local enterprises venturing into upstream oil and gas. The commercial banks should ensure that they are able to bring together all the local oil and gas contractors and oil exploration companies under one roof in order to have an end to end visibility of transactions. This will also make it easier to assess counterparty risks, formulate risk mitigation structures and provide solutions that will assist in ring fencing proceeds from any transaction funded by the commercial banks.

The study recommends that commercial banks in Kenya develop a dynamic credit risk appetite framework that supports local content development in upstream oil and gas. This will boost the technical capacity to assess risks, build mitigation measures and to evaluate opportunities across the upstream oil and gas value chain.

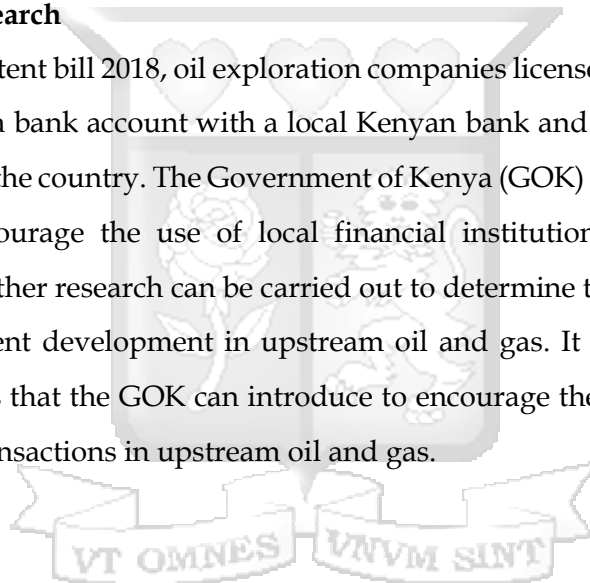
Commercial banks should also be allowed to be members of industry lobby groups such as the Kenya oil and gas association (KOGA) through which industry information can be shared. This will facilitate the collection of data on local enterprises where commercial banks can act as a conduit of information for entities looking to venture into upstream oil and gas industry in Kenya.

5.5. Limitations of the Study

One of the major limitations of this study was obtaining information from oil exploration companies licensed to operate in Kenya. Three respondents from the banking sector declined to participate in the research study citing their banks' lack of exposure to oil and gas customers while another four did not respond at all.

5.6 Areas for further research

In the proposed local content bill 2018, oil exploration companies licensed to operate in Kenya will be required to maintain a bank account with a local Kenyan bank and transact business through the commercial banks in the country. The Government of Kenya (GOK) also intends to put in place initiatives that will encourage the use of local financial institutions in financing extractive operations in Kenya. Further research can be carried out to determine the impact of the proposed legislation on local content development in upstream oil and gas. It will also be interesting to investigate the initiatives that the GOK can introduce to encourage the use of commercial banks in Kenya in financing transactions in upstream oil and gas.



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APPENDICES

Appendix I: List of Commercial Banks in Kenya as at 31st December 2017

No.	Bank	Peer Group	Market Size Index
1	KCB Bank Kenya Ltd	Large	14.14%
2	Co - operative Bank of Kenya Ltd	Large	9.93%
3	Equity Bank Kenya Ltd	Large	9.85%
4	Standard Chartered Bank (K) Ltd	Large	7.11%
5	Diamond Trust Bank (K) Ltd	Large	6.72%
6	Barclays Bank of Kenya Ltd	Large	6.57%
7	Commercial Bank of Africa Ltd	Large	6.05%
8	Stanbic Bank Kenya Ltd	Large	5.62%
	Subtotal		65.99%
9	I & M Bank Ltd	Medium	4.78%
10	NIC Bank Kenya PLC	Medium	4.62%
11	Bank of Baroda (K) Ltd	Medium	2.56%
12	Citibank N.A. Kenya	Medium	2.56%
13	National Bank of Kenya Ltd	Medium	2.37%
14	Prime Bank Ltd	Medium	2.01%
15	Family Bank Ltd.	Medium	1.71%
16	Bank of India	Medium	1.55%
17	HFC Ltd	Medium	1.43%
18	Ecobank Kenya Ltd	Medium	1.27%
19	Bank of Africa (K) Ltd	Medium	1.25%
	Subtotal	19.99	26.11%
20	Guaranty Trust Bank (Kenya) Ltd	Small	0.85%
21	Gulf African Bank Ltd	Small	0.77%
22	Victoria Commercial Bank Ltd	Small	0.71%
23	African Banking Corporation Ltd	Small	0.59%
24	Sidian Bank Ltd	Small	0.49%
25	Habib Bank A.G. Zurich	Small	0.45%
26	Guardian Bank Ltd	Small	0.40%
27	First Community Bank Ltd	Small	0.39%
28	Credit Bank Ltd	Small	0.38%

29	Development Bank of Kenya Ltd	Small	0.37%
30	Jamii Bora Bank Ltd	Small	0.35%
31	M - Oriental Commercial Bank Ltd	Small	0.32%
32	Transnational Bank Ltd	Small	0.28%
33	Consolidated Bank of Kenya Ltd	Small	0.26%
34	SBM Bank (Kenya) Ltd	Small	0.25%
35	Paramount Bank Ltd	Small	0.25%
36	Spire Bank Limited	Small	0.23%
37	UBA Kenya Bank Ltd	Small	0.21%
38	Middle East Bank (K) Ltd	Small	0.14%
39	Mayfair Bank Ltd	Small	0.11%
40	DIB Bank Kenya Ltd	Small	0.10%
41	Chase Bank Kenya Ltd (Under Receivership)		0.00%
42	Charterhouse Bank Ltd (under statutory management)		0.00%
43	Imperial Bank Ltd (Under Receivership)		0.00%
	Subtotal		7.90%
	Total Market Share		100.00%

Source Central Bank of Kenya 2018

Appendix II: List of Oil Exploration Companies in Kenya as at June 2016

Source: MOEP 2016

Appendix III – List of Members of OGCA Kenya

	Oil Exploration company	Licensed Blocks	Total
1	Afren/EAX	1: L17;l18	3
2	Africa Oil Corporation	9	1
3	CEPSA	L11A	1
4	Simba Petroleum	2A	1
5	Lion Petroleum	2B	1
6	A-Z Petroleum	L1A, L3	2
7	Camac Energy	L1B;L16;L27;L28	4
8	BG Group	L10A, L10B	2
9	Anadarko	L11A, L11B, L12	3
10	TOTAL EP	L22	1
11	National Oil Corporation Kenya (NOCK)	14T,	1
12	Tullow Oil	10BA, 10BB, 12A, 13T, 12B	5
13	ENI	L21, L23, L24	3
14	Rift Energy	L19	1
15	Millo	L20	1
16	Imara Energy	L2	1
17	Zarara Oil & Gas	L4, L13	2
18	Far Energy Block	L6	1
19	Lamu Oil & Gas	L14;L26	2
20.	Ophir/Dominion	L9	1
21.	Simba Petroleum	2A	1
	Total		38

1. Oil Field Movers Limited
2. Kurrent Technologies Limited
3. Freight Forwarders Limited
4. Oil and Energy Services Limited
5. Royal Oilfield Logistics, Services & Supplies (ROLSS) Ltd
6. ATS Group

Source: www.ogca.or.ke (Accessed 01st March 2019)



Appendix IV –Questionnaire (Banks)

THE ROLE OF COMMERCIAL BANKS IN KENYA IN BUILDING LOCAL CONTENT CAPACITY IN UPSTREAM OIL AND GAS INDUSTRY

Thanks for agreeing to take part in this research study on THE ROLE OF COMMERCIAL BANKS IN KENYA IN BUILDING LOCAL CONTENT CAPACITY IN THE UPSTREAM OIL AND GAS INDUSTRY

.This is a study by Herbert Omune in partial fulfilment of the requirements for the Degree of Masters in Business Administration at Strathmore Business School.

The questionnaire should take between 15 and 20 minutes to complete. The information obtained from you or your organization shall be treated confidentially and shall be used for academic purposes only.

*** Required**

GENERAL INFORMATION

1. Name of Bank *

2. Job Title *

3. How would you describe the ownership structure of your Bank? * *Mark only one oval.*

- ☐ Local Public Commercial Bank
- ☐ Local Private Commercial Bank
- ☐ Foreign commercial Bank
- ☐ Other:

4. What is your bank's relative market share in the sector? Mark only one oval.

- ☐ Tier I (above 5%)
- ☐ Tier II (between 1% and 5%)
- ☐ Tier III (less than 1%)

5. How is customer segmentation done in the Bank? Mark only one oval.

- ☐ Business size
- ☐ Industry
- ☐ Ownership structure
- ☐ Geographical location
- ☐ Other:

6. What proportion of your clients belong to the following segments in the oil and gas sector? *Mark only one oval per row.*

Less than 10 % 10% to 20 % 20% to 30% 30% to 50% Above 50%

Downstream Segment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Midstream Segment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Upstream Segment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. What do you understand by the term “local content” with respect to upstream oil and gas sector in Kenya?

8. Do commercial banks in Kenya have role to play in the development of local content in upstream oil and gas?

Mark only one oval.

☐ Yes
☐ No

9. Does your Bank consider local content when transacting with clients in upstream oil and gas sector?

Mark only one oval.

☐ Yes
☐ No

COMMERCIAL BANKING SERVICES

This section seeks to establish the extent to which the services currently provided by Commercial banks in Kenya support local enterprises venturing into the upstream oil and gas sector in the country

10. Please indicate the financial services that your Bank provides to local enterprises venturing into the upstream oil and gas sector in Kenya

Mark only one oval per row.

	Yes	No
Business Loans	<input type="radio"/>	<input type="radio"/>
Asset financing	<input type="radio"/>	<input type="radio"/>
Trade financing	<input type="radio"/>	<input type="radio"/>
Project financing	<input type="radio"/>	<input type="radio"/>
Reserve based lending	<input type="radio"/>	<input type="radio"/>

11. List any other financial services the Bank provides to local enterprises venturing into upstream oil and gas sector in Kenya?

12. To what extent has the provision of the above financial services lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)?

	0	1	2	3	4
Number of Local contractors					
Venturing in upstream oil and gas Sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local Upstream oil and gas contractors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skills and Knowledge transfer in Evaluating opportunities in Upstream oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. Please indicate the non-financial services you offer to the upstream oil and gas industry. Mark only one oval per row.

	Yes	No
Training (seminars, workshops)	<input type="radio"/>	<input type="radio"/>
Business clubs	<input type="radio"/>	<input type="radio"/>
Advisory services (Financial Modelling, Due Diligence)	<input type="radio"/>	<input type="radio"/>
Business development advise (Change Management, Business Process Mapping, Requirements Gathering and Customer Experience development)	<input type="radio"/>	<input type="radio"/>

14. Any other Non-Financial Services offered?

15. To what extent has the provision of the above non-financial services lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)?

Mark only one oval per row.

	0	1	2	3	4
Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

upstream oil and gas contractors	
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>

LENDING CAPACITY OF COMMERCIAL BANKS

The objective of this section is to determine the lending capacity of commercial banks in Kenya in financing transactions in upstream oil and gas.

16. Do commercial banks in Kenya have the lending capacity to finance transactions in upstream oil and gas?

Mark only one oval.

- ☐ Yes
- ☐ No

17. What would you do you consider as the determinants of the lending capacity of a bank in financing upstream oil and gas transactions? Please rank from 1 to 5 (1= most important 5=least important)

Mark only one oval per row.

	1	2	3	4	5
Single Borrower Limit	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Liquidity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Specialized Industry knowledge	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Credit Risk Administration	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Corporate Governance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



18. Does your Bank consider 'local content' when financing transactions in the upstream oil and gas sector?

Mark only one oval.

- ☐ Yes
- ☐ No

19. What proportion of the Bank's lending is given to local entities in upstream oil and gas or with contracts with oil exploration companies?

Mark only one oval.

- ☐ 0-10%
- ☐ 10-20%
- ☐ 20-40%

- ☐ 40-50%
- ☐ Above 50%

20. What is the average amount of loans disbursed by the Bank to entities in upstream oil and gas sector in Kenya?

Mark only one oval.

- ☐ 0 to KES 500 Million
- ☐ KES 500 Million to KES 2 Billion
- ☐ KES 2 Billion to KES 5 Billion
- ☐ KES 5 Billion and above

21. What is the most preferred currency of lending in upstream oil and transactions? (1= Least Preferred 2=Slightly Preferred 3= Preferred 4=Mostly Preferred)

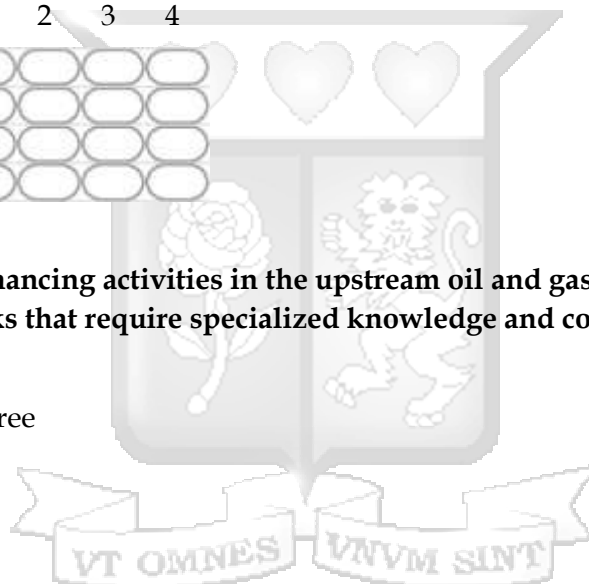
Mark only one oval per row.

	1	2	3	4
KES	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
USD	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
EUR	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
GBP	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

22. Do you agree that financing activities in the upstream oil and gas sector also involves unique, complex risks that require specialized knowledge and controls?

Mark only one oval.

- ☐ Strongly disagree
- ☐ Disagree
- ☐ Neutral
- ☐ Agree
- ☐ Strongly agree



23. Does your Bank have systems in place to provide accurate and timely assessment of risks associated with lending to the upstream oil and gas sector?

Mark only one oval.

- ☐ Yes
- ☐ No

24. Does your Bank consider what stage of the upstream oil and gas value chain a project is before lending to an entity?

Mark only one oval.

- ☐ Yes
- ☐ No

25. At what stage of the upstream oil and gas value chain is the Bank likely to lend to an entity venturing into the sector?(0= Unlikely 1=Least likely 2=Neutral 3=Likely 4= Most likely Mark only one oval per row)

	0	1	2	3	4
Licensing Stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Exploration & Appraisal stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Field Development stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Production Stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decommissioning and abandonment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

26. To what extent will the lending capacity of commercial banks in Kenya lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)?

Mark only one oval per row.

	0	1	2	3	4
Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local upstream oil and gas contractors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

27. Please suggest what measures can be implemented to ensure the Bank's lending policies to upstream oil and gas sector are relevant and up to date.

Banking Strategy to support local content development in upstream oil and gas

The objective of this section is to establish the strategies that the banking industry in Kenya can adopt to effectively support the development of local capabilities in upstream oil and gas

28. Does the Bank have a dedicated oil and gas department? *Mark only one oval.*

☐ Yes

☐ No

29. Does the Bank provide specialized products and services targeted at local enterprises venturing into upstream oil and gas sector?

Mark only one oval.

☐ Yes

☐ No

30. If YES, please specify?

31. Has the Bank partnered with any development finance institutions (DFIs) to support local enterprises venturing into the upstream oil and gas sector in Kenya?

Mark only one oval.

☐ Yes

☐ No

32. If Yes, please specify?

33. Does the Bank have any dedicated supplier development programs intended to build the capacity of local enterprises venturing into the upstream oil and gas sector in Kenya? *Mark only one oval.*

☐ Yes

☐ No

34. If Yes, please specify?

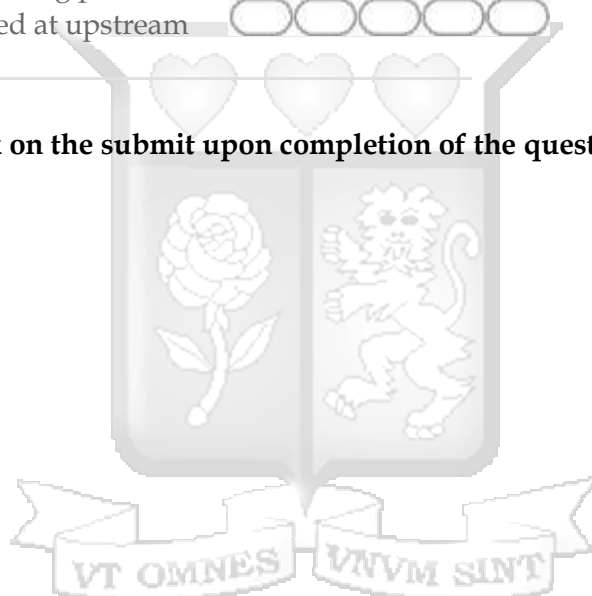
35. What strategies can commercial banks in Kenya adopt to effectively support local content development in upstream oil and gas? *

36. To what extent can the strategies adopted by commercial banks in Kenya lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)?

Mark only one oval per row.

	0	1	2	3	4
Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local upstream oil and gas contractors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Please remember to click on the submit upon completion of the questionnaire. Thank you.



Appendix V- Interview Questions (Industry)

Thanks for agreeing to take part in this research study on THE ROLE OF COMMERCIAL BANKS IN KENYA IN BUILDING LOCAL CONTENT CAPACITY IN THE UPSTREAM OIL AND GAS INDUSTRY. This is a study by Herbert Omune in partial fulfilment of the requirements for the Degree of Masters in Business Administration at Strathmore Business School.

The interview should take approximately 30 minutes. The information obtained from you or your organization shall be treated confidentially and shall be used for academic purposes only.

General Information

4. Date

Example: December 15, 2012

5. Time

Example: 8:30 AM

6. Name of Company

7. How best can you describe your company *Mark only one oval.*

- ☐ Oil Exploration Company
- ☐ Oil and Gas Contractor
- ☐ Oil Field services Provider
- ☐ Other: _____

5. Does your company provide any goods and services to oil exploration companies? *Mark only one oval.*

- ☐ Yes
- ☐ No

6. If YES, please specify the goods and services that your company provides to oil exploration companies?

7. With respect to upstream oil and industry in Kenya, what do you understand by “local content”?

8. Do you think commercial banks in Kenya have role to play in the development of local content in upstream oil and gas

Mark only one oval.

- ☐ Yes
- ☐ No

COMMERCIAL BANKING SERVICES

This section seeks to establish the extent to which the services currently provided by Commercial banks in Kenya support local enterprises venturing into the upstream oil and gas sector in the country

9. How best can you describe your primary bank? *Mark only one oval.*

- ☐ Local Public Commercial Bank
- ☐ Local Private Commercial Bank
- ☐ Foreign commercial Bank
- ☐ Other: _____

10. Please indicate the financial and non-financial services you receive from Commercial Banks in Kenya

11. Which is the most important service/product that commercial banks should offer to support local content development for upstream oil and gas. Please rank from 1 to 5 (1=least important and 5 =most important)

Mark only one oval per row.

	1	2	3	4	5
Business Loans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Asset Financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Trade Financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Project Financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reserve based lending	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cash management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Treasury/Forex Products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Insurance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Which is the most important service/product that commercial banks should offer to support local content development for upstream oil and gas. Please rank from 1 to 5 (1=least important and 5 =most important)

Mark only one oval per row.

	1	2	3	4	5
Business Development Advisory	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Advisory services (Financial Modelling, Due Diligence)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Training (Seminars, workshops) on Oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Business Clubs	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Custodial services	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Sectorial Reports (Industry Analysis)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. Does your Bank consider local content when transacting with clients in upstream oil and gas sector

Mark only one oval.

☐ Yes
☐ No

14. To what extent can will the services provided by commercial banks in Kenya lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya? (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)

Mark only one oval per row

	0	1	2	3	4
Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local upstream oil and gas contractors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

LENDING CAPACITY OF COMMERCIAL BANKS

The objective of this section is to determine the lending capacity of commercial banks in Kenya in financing transactions in upstream oil and gas.

15. Do commercial banks in Kenya have the lending capacity to support local content development in upstream oil and gas?

Mark only one oval.

- ☐ Yes
☐ No

16. Do you borrow from commercial banks in Kenya to finance transactions in upstream oil and gas?

Mark only one oval.

- ☐ Yes
☐ No

17. If yes, what is your most preferred currency of borrowing? Check all that apply.

- ☐ KES
☐ USD
☐ EUR
☐ GBP
☐ Other: _____

18. Does your Bank consider what stage of the upstream oil and gas value chain a project is before lending to an entity?

Mark only one oval.

- ☐ Yes
☐ No

19. At what stage of the upstream oil and gas value chain is the Bank likely to lend to an entity venturing into the upstream oil and gas sector?(0= Unlikely 1=Least likely 2=Neutral 3=Likely 4= Most likely)

Mark only one oval per row.

	0	1	2	3	4
Licensing Stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Exploration & Appraisal stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Field Development stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Production Stage	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Decommissioning and Abandonment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

20. To what extent will the lending capacity of commercial banks in Kenya lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya? (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)

Mark only one oval per row.

0 1 2 3 4

Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>
Number loans disbursed to local upstream oil and gas contractors	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/> <input type="radio"/>

BANKING STRATEGY TO SUPPORT LOCAL CONTENT DEVELOPMENT IN UPSTREAM OIL AND GAS

The objective of this section is to establish the strategies that the banking industry in Kenya can adopt to effectively support the development of local capabilities in upstream oil and gas sector.

21. Are there any existing partnerships between the oil and gas contractors, oil Exploration companies and commercial banks in Kenya to develop local content capacity in upstream oil and gas?

Mark only one oval.

- ☐ Yes
- ☐ No

If Yes, please elaborate?

22. What strategies can commercial banks in Kenya adopt to effectively support local content development in upstream oil and gas?

23. To what extent can the strategies adopted by commercial banks in Kenya lead to the achievement of the following local content outcomes in upstream oil and gas sector in Kenya? (Where 0=No extent, 1= Small extent 2=Moderate extent 3=Large extent and 4=Very Large Extent)

Mark only one oval per row.

	0	1	2	3	4
Number of Local contractors venturing in upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number loans disbursed to local upstream oil and gas contractors	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Skills and Knowledge transfer in evaluating opportunities in upstream oil and gas	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Number of new banking products and services targeted at upstream oil and gas sector	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

End of interview. Thanks for your participation.



Appendix VI - Participant information sheet and consent form

INFORMATION SHEET

- A. **STUDY TITLE:** The Role of Commercial Banks in Kenya in building local content capacity in upstream Oil and Gas
- B. **RESEARCHER:** Herbert Omune
- C. **INSTITUTION:** Strathmore Business School
- D. **LOCATION:** Nairobi, Kenya

You are invited to take part in a study on The Role of Commercial Banks in Kenya in building local content capacity in upstream Oil and Gas. This Participant Information Sheet will help you decide if you would like to take part in the study. It sets out why we are doing the study, what your participation would involve and what the benefits and risks to you might be. We will go through this information with you and provide any clarifications that you may require.

If you agree to take part in this study, you will be asked to sign the Consent Form on the last page of this document. You will be given a copy of both the Participant Information Sheet and the Consent Form to keep.

WHAT IS THE PURPOSE OF THE STUDY?

The study seeks to establish the services currently provided by commercial banks in Kenya to support the development of local content capacity in upstream oil and gas in the country. The research study will also determine the capacity of commercial banks in Kenya to play an active role in local content development in upstream oil and gas in the country. Finally, the study seeks to identify the initiatives that can be used by the Government to encourage the use of local commercial banks in financing activity in upstream oil and gas in Kenya.

DO I HAVE TO TAKE PART?

No. Taking part in this study is optional. If you decide to take part, you will be asked to complete a questionnaire or participate in an interview to provide information on the services provided by commercial banks in Kenya, capacity of commercial banks in Kenya and kind of initiatives that the Government of Kenya need to put in place to promote local content development in upstream Oil and Gas. If you are not able to answer all the questions successfully the first time, you may be asked to sit through another informational session after which you may be asked to answer the questions a second time. You are free to decline to take part in the study from this study at any time without giving any reasons.

WHO IS ELIGIBLE TO PARTICIPATE?

Banking Professionals, Oil Exploration Companies, Oil and Gas Contractors and Government Officials from Ministry of Energy and Petroleum.

WHO IS NOT ELIGIBLE TO PARTICIPATE?

Any person under the age of 18 Years Old.

WHAT WILL MY PARTICIPATION IN THE STUDY INVOLVE?

You will be approached by the Researcher and requested to take part in the study. If you are satisfied that you fully understand the objectives of this study, you will be asked to sign this informed consent form and then taken through a questionnaire to complete or taken through an interview process.

ARE THERE ANY RISKS IN TAKING PART IN THIS STUDY?

There are no risks in taking part in this study. All the information you provide will be treated as confidential and will not be used in any way without your express permission.

ARE THERE ANY BENEFITS IN TAKING PART IN THIS STUDY?

The study will be beneficial to all the stakeholders in the Oil and Gas industry, banking sector and the Government of Kenya. From the study, commercial banks in Kenya will be able to identify financing gaps and as well as other opportunities to support the development of local content capacity within the upstream oil and gas value chain.

WHAT WILL HAPPEN IF I REFUSE TO TAKE PART IN THE STUDY?

Participation in this study is voluntary. Even if you decide to take part at first but later change your mind, you are free to withdraw at any time without explanation.

WHO WILL ACCESS MY INFORMATION DURING THE RESEARCH?

All research records will be stored in securely locked cabinets. That information may be transcribed into our database but this will be sufficiently encrypted and password protected. Only the people who are closely concerned with this study will have access to your information. All your information will be kept confidential.

WHO CAN I CONTACT IN CASE OF ANY FURTHER CLARIFICATION?

You can contact me, HERBERT OMUNE by e-mail at homune@gmail.com or by phone on +254-721-484-342. You can also contact my supervisor, Dr. Julius Muia at the Strathmore Business School, Nairobi.

If you want to talk to someone who is not involved with the study please contact:

I _____ have had the study explained to me. I have understood all that I have read and have had explained to me and had my questions answered satisfactorily. I understand that I can change my mind at any stage.

Please tick the boxes that apply to you;

Participation in the research study

☐ I AGREE to take part in this research

☐ I DO NOT AGREE to take part in this research

Storage of information on the completed questionnaire

☐ I AGREE to have my completed questionnaire OR interview transcript stored for future data analysis

☐ I DO NOT AGREE to have my completed questionnaire OR interview transcript stored for future data analysis

Participant's Name

Participant's Signature

Date

I _____ certify that I have followed the SOP for this study and have explained the study information to the study participant named above, and that he/she has understood the nature and the purpose of the study and consents to the participation in the study. He/she has been given opportunity to ask questions which have been answered satisfactorily.

Researcher's Name

Researcher's Signature

Date

Appendix VII - Request Letter for Facilitation of Research



Strathmore Business School

Tuesday, March 12, 2019.

To Whom it may Concern,

Dear Sir/Madam,

RE: FACILITATION OF RESEARCH

This is to introduce you to Herbert Okundi Omondi who is a Master of Business Administration (MBA) student at Strathmore University Business School admission number MBA/46584/15. As part of our master's programme, Herbert is expected to carry out applied research and undertake a project. This is in partial fulfilment of the requirements of the MBA programme. To this effect he would like to request for data from your organization.

Herbert is writing a research paper on, **"The Role of Commercial Banks in Kenya In Building Local Content Capacity in Upstream Oil and Gas"**. The information obtained from you or your organization shall be treated confidentially and shall be used for academic purposes only.

Our MBA seeks to establish links with industry and one of these ways is by directing our research to areas that would be of direct usefulness to the industry. We would be glad to share our findings with you after the research and trust that you will find them of great interest and practical value to your organization.

We very much appreciate your support and we shall be willing to provide any further information that may be required.

Kind regards,

Caroline Tiara,
Manager – MBA Programme.



Ole Sangale Road, Madineti Estate
P.O. Box 59887 20200 Nairobi, Kenya
Call: +254 703 024 414 / 677
Email: info@sbs.ac.ke or vrt@www.sbs.strathmore.edu
Twitter: @SBSKenya

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Final Decision Certificate

This document certifies that the study:

**"THE ROLE OF COMMERCIAL BANKS IN KENYA IN
BUILDING LOCAL CONTENT CAPACITY IN UPSTREAM OIL
AND GAS INDUSTRY"**

Principal Investigator: Mr. Ommu, Herbert Okundi

Reference number: SU-IERC0296/19

Was reviewed and received the following status:

"done"

Additional Comments: Final decision: **approved**

Comments sent:

Reviewer #1:
'n/a'



Appendix IX - NACOSTI Approval letter



NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY AND INNOVATION

Telephone +254-20-2213471,
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Fax: +254-20-318245, 318249
Email: dg@nacosti.go.ke
Website: www.nacosti.go.ke
When replying please quote:

NACOSTI, Upper Kabete
Off Waiyaki Way
P.O. Box 30623-00100
NAIROBI KENYA

Ref.Nr. **NACOSTI/P/19/78458/28885**

Date: **3rd April 2019**

Herbert Okundi Omune
Strathmore Business School
P.O. Box 59857-00200
NAIROBI.

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on "*The role of commercial banks in Kenya in building local content capacity in upstream oil and gas industry*" I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **1st April, 2020**.

You are advised to report to the **County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.


BONIFACE WANYAMA
FOR: DIRECTOR-GENERAL/CEO

Copy to:

The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.

National Commission for Science, Technology and Innovation is ISO9001:2008 Certified



