

POLICY FORMULATION AND THE CHALLENGES OF IMPLEMENTATION

THE CASE OF OIL AND GAS SECTOR

By

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Introduction: Policy

A policy is:

- ⊙ A deliberate plan of action to guide decisions and achieve rational outcome(s).
- ⊙ Could apply to government, private sector organizations and groups, and individuals.
- ⊙ Include Presidential/Executive orders, corporate guidelines or legislative rules of order.
- ⊙ Differs from rules/laws – While law can compel or prohibit behaviours, policy merely guides actions toward achieving a desired outcome.
- ⊙ Policies can target political, management, financial, and administrative outcomes

Policy Content

- ⊙ A *purpose statement*, outlining why the policy is being issued, and what its desired effect is.
- ⊙ An *applicability and scope* statement, describing who the policy affects and which actions are impacted by the policy.
- ⊙ An *effective date* which indicates when the policy comes into force. Retroactive policies are rare, but can be found.
- ⊙ A *responsibilities* section, indicating which parties and organizations are responsible for carrying out individual policy statements. These responsibilities may include identification of management structures and oversight
- ⊙ *Policy statements* indicating the specific regulations, requirements, or modifications to organizational behaviour that the policy is creating.

Some policies may contain additional sections, including

- ⊙ Background indicating any reasons and history that led to the creation of the policy, which may be listed as motivating factors
- ⊙ Definitions, providing clear and unambiguous definitions for terms and concepts found in the policy document.

Policy Formulation

Two parts to policy formulation:

- ⊙ Effective formulation (analytical phase) means that the policy proposed is regarded as a *valid, efficient, and implementable* solution to the issue at hand.

- ⊙ Acceptable formulation (political phase) means that the proposed course of action is likely to be *authorized* by the legitimate decision makers, usually through *majority-building* in a bargaining process. That is, it must be *politically feasible*.

The analytical and political aspects of policy formulation involve:

- ⊙ First, effective policy alternatives, presumably based on sound analysis, must be conceived and clearly articulated.
- ⊙ Second, a political choice among these alternatives must be made: The policy must be authorized through a political process, such as legislation or regulation.
- ⊙ Both phases --- analysis and authorization – make up policy formulation
- ⊙ Analysis + Authorization = Formulation
- ⊙ On Analysis – Professional policy analysts, use their skills and analytical tools to study an issue and to devise policy alternatives to address the issue. They consider aspects such as means, behaviour, cost, implementation strategy, and consequences
- ⊙ Elected or appointed officials, however, have the final choice among the alternatives presented. Which brings judgment, wisdom, and accountability to policy formulation. They consider goals, trade-offs, value priorities, and weighing the overall effects of the policy which makes them accountable to the people, under our representative form of government.

Policy Implementation

- ⊙ It is difficult to create a conceptual distinction between policy formulation and policy implementation (Dinica – 2004). This is because policy formulation basically takes place throughout the entire policy process.
- ⊙ “what is needed is a way of combining the analytical benefits offered by the ‘stages’ model with the recognition of the interaction between the stages.” (Hill and Hupe – 2003).
- ⊙ Use the term ‘policy-making’ for the entire process,
- ⊙ ‘policy formation’ for the initial part of policy-making,
- ⊙ ‘policy implementation’ for the latter part of the policy-making process.

Steps in Policy Formulation and Implementation:

- ⊙ Deciding whether a new policy or reform is required
- ⊙ Promote the new policy or reform an existing one

- ⦿ Make the process more participatory by engaging stakeholders
- ⦿ Adopt the new policy, (often merged with the actual implementation stage). Finally, the policy is implemented.
- ⦿ After implementation, policies must be monitored and evaluated.
- ⦿ A strategy and an action plan are also required for the policy implementation process

Policy Circle

The Althaus, Bridgman & Davis model

- ⦿ Issue identification
- ⦿ Policy analysis
- ⦿ Policy instrument development
- ⦿ Consultation (which permeates the entire process)
- ⦿ Coordination
- ⦿ Decision
- ⦿ Implementation
- ⦿ Evaluation

Features of Policy Making

Nine Features of Modern Policy Making

- ⦿ Forward Looking
- ⦿ Outward looking
- ⦿ Innovative, flexible and creative
- ⦿ Evidence based
- ⦿ Inclusive
- ⦿ Joined up
- ⦿ Reviewed (should be regularly)
- ⦿ Evaluation
- ⦿ Learns lessons and disseminates them (what worked & best practice)

Nigeria: Oil and Gas Policy (2007)

Announced after the August 29 2007 Federal Executive Council (FEC) meeting

- ⦿ The Ministry of Energy is now scrapped and is being replaced with the National Petroleum Directorate (NPD).
- ⦿ The Nigerian National Petroleum Corporation (NNPC) will now be replaced with the National Oil Company (NOC). 2 days later the GMD said that it has not been scrapped but restructured to make it profit making
- ⦿ The Department of Petroleum Resources (DPR) will now be replaced with an autonomous entity called Petroleum Inspectorate Commission (PIC)

Nigeria: Oil and Gas Policy (2007)

Announced after the August 29 2007 Federal Executive Council (FEC) meeting

- ⦿ The present Pipeline Product Marketing Company (PPMC) will now operate as Petroleum Product Distribution Authority (PPDA).
- ⦿ The National Oil and Gas Assets Holding Company (NOGAHC) will replace the present National Petroleum Investment Management Services Company (NAPIMS).
- ⦿ Government also raised a committee to implement the National Oil and Gas Policy (known as the National Energy Council)

Nigeria: Gas Policy (2008)

Approved on 7th February 2008

- ⦿ The policy objective is to ensure that all NGL-rich gas in Nigeria is preferentially deployed for domestic use rather than for export

Under the new pricing policy,

- ⦿ Nigeria's gas (natural gas liquids NGLs, including condensate and LPGs) will be supplied at the lowest commercially sustainable prices to the strategic domestic sector which provides electricity for residential and light commercial users. Largest consumers are fertilizer and methanol producers
- ⦿ All oil & gas developers are expected to allocate a specified amount of gas from their reserves & annual production to the domestic market as determined by the Minister of State (Gas). They will thus sell at lower than market prices to consumers some of whom (fertiliser & Methanol producers) will sell their finished products in the international market at huge profit.

Question: *Is this a form of taxation? Will Nigeria pay the shortfall as subsidy? Who owns these factories?*

- ⊙ A Department of Gas is to be established in the Federal Ministry of Energy to oversee the implementation of the new gas policy and regulations

Nigerian content in the oil and gas industry

Objectives

- ⊙ To transform the oil and gas industry into the economic engine for job creation and national growth
- ⊙ Promote a framework that guarantees active participation of Nigerians in oil and gas activities without compromising standards in order to stimulate growth of indigenous capacity.
- ⊙ Promote value adding in Nigeria by utilisation of local raw materials and human resources for manufacturing of goods and provision of services to the Petroleum industry. Promote steady measurable and sustainable growth of Nigerian content.

Local Content to achieve

- ⊙ 45% local content by 2007 and 70% by 2010
- ⊙ Legal framework for fast-tracking improvement in local content
- ⊙ Strategies for improving local staffing of multinational oil companies
- ⊙ Strategies for achieving significant foreign investment
- ⊙ Accelerate the process of attaining a high level of local content
- ⊙ A bill to give legal backing to this initiative is still in the works

Framework

Henry Odein Ajumogobia, Minister of Energy for State (Petroleum) (Nigeria Tribune 17th October 2007)

- ⊙ A Nigerian content policy developed and submitted to the Government including a national vision and action plan as agreed with stakeholders.
- ⊙ A draft Nigerian Content Development Bill which is a legal device in the form of an Act, Statute or Regulation to give the policy normative force has been submitted to Government.
- ⊙ A Nigerian Content Division, headed by a Group General Manager was set up in March 2005 as an organisational framework for the implementation of the Policy.

- ⊙ A Nigerian Content Consultative Forum (NCCF) was also inaugurated with eight sectorial working committees covering fabrication, engineering, manufacturing, banking & insurance, shipping & marine, well & drilling as well as logistics services.
- ⊙ Introduction of a Joint Qualification System (JQS) into the contracting process to provide a data bank of available contractors and suppliers of goods and services to the Nigerian petroleum industry and streamline the prequalification process

Intervention Guidelines

- ⊙ Feed and detailed engineering for all projects are to be domiciled in Nigeria by end 2005; Henceforth, all fixed platforms (Offshore and Onshore) piles, anchors, buoys, jackets, bridges, flare booms, storage tanks including selected process equipment and pressure vessels are to be fabricated in Nigeria to maximize utilisation of local fabrication yards;
- ⊙ All FPSO contract packages are to be bid on the basis of carrying out integration within the country starting from Mid 2006;
- ⊙ Domestication of all seismic data processing and reservoir management studies effective end of 2005;
- ⊙ Clauses that create impediments for/exclude participation of local companies should not be included in any Invitation to tender (ITT) documents.
- ⊙ Harmonise and apply international codes and standards that support utilisation of locally manufactured products such as paints, cables, etc to improve capacity utilisation in local industries by second quarter 2005.

Initiatives on Local Content Devt.

- ⊙ Leveraging on its JV partnership and control over PSC agreements in the areas of contract award
- ⊙ Partnering with PTDF to bridging the skills gap
- ⊙ Providing “seed” money/funds to finance projects for local companies
- ⊙ Open competitive bidding for most projects
- ⊙ Requiring bidders’ response for local content in ITT
- ⊙ Encouraging operating partners to carry out enlightenment programs for indigenous contractors
- ⊙ Domestication of reservoir management and seismic processing projects
- ⊙ Breaking major projects into small manageable packages to accommodate indigenous contractors

Achievement on LCD Feb 08

As released by the Department for Petroleum Resources

- ⊙ Local fabrication of Elf's Amenam/Kpono drilling/platform, span bridge and tripods
- ⊙ Fabrication of SPDC's 120,000bopd Forcados Yokri and 45,000 Tunu flowstations
- ⊙ Construction of 7,000bopd Chevron's Meren x wellhead platform in Lagos by Nigerdock/Transcoastal
- ⊙ Fabrication of SPDC's pressure vessels & scrubbers for Forcados Yorkri by Dorman Long in Lagos
- ⊙ Fabrication of some components of Bonga and Agbami (buoy, metering skid, laydown module and flare-boom) Locally

FG Unhappy

As at end of May 2008 the same Minister who stated that a lot is going on in October 2007 on targets some of which were set for 2005,

- ⊙ Alleging there is miss-alignment between what local capacities that really exist and the jobs available in the industry.

Quote on a tour of local facilities at the end of May 2008 (Business Day on Line 27/05/08):

"I think it is for the government to have the first hand appraisal of what our capability is. I am certainly passionate about the involvement of the domestication of more of these facilities here and the domestication of work in Nigeria , using Nigerian companies, using more Nigerian labour, skills and so on,"

Impediments to LCD Growth and other Oil and Gas Policies

- ⊙ Policies not entrenched in legislation (e.g. the Local content development policy)
- ⊙ Incoherent policies and poor implementation
- ⊙ Low technological capacity of local companies
- ⊙ Inadequate physical and social infrastructure
- ⊙ Limited avenues for funding
- ⊙ Non-conducive business environment
- ⊙ Uncompetitive business structure of indigenous companies
- ⊙ Bureaucracy and credibility issues (corruption etc.)

Conclusion

According to the Chief Executive Officers of Nigerdock, Dorman Long and Ladol at a meeting with Odein Ajumogobia, minister of state for energy (Petroleum) as posted by Ejiofor Alike in Business Day on Line of 27 May, 2008 at 02:00:00:

“Some Companies are already retrenching their staff, because after spending a lot of money to train them there were no jobs to retain the employment capacity”.

Question: *So what happened to all the plans and supposed policy on Local Content Development?*