ETHIOPIAN PETROLEUM RESOURCE DEVELOPMENT DRAFT POLICY

AUGUST 2020

ADDIS ABABA, ETHIOPIA
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1. Introduction

1.1. Background of the Petroleum Industry in Ethiopia

The Ethiopian petroleum operations sector has not made any contribution to the country’s economic growth and as a result the country has not obtained the benefits that it deserves from the sector. The sector has not been treated individualistically in the government's development plans. The institutional arrangements on petroleum operations sector have also been neglected, and the status quo has shown that, the upstream and downstream petroleum operations have been administered under different institutions.

In 1972, after a long period of petroleum exploration in Ethiopia, the first natural gas deposit was discovered in the Somali region; studies show that the discovered amount was more than 1.5 Trillion Cubic feet. Since then, various international oil companies have been conducting numerous exploration operations in various parts of the country. Currently, petroleum exploration and development activities are underway in the Southeastern Ethiopia (Ogaden), in Gambella, in the Northeast Ethiopia, in the Southern Ethiopia, in the Northwest Ethiopia and in the Nile basin areas of Ethiopia. These exploration operations have proven that there are promising petroleum recourses in the country. Particularly, in the Ogaden Basin, the existence of abundant natural gas and crude oil deposits are confirmed.

In Ethiopia, in addition to the conventional petroleum resources, there are unconventional petroleum potential sources like coal and oil shell found in various parts of the country. On the other hand, studies indicates that, the country has the potential to produce a renewable energy source from the potential biofuel resources.

According to the government's recent report, in the Ogaden basin, 6.3 Trillion Cubic Feet of natural gas and related crude oil deposits have been confirmed to be exist. Accordingly, by 2025 there is a plan to commence the production of natural gas and crude oil in the country.

Ethiopia’s petroleum supply is dependent on imported products. Because of this and other related reasons, petroleum supply has been a source of vulnerability to the supply chain management and transport infrastructure problems. Since, petroleum importation requires large portion of the country’s foreign exchange, it has remained negatively impacting the country's socioeconomic development.
Currently, Ethiopia is in the process of replacing petroleum imports and working on income diversification. However, the industry has encountered numerous problems and is not contributing its part. The sector has not been positively impact, due to the absence of policy to effectively manage the sector and it has been governed by untimely and old laws which focus only on the upstream and downstream petroleum operations.

Therefore, this petroleum policy serves as a general framework for the key actors in the sector and helps to alleviate the problems encountered in the sector. It also helps to manage the resources of the sector and to maintain equitable distribution of wealth among the citizens. The policy focuses on upstream, midstream and downstream petroleum operations, which will be used for the industry to firmly benefit the overall economic growth of the country in the short, medium and longer-term periods. These results would be realized, if a strong value chain linkage between all of the petroleum operations is established.

1.2. Vision

By 2030, to see Ethiopia, as a country with a vibrant and competitive petroleum industry having the capacity of using its potential petroleum resource efficiently; ensuring transparency in the sector, harnessing sustainable environmental protection and social development; having value added petroleum supply chain; with capable and competitive petroleum industry which is accelerating economic transformation by making the sector to be a major source of foreign exchange.

1.3. Objectives

The general objective of this policy is to create conducive conditions for petroleum operations linkages at different levels of the sector by harmonizing all the value chains along with reasonable, safe, transparent, sustainable and environment friendly manner so as to register a positive impact from the sector.

The specific objectives of this Policy are:

1. Conduct the necessary studies and gathering of information about the petroleum resources of the country and related petroleum operations ranging from petroleum exploration till petroleum utilization.
2. To create favorable conditions for competent and sustainable petroleum operations investment by introducing the sector’s opportunities for domestic and foreign investors with the view to becoming competitive petroleum industry regionally and internationally.

3. To bring about economic transformation in the sector, establishing a system that would assist the improvement of the petroleum resources’ sustainable development and utilization by harmonizing gender equality, employment and environmental safety in the petroleum industry value chain to enhance the benefits from the sector.

4. Identifying the value chain gaps of the petroleum sector and set a direction to fill these gaps.

5. Utilize new technologies, best practices and inventions and applying them for petroleum operations and resource management.

6. In order to contribute to the growth of other economic sectors, manage and utilize the petroleum resources and revenues appropriately and effectively.

7. Establish coordination among federal and regional administrations regarding the petroleum sector operations.

1.4. Scope

This policy addresses all the petroleum operation aspects namely upstream, midstream and downstream segments. These operations start from exploration activities to end user utilization, including petroleum exploration, development, production, transportation, storage, processing, refining, distribution, retail and proper utilization of petroleum products in Ethiopia. Furthermore, it also considers imported and locally produced petroleum products as well as the unconventional petroleum resources like from coal and oil shale.

1.5. Rationale

Though there are growing petroleum exploration and development activities in the country as well as a rising demand for petroleum products, there has not been a national petroleum resource development policy governing and guiding the petroleum industry. The investment of the petroleum industry has been led by old non amended laws, contracts and general laws related to the sector. Therefore, there is a need to have competitive legal and institutional frameworks in line with international level. On the other hand, the petroleum supply has been exposed to supply
chain management and transport infrastructure problems. As a result of the high demand for foreign exchange, importing petroleum has remained hurdle on the economic development of the country, therefore, for this non-renewable resource development and management of the country, it is important to have a clear policy for the government, private sector, and for the stakeholders to guide the petroleum industry, as it will be a guiding document and ensure the benefit of the citizens.

1.6. Key Guiding Principles

The following are the key guiding principles of this policy

i. Transparency and accountability

ii. Efficient resource management and utilization

iii. Harmonization of petroleum operations with the natural environment and the community safeguard

iv. Competency, competitiveness and effectiveness

v. Empowering the citizens and ensuring their participation

1.7. Petroleum Resource Development Policy Key Focus Areas

The following are the key focus areas of this Policy:

1.7.1 Reforming Laws, Policies and Institutions Related to the Petroleum Sector

There was no policy document that can guide Ethiopia's petroleum operations sector. Among the existing petroleum operation laws, particularly the one which focus on the upstream operations is old, and not compatible with the development stages of the sector. Thus, so as to use this petroleum resource development policy, to exploit the petroleum resources, to answer the immediate economic questions and for the overall economic development achievements of the country, a serious emphasis will be given on the amendment of legal and institutional frameworks related to the sector to be reformed and organized in line with a competitive level in the world today.
1.7.2 Petroleum Sector’s Contribution to Structural Transformation of the Country’s Economy

By renovating the petroleum sector, its contribution to the structural transformation of the country’s economy will be determined in order to create enormous job opportunities so as to use the sector to use its expected role for the sustainable development of the country. By identifying the key roles and benefits of the sector, enhance the national interests of the country. In addition, attention will be given so as to make the industry competitive enough to create a job opportunity for the citizens with value adding orientation as well as to be a base for the growth of other economic sectors.

1.7.3 Making Petroleum exploration, development, production, supply and utilization operations efficient and effective

Establishing regionally and internationally competitive and efficient system that can attract investors and facilitate petroleum exploration, development, production, supply and utilization operations. Furthermore, adding values in locally produced and imported petroleum products will be the center of attention by expanding the petroleum industry related infrastructure and make available petroleum products throughout the country that shall focus on actions for the effective economic transformation.

1.7.4 Strengthen National and Regional Cooperation

Because of the complexity of the petroleum industry, collaborating with other partners is very significant, and focus will be given on cooperation works. The partnerships will focus on research and training, information and professional exchanges, the construction and utilization of infrastructure, and the safeguard of the environment and the society.

1.7.5 Ensuring Sustainable Social and Economic Benefits

Improving the revenue gained from the petroleum sector will be the major focus of ensuring the long lasting social and economic benefits of the nation and its citizens. On the other hand, focus will be given by distinguishing the role of petroleum sector that plays a key role in the utilization of modern technology, professional and skill transition for citizens, benefit of education and
training, creation of new business opportunities, financial support for public institutions and long-term job creation in factories for social development in Ethiopia will be employed.

1.7.6 Establish a Modern Petroleum Information Center Integrating with Education, Training and Research Institutions to Enhance the Excellence of the Sector

Focus will be given for the establishment and implementation of a system where samples and information related to the petroleum exploration, development, production, supply and utilization are collected in an internationally standard secured central facility. The center shall be used to analyses sector’s information and be accessible to the stakeholders; further, immense attention will be given to make the center efficient with respect to researches, sustainable development and citizens’ advantage.

2. Ease of Doing Petroleum Business in Ethiopia

For ease of petroleum operations in Ethiopia, cautiously crafted legal frameworks and institutions capable of implementing them are required.

2.1. Legal Framework Policy

The petroleum sector legal frameworks shall reflect the latest international practices and be competitive enough to attract legal and competent international investments and at the same time maintaining the sustainable socioeconomic benefits of the country and play roles with respect to natural environment protection.

Strategies

a. Revise existing legal instruments of the petroleum operations sector in a way that they conform to the current international development of the sector and in a manner that aligns with other sectoral laws such as finance, land, environmental protection, tax, social and occupational safety and health and labor laws;

b. All federal and regional policies, laws and strategies shall be applied in harmony through the spearheading role of the regulator and coordination of federal and regional institutions;

c. The petroleum operations legal frameworks shall be made reliable for investors, enable the protection of social and natural environment, transparent, predictable and inclusive;
d. Contracts in the petroleum sector shall be harmonized with the overall legal regime of the country and shall not establish separate systems;

e. The legal frameworks shall effectively manage public expectations, especially the expectations of the local people living nearby petroleum operation sites; ensure sustainable socioeconomic benefits of the country and human rights; give special attention for women and vulnerable sections of the society.

2.2. Institutional Framework Policy

The petroleum sector needs to be led by regulatory body and operational institutions with differentiated but coordinated roles. To be able to lead the petroleum operations, the institutions shall have the necessary management and technical competence.

Strategies

a. The regulatory body shall monitor to ensure that parties that involve in the petroleum operations are doing their activities efficiently and correct their weakness; specially in maintaining high standards of health, safety, environment protection, labor, emergency preparedness, in accordance with the local laws, standards, requirements and international best practices;

b. The regulator body shall create a collaborative relationship with stakeholders; particularly, with Federal, Regional and local administrative bodies;

c. In relation to the sector, the regulator shall, as far as possible, participate in international and regional coordination frameworks to ensure the benefits of the country;

d. A central research and development institution shall be established so as to lead the sector’s value chain for industrial transformation.

2.3. Licensing and Contracting Policy

To encourage investments and attract international companies to Ethiopia, competition based transparent bids shall be implemented. In addition to transparent bids; while keeping the legal process, negotiations may also be applied with the view to engaging better off companies.
Strategies

a. A system shall be established which can help to regularly update the blocking system of the sedimentary basins so as to conduct the licensing and contracting processes based on international best practices.

b. Ensure that before any bidding round, petroleum resource potential assessment and evaluation are carried out in the potential sedimentary basins of the country. This shall be done based on studies and evaluations conducted in the basin;

c. Licensing processes for petroleum exploration, production, refining, supplying, distribution and retailing and related infrastructures development operations shall be efficient and competitive;

d. To enable petroleum exploration and production operations to be bound within reasonable time period, transparent system with a step-by-step relinquishment criterion of licensed areas shall be established;

e. The regulator may grant to a third party other than the licensee a license for exploration and production of natural resources other than petroleum, provided that such activities do not unreasonably interfere with the licensee’s operations;

f. A system of dispute settlement in relation to petroleum operations that meets international standards shall be established;

g. Petroleum operations licenses shall not be issued on anthropological and historical sites, natural resource reserve areas, national parks and other areas protected by law.

2.4. Environmental and Social Safeguard Framework Policy

To ensure the survival of human beings and all other forms of life while guaranteeing sustainable development, environmental protection and development endeavors should be balanced by applying internationally accepted procedures.

Strategies

a. Licensees shall submit environmental and social impact assessments, environmental management plans, impact mitigation measures, emergency preparedness response plans,
decommissioning and restoration plans to the regulator. They shall also incorporate the measures they have taken in their annual reports;

b. Key principles of environmental law such as the precautionary principle, the polluter pays principle, and strict liability shall be applied;

c. To ensure that licensees have discharged their obligations regarding mitigation measures on long and short-term environmental impacts, a guarantee provision system shall be established;

d. While conducting petroleum operations in the water ways used by the people or domestic or wild animals, licensees shall use internationally recognized best available technologies to avoid or minimize injuries that could happen;

e. Petroleum operations’ waste disposal system, materials quality measurements, radiation and energy application and technical related issues shall follow the national and international legal rules and best practices;

f. Licensees shall participate in community development activities within their petroleum operation area and allocate annual budget till their operation is completed;

g. A system shall be established to encourage the utilization of vehicles and machineries which have low environmental impacts.

2.5. Fiscal Framework Policy

Predictable and efficient fiscal framework which promotes ease of contract administration and transparency, that avoids undue speculation, promotes healthy competition and sustainable development of the sector to transform the nation’s economy shall be established.

Strategies

a. Transparent, predictable, effective, flexible, simple, and progressive fiscal framework shall be established;

b. Concepts of the fiscal system, except the ones which have to be placed in contracts, shall be incorporated in the legal framework;
c. Maintain a fiscal regime that shall encourage and provide incentives for reliable and responsible investors while providing equitable return to the nation;

d. Establish a system that misreporting practices and transfer pricing abuses are avoided to maximize Government revenue.

3. Petroleum Exploration, Development, Production & Utilization Operations

The petroleum industry operations are generally split into three major segments. Based on the corresponding stages of operations, these are known as upstream, midstream and downstream petroleum operations which are interdependent on each other and presented separately in this draft policy.

3.1. Upstream Petroleum Operations (Exploration, Development & Production) Policy

By promoting the country’s petroleum resource potential for international petroleum industry and using the sector’s best practices; evaluation work and studies to maximize the subsurface petroleum resource base, with optimal extraction of the resources and proper management of the produced petroleum and related fluids while minimizing costs shall be done.

Strategies

a. Promote and encourage licensees to conduct petroleum exploration activities, study frontier petroleum potential areas and unconventional hydrocarbons as well as mitigate various types of associated risks;

b. To help open up the country’s petroleum economic sector for companies and to encourage the investments, priority shall be given to natural gas exploration and development;

c. The regulator body will ensure that licensees shall conduct intensive exploration and development activities in promising areas by adapting a modern technology and international standards;

d. Natural gas and crude oil development options are mutually exclusive and decisions by the regulator shall be based on optimizing the benefits to the country and in consultation with stakeholders;
e. The licensee shall conduct all the necessary works as per the work program and contract agreements in a way that minimum costs while maximizing the petroleum resource base;

f. All data, samples, records and reports obtained from upstream petroleum operations including licensee’s operation plans are timely submitted to the regulator body so as to help for decision making;

3.2. Midstream Petroleum Operations (Crude Petroleum Supply and Related Infrastructure) Policy

Establishing a technologically supported, which can utilize a diversified transportation and port options and regionally competitive midstream petroleum operation infrastructures, services and regulatory system. In addition, this includes a reliable and secured crude petroleum supply for domestic and international market and participating in regional cooperation

Strategies

a. Establish a transparent system that shall encourages and guarantee ownership conditions for efficient companies to participate in the sector.

b. Establish a well-developed, secured and technologically supported diversified crude petroleum transport infrastructure including a pipelines and modern supply chain system;

c. Ensure that the process of importation and exportation of crude petroleum into and out of the country is effectively and efficiently coordinated; and optional ports and regional cooperation are utilized.

d. Ensure optimal development of the midstream infrastructures and their consolidation with other petroleum operation segments and their accessibility to a third party;

e. Establish a system to set tariffs for use of midstream infrastructures and to regulate the technical and economic aspects of midstream operations;

f. Ensure that all information and reports related to midstream operations are timely and accurately submitted to the regulator for monitoring, planning and decision making;
3.3. Downstream Petroleum Operations (Petroleum refining, Distribution, Marketing and Related Infrastructure)

Ensure the establishment of a technologically supported regionally competitive downstream petroleum operation infrastructures, markets, refinery facilities development and regulatory system that can add value and utilize a diversified transportation and port options as well as utilization of petroleum by integrating it with other alternative energy sources. In addition, this includes to ensure a reliable, secured, value adding, efficient and equitable petroleum supply and distribution system for domestic as well as for export market advantages.

Strategies

a. Establish a petroleum master plan and program that can enable for efficient utilization of imported and locally produced petroleum resources;

b. Establish a system to participate in a regional cooperation and to encourage licensees to establish different petroleum utilization options, set up competitive petroleum refineries and processing facilities;

c. Ensure the optimal development of downstream petroleum operation infrastructures with transparent ownership conditions and their accessibility to third parties;

d. Ensure the petroleum products to be distributed to end users, petroleum transportation systems, infrastructures and installations shall comply with international standards;

e. Establish a system to use petroleum products by blending and integrating with biofuel or other technological products and energy sources for value addition, better economy and natural environment protection;

f. By establishing value added products and creating industrial value chain, transform the country to a green economy development to ensure a sustainable socioeconomic growth achievement;

g. Ensure that the petroleum resource potential of the country to be used as an input for domestic industries as well as for export to generate foreign exchange;

h. Ensure appropriate tariff system for petroleum, petroleum products and related infrastructures utilization; and regulate the system in a sustainable manner;
i. Ensure a reliable transport system stretching from port of entry or local petroleum producer to a central fuel dispatch and distribution centers for adequate, regionally competent, efficient, optimum, cost effective and legitimate supply chain.

j. Ensure the development of petroleum depots, strategic reserves, retail stations and related facilities in terms of quantity and optimal geographic distribution.

k. Ensure that all data and information related to downstream petroleum operations are timely and accurately made available for monitoring, planning and decision making;

4. Maximization of Macroeconomic Benefit on Petroleum

4.1. Petroleum Resource Management Policy

By successfully managing the petroleum resources, monitoring and conducting continued evaluation of production levels and by creating appropriate linkages with other economic sectors and to avert the situations of a resource curse; establish and continually update a timely resource management strategy for regulating the sector’s pace of activities.

Strategies

a. Ensure that strategies are established and continually updated, to know the petroleum resource potential of the country;

b. Ensure that the highest possible recovery of petroleum resources is achieved during production within limits of economic viability and technical feasibility agreed by the regulator in consultation with the contractor;

c. Set a strategic and emergency petroleum reserve management system and determine the minimum reserve amount;

d. Design a system for value addition of petroleum products that could be consumed locally or exported for the international market;

e. Establish a system that shall demarcate ownership of resources like petroleum, land, facilities, installations and infrastructures;

f. Ensure that domestic market demand for petroleum shall be given preferential treatment while balancing export market opportunities;
4.2. Petroleum Revenue Collection and Utilization Management Policy

To stabilize the sector’s revenue due to the volatility arising from changes in production levels or from global oil price fluctuation; by establishing an effective system for petroleum revenues collection, utilization and management as well as to preclude extravagance and corruption, measures shall be taken to prevent the possible challenges due to budget constraints. Hence, the economic base of the country shall be expanded, by utilizing the petroleum revenues for the sustainable development of other sectors and by diversify the economic sectors other than petroleum.

Strategies

a. To ensure the development of the petroleum sector, the revenues generated from the sector shall be linked with the country’s national development plans;

b. Ensure that the local communities shall be benefited equitably from revenues emanating from petroleum operations;

c. Establish a strong system for the benefit of all citizens from the petroleum resource revenue;

d. Create a strong collaboration between petroleum revenue collection institution and the regulator to have an effective petroleum operation revenues collection, administration and utilization system;

e. Maximize government’s revenues by avoiding misreporting and transfer pricing abuse practices;

f. Establish a transparent and strong controlling system to minimize malpractices and corruption in the petroleum sector;

g. Ensure that the petroleum sector’s revenues shall be used to create a national wealth and a reliable economy which shall be transferred for the coming generations;

h. Ensure that the petroleum sector’s revenues shall be used properly with transparency and accountability principles without mixing it with other Government’s revenues.
4.3. National Participation and Local Products, Services and Manpower utilization Policy

Contracts and programs related to the petroleum operations shall be designed to ensure the national and citizens participation in the sector. Furthermore, companies which participate in the petroleum operations related activities shall support Ethiopian economy through a systematic capacity building and give the rational priority for domestic manpower, products and services.

Strategies

a. Ensure to establish a system to build the citizens’ capacity to get the necessary benefit from the petroleum resources and related operations;

b. Revise the existing laws governing local products, services and manpower utilization and ensure that the petroleum resources provide a genuine benefit for the growth and development of local industries;

c. By supporting the educational and research institutes’ curriculum design and through conducting internship program, expand the capacity of the sector’s training institutions;

d. Government shall create laws, regulations, directives standards and contracts to enable the petroleum companies to engage in community development programs, use of Ethiopian goods and services, joint ventures with local companies, achieve gender balance and technology transfer;

e. The regulatory body shall require petroleum companies to issue regular public reports regarding their positive impact for the local community and the country as whole;

f. National Oil Company shall maintain a mandate and contribute its part for the commercial and operational activities which include exercising the right to state equity participation on behalf of the Government, the management of any in-kind petroleum and benefits to which Ethiopia may be entitled from the sector as well as ensure knowledge transfer;

g. Ensure that the national participation and benefits shall be harmonized with the related legal frameworks and implement this while respecting the investors’ acceptable interests.
5. Petroleum Sector Innovation, Research and Development Policy

By properly gathering and defining ownership of the geoscience, engineering, petroleum operations information and other related samples and reports; store in a technologically equipped, competitive and secured information storing, analysis and dissemination center; while keeping the necessary confidentiality, ensure the center to be accessible for stakeholders as well as for use of promotion, research, technological development, innovation and decision making.

Strategies

a. Ensure the availability of well-structured and modern petroleum operations information and related data center which is equipped with the necessary materials, equipment and organized with competent manpower;

b. Ensure the center shall allow to store, analyze, harmonize and disseminate these data and information in a safe and secured way and ensure its accessibility for stakeholders;

c. Ensure that all petroleum operations information, samples and, records are collected and stored with international standard formats and storage device; and timely submitted to the regulator and the center for monitoring, planning and decision making;

d. Ensure that all petroleum operations information, samples and, records are properly handled; with the necessary confidentiality make available for the public interest and ensure to establish a system and rules for information management;

e. Ensure to utilize the geoscience data and related petroleum operations information to promote the country’s petroleum potential to attract international petroleum companies as well as to use for research, technological development, innovation and decision making;

f. Establish a petroleum sector related think-tanks forum, all-inclusive research and center of excellences as well as a coordination with stakeholders’ institutions.

6. Policy Monitoring and Evaluation

By opting for key effectiveness indicators of the policy, it is necessary to monitor and evaluate it in regular time interval; taking inconsideration to this, the strategies will have a monitoring and evaluation schemes as well.
In order to implement this policy, it requires collaboration of all stakeholders. Therefore, there will be a set of mechanisms and organizational structures that will enhance integrated management of the sector. Federal Ministry of Mines and Petroleum and Regional Mines and Petroleum Bureaus or authorized bodies administering the sector shall strengthen their consultative forum for the necessary follow up and execution of the country’s petroleum resource development policy, strategies and plans. Furthermore, by strengthening a consultative forum with sector’s development stakeholders in all administrative levels, efforts will be applied for the implementation of the country’s petroleum policy, strategies and legal frameworks as well as plans and directives prepared by different levels.

So as to enable this policy to establish a framework for the monitoring system, key stakeholders should be participated for its implementation. Therefore, at every level, monitoring and evaluation systems will be implemented to ensure effective policy execution and resource utilization from the sector and to take corrective measures on the weaknesses of the sector.

In general efforts will be done to employ various organizational structures which are necessary for the realization and expected outcomes of the policy and strategies. Therefore, a National Petroleum Resource Development Advisory Council will be established to play a key role in overseeing the administration of the petroleum industry, govern the performance of this policy. The time period of this policy is from 20 to 25 years and when needed it will be amended accordingly.

7. Definitions

