

norway



OIL FOR DEVELOPMENT



Norad



Nigeria 2005

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FOREWORD

Several decades of oil and gas experience have given Norway wide expertise in the field of petroleum sector management. Our administration of natural resources and revenues has attracted considerable international attention, and many developing countries want to learn from the experience we have built up. Today, petroleum plays an important role in an increasing number of developing countries. Oil and gas hold the promise of becoming a vital resource for economic and social development.

Oil should be a blessing, not a curse. The Norwegian Government's "Oil for Development" scheme aims at enabling petroleum-producing countries to utilise revenues from their oil and gas resources to reduce poverty and improve the living conditions of their populations. Petroleum revenues must be used to build schools and clinics, to provide medicines and development for the many, and not be allowed to disappear in the pockets of the few. A strong civil society is vital in oil-producing countries to increase the level of transparency of the petroleum sector. It is also exceedingly important that the production of petroleum resources is done in an environmentally sustainable manner.

There is an increasing demand for Norwegian assistance with petroleum sector management, and Norway now cooperates with more than 20 countries in a large variety of areas. There are many challenges and to what extent the Norwegian assistance can make a difference, depends on a range of historical, geographical and political factors. Our most important contribution is capacity building which enables the countries themselves to manage their natural resources. To help other countries increase their oil revenues and manage them in a better way, is an important part of Norway's international development efforts and will continue to be so in the years to come.



Mr. Erik Solheim
Minister of the Environment and Development Cooperation

Oslo, October 2007

BACKGROUND

Since the early 1980s, Norway has included the petroleum sector in the development co-operation. This co-operation has included more than 30 countries, and has amounted to approximately NOK 440 million over the 10-year period of 1994 to 2004. The Norwegian government launched the Oil for Development (OfD) initiative in 2005, and for the period of 2006 to 2010 the Government has committed itself to development co-operation for the petroleum sector at an amount of NOK 250 million for the 5-year period. Working with other donors to address the challenges of petroleum administration more forcefully, OfD enhances the focus on environmental issues, good governance, transparency and anti-corruption.

A ministerial steering committee has been established for OfD with representatives from four ministries: Foreign Affairs (MFA), Finance (MoF), Petroleum and Energy (MPE) and Environment (MoE). The secretariat is in Norad (Norwegian Agency for Development Cooperation), and is responsible for coordination and implementation of the initiative. The steering committee formulates strategic directions, guidelines and priorities for the secretariat and implementing organisations, and decides on major project proposals. Norad is the hub of Oil for Development in terms of operational management, coordination, information exchange and facilitation of quality control. Norad receives requests from governments and other partners, communicates overall guidelines and steering committee decisions to relevant stakeholders, and conveys stakeholder response back to the committee. Requests for OfD assistance are normally channelled through the embassies.

OfD now cooperates with more than 20 countries covering capacity building in areas such as legal frameworks, administration and supervision mechanisms, licensing and tendering processes, organisation of public-private interfaces, local content and industrial development, environmental challenges and revenue management issues, including taxation and petroleum funds.



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OUR OBJECTIVES

The OfD initiative aims at assisting developing countries in their efforts to manage petroleum resources in a way that generates economic growth, promotes welfare of the population in general and which is environmentally sustainable.

The OfD builds on an integrated approach to the petroleum sector that centres on three themes:

- resource management
- revenue management
- environmental management

Good governance, transparency and accountability are important cross-cutting dimensions.

For a country to be eligible for short term assistance through the OfD initiative, the following criteria must be met:

- Cooperation must be demand driven
- The country must be eligible according to OECD/DAC principles
- Significant petroleum resources or potential must be present
- Norwegian experience and expertise must be relevant
- Demand for capacity and competence building in public institutions must be identified

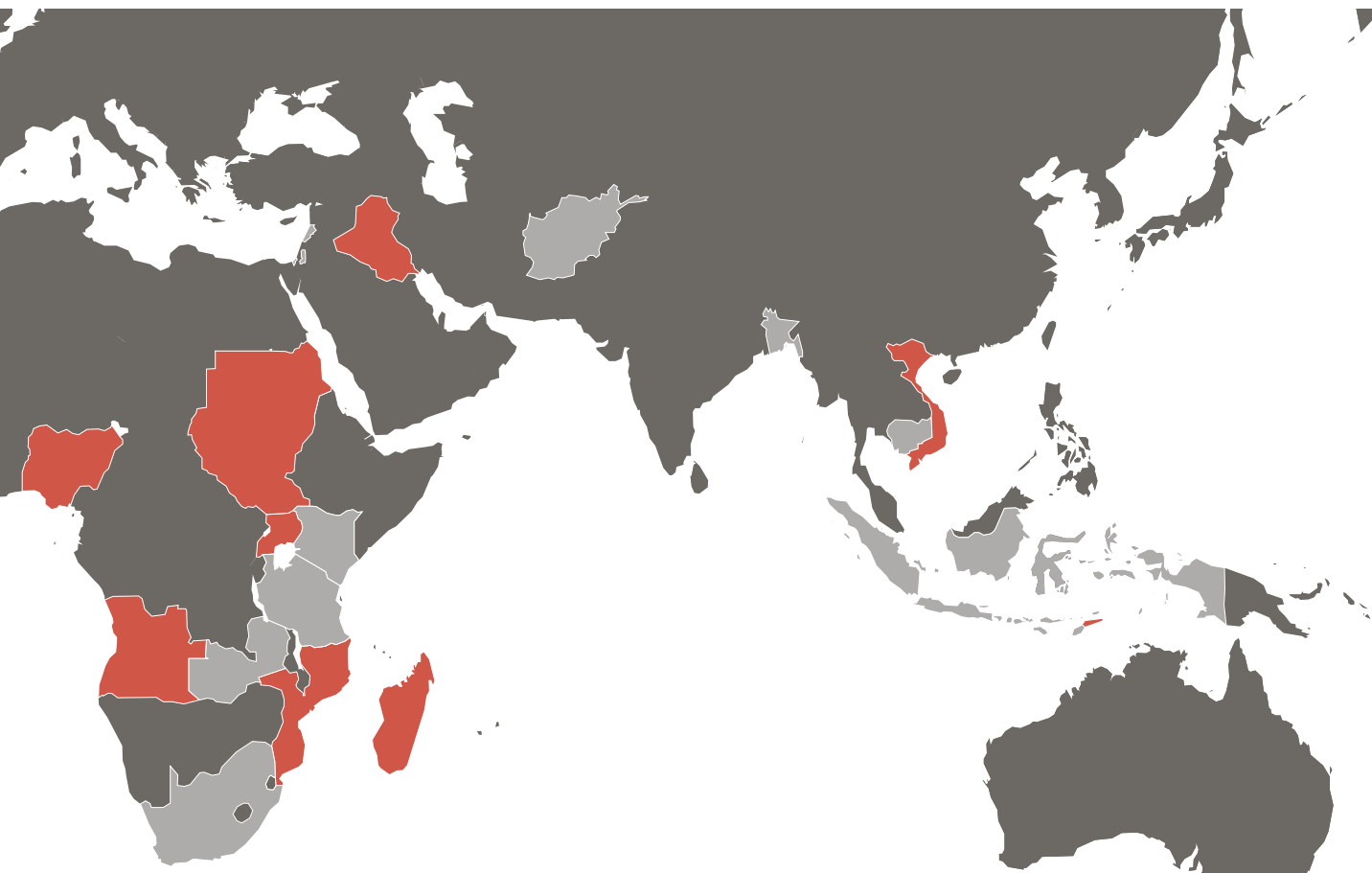
Only a limited number of new countries are likely to qualify for longer term cooperation on petroleum governance. Thus, requests for such support will be subject to close scrutiny. Norway gives priority to the Extractive Industries Transparency Initiative (EITI), and motivation to engage with EITI will be seen as a clear advantage. Governments must be committed to poverty reduction and improved welfare of the population. The same holds for commitment to ensure sustainable development of resources and address environmental challenges related to petroleum activities.

WHERE WE ARE AND WHAT WE DO



OfD cooperates with more than 20 countries. The main focus is to assist in capacity building in a variety of areas, such as:

- Legal framework
- Administration
- Systems for licensing and tendering
- Private-public interfaces
- Local content
- Environment
- Revenue management
- Taxation
- Petroleum funds



OfD has a long-term cooperation with ten countries:

// Angola	// Mozambique	// Uganda
// Bolivia	// Nigeria	// Vietnam
// Iraq	// Sudan	
// Madagascar	// Timor-Leste	

In addition, OfD cooperates in a more limited way with:

// Afghanistan	// Indonesia	// Nicaragua	// South Africa
// Bangladesh	// Kenya	// Palestine	// Tanzania
// Cambodia	// Lebanon	// São Tomé	// Zambia
// Ecuador	// Mauritania	and Príncipe	



Environmental management

To ensure a sustainable development, it is vital that the exploration and the production of oil and gas resources are carried out without negative long-term effect on the environment.

The main challenges are:

- Taking environmental issues into account in an adequate way when opening areas for drilling and production
- Carrying out risk assessments and Environmental Impact Assessments (EIAs), and act in line with the conclusions
- Taking action to avoid accidental pollution and reduce the consequences in case of spills
- Carrying out environmental monitoring as part of the running activities
- Limiting the discharge and emissions of hazardous or harmful substances to the air, water and soil
- Planning and carrying out shut-down and decommissioning in an environmentally acceptable manner
- Avoid flaring of gas except for safety reasons

CHALLENGES

Oil is not necessarily a blessing. While natural resources can generate large revenues to foster economic growth and reduce poverty in some countries, others experience that the exploitation of these resources and a massive influx of money can lead to corruption and squandering of the national wealth, economic stagnation and ultimately increased poverty, political violence and irreparable damage to the environment. This tendency – for large natural resources to decrease rather than increase the level of development in a country – is commonly referred to as

"the resource curse". Studies have shown that good governance is crucial to ensure that the potential wealth from oil, gas and other resources becomes a benefit to the general population. Developing countries that wish to take advantage of their natural resources and improve their population's standard of living, face a number of challenges. OfD can provide assistance in helping them overcome these challenges.

Resource management

OfD promotes good governance and resource management. For oil to be the first step towards development, there needs to be:

- Established resource databases for optimal planning and extraction
- Building of state institutions
- Clear understanding of roles and responsibilities
- Legal framework to govern petroleum exploration and production
- Transparency about potential resources
- Transparency about produced volumes and prices
- Open bid and tendering processes
- Transparency about licenses and contracts

Revenue management

Oil revenues differ from other revenues in that they represent considerable cash flows that are also volatile and uncertain. Oil revenues can give rise to activities that are in conflict with the country's welfare, like corruption and rent-seeking. Based on Norwegian experiences, OfD promotes prudent policies, transparency and accountability of operations in several revenue management areas:

- Design, management and control of tax regime for the extraction of oil and gas
- Transparency and accountability around payments by oil companies (EITI)
- Planning and execution of government budgets
- Management of the financial savings (petroleum fund)



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Construction of gas pipeline between Mozambique and Secunda, South Africa 2003

//THE NORWEGIAN ASSISTANCE
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IN ESTABLISHING A BASIS FOR
A WELL-FUNCTIONING PETROLEUM
SECTOR THAT WORKS IN AN
EFFICIENT AND TRANSPARENT MANNER.

OfD's assistance is adapted to local needs and conditions. To what extent the Norwegian assistance can make a difference, depends on a range of historical, geographical and political factors. The following pages show examples of the assistance provided by OfD and some of the results of this work in four different countries.

MOZAMBIQUE

The Norwegian petroleum related assistance to Mozambique has been very long-ranging and of a substantial size, starting in 1981. The status today is that the Norwegian assistance has helped Mozambique in establishing a basis for a well-functioning petroleum sector that works in an efficient and transparent manner.

The Mozambican institutions, National Hydrocarbon Company and National Petroleum Institute, have built up a solid knowledge about potential petroleum resources through acquisition and interpretation of seismic data from 1981 and onwards. The two institutions have become competent players in the petroleum sector and they are able to assist the Government in achieving the political goals for the sector, in collaboration with relevant ministries.

Another result of the Norwegian assistance came in 2001 when a new Petroleum Law was promulgated in Mozambique. Both this and the Petroleum Regulation of 2004 are strong and useful instruments for the regulation of the sector, clarifying the roles and competences of the different institutions involved in the petroleum sector in agreement with Mozambican priorities. In 2006, environmental regulations for the petroleum sector were being drafted by the National Petroleum Institute. They are strongly requested by the sector, as the general environmental regulations are not sufficient for regulating the activities of the petroleum sector.

There have also been established adequate monitoring systems in Mozambique, as well as a National Data Centre and a core-storage, that seem to be well functioning. For future exploration activities in Mozambique, negotiations have been conducted and agreements have been made with international oil companies.



Vietnam 2003

//WE BELIEVE THAT THE THE EXPERIENCE
FROM NORWAY WOULD BE VERY
IMPORTANT AND USEFUL FOR VIETNAM.

VIETNAM

Norway has been involved in capacity building in the Vietnamese petroleum sector since 1977. This cooperation has had a strong focus on safety and environmental matters, as well as education and training. The Vietnam Petroleum Institute, which carries out research as well as providing scientific and technological services and consultancy, was established with Norwegian aid 30 years ago.

Today the focus of the Norwegian assistance has changed towards a greater emphasis on the state's management of the petroleum sector, including a revision of the Petroleum Law. This would give room for a clearer split of responsibilities amongst the authorities and towards state owned companies, and facilitate for the relevant government ministries to efficiently execute their legal responsibility of managing the sector, including issuing environmental and safety requirements, and awarding production licenses. The overall objective is, through sharing the "Norwegian" experience, to support the Vietnamese authorities who deal with the management of energy resources in gaining a comprehensive knowledge of the total petroleum resources of the country, so that they can continue to use this knowledge at management/policy level for overall strategic planning of the further development of the energy sector.

Vietnamese authorities are now looking at the possibility of establishing a Petroleum Fund to finance socio-economic development programs. In a letter to the Norwegian embassy in Hanoi, the Vietnamese Ministry of Finance expresses an interest in the Norwegian model: "We believe that the experience from Norway would be very important and useful for Vietnam".

TIMOR-LESTE

When Timor-Leste became an independent state in 2002, Norwegian authorities received a request for assistance in the country's petroleum sector. First of all, Timor-Leste needed to establish an administration to manage the sector and assistance in negotiating with neighbouring countries to gain control over its natural resources. The negotiations were successful, from Timor-Leste's point of view.

It also became clear that Timor-Leste was in need of competence and educated personnel to manage the sector. To assist the authorities, a total of nine Norwegian advisers have been based in Timor-Leste through the OfD initiative. Furthermore, Norway sponsors a number of students engaged in petroleum-related studies both in Timor-Leste and abroad in countries such as Australia, Indonesia and Norway. The first Timor-Leste to graduate from a university with a degree in petroleum subjects, will be a student who graduates from the University of Stavanger in Norway in 2008.

There are great expectations in Timor-Leste as to what extraction of petroleum and gas resources could mean in terms of raising the standard of living of the general population. There is a widespread impatience for results, and in a relatively short period of time a lot has been accomplished. Both a Petroleum Law and a Petroleum Fund Act were approved by the Parliament in 2005. In 2007, the Timor-Leste fund value reached USD 1 billion.



Timor-Leste 2006

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THE GENERAL POPULATION.



Maymane, Afghanistan 2007

//SEVERAL INDICATORS SHOW THAT
THERE COULD BE CONSIDERABLE
PETROLEUM RESOURCES IN
AFGHANISTAN NOT YET EXTRACTED.

AFGHANISTAN

Afghan authorities made contact with OfD in early 2007. The request resulted in a six month initial support programme, where the main focus has been the legal framework and the petroleum governing structure. A Petroleum Law has been amended, and the next step is to ensure a long term programme to help capacity building. Afghanistan has many competent people in the petroleum sector, but further capacity building is needed especially in project management. Afghan authorities have expressed that they appreciate that the OfD assistance is without commercial ties.

Several gas fields were discovered by the Soviets in the 1960s and 1970s and extracted in the North of Afghanistan. However, most Afghans never benefited from these resources. Today less than ten per cent of the population has electricity. Several indicators show that there could be considerable petroleum resources in Afghanistan not yet extracted. It is obvious that the main obstacle to exploit future resources is the security situation. International assistance is required to develop the fields, but it is unlikely that Afghan authorities will succeed in attracting international partners unless they can provide for their safety.



Kabul, Afghanistan 2007

OUR PARTNERS

Requests for OfD assistance are normally channelled through the Norwegian embassies, and embassy staff generally appraise proposals for cooperation. Support is provided to governments and government agencies in countries of cooperation. Implementing agencies include the Norwegian Petroleum Directorate, Petrad (International programme for petroleum, management and administration), the Norwegian Pollution Control Authority (SFT) and other governmental agencies, as well as research institutions and consultancies.

The OfD initiative also has an active dialogue with a range of other stakeholders; multilateral organisations, other donors, civil society and the oil industry. OfD cooperates with a number of NGOs in Norway.

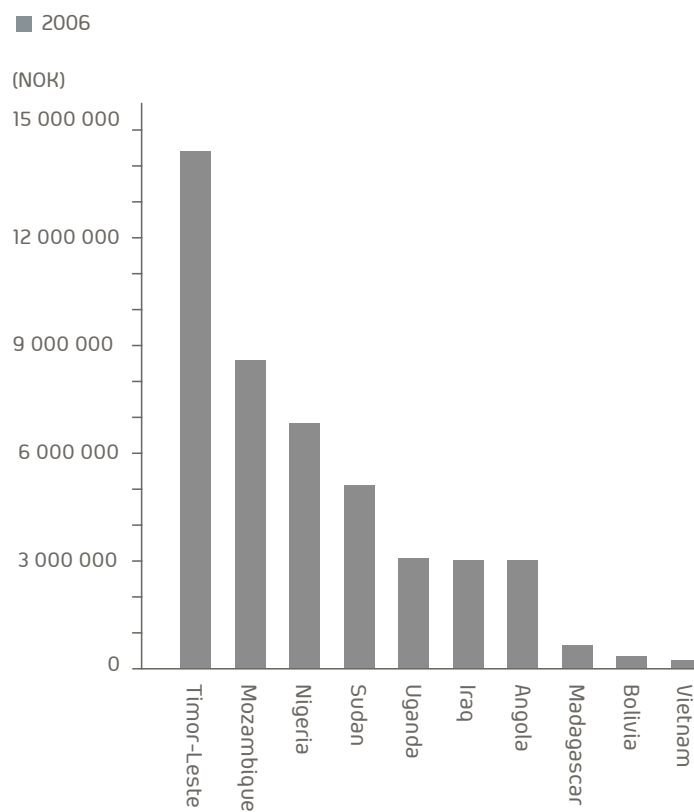
Other cooperating partners are multilateral organisations, other donor countries, civil society (including the Publish What You Pay coalition) and the oil industry. The Norwegian government and the World Bank Group collaborate through the Petroleum Governance Initiative since 2006. Participation in the Global Gas Flaring Reduction initiative (GGFR) is part of the cooperation with the World Bank. Also, an agreement on strategic cooperation was initiated with the Revenue Watch Institute in 2006.



Mauritania 2006



VALUE OF OFD SUPPORT



Total value of OfD support in 2006: 82 million NOK
 Prognosed budget for OfD support in 2007: 167 million NOK



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OF FOREIGN AFFAIRS