

Governance in Norwegian Petroleum-Related Assistance

Elise Marie McCourt



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Department of Political Science

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Abbreviations

CEPMLP	The Centre for Energy, Petroleum and Mineral Law and Policy
CIA	Central Intelligence Agency
CIP	Centro de Integridade Publica/Centre for Public Integrity
DNCH	National Directorate for Coal and Hydrocarbons [Mozambique]
EITI	Extractive Industries Transparency Initiative
ENH	Empresa Nacional de Hidrocarbonetos de Mozambique
GDP	Gross Domestic Product
INP	Instituto Nacional de Petroleo [Mozambique]
MIREM	Ministry of Mineral Resources [Mozambique]
MOE	Norwegian Ministry of Oil and Energy
NORAD	Norwegian Agency for Development Cooperation
NPD	Norwegian Petroleum Directorate
OECD	Organization for Economic Co-operation and Development
OFD	The Oil for Development Initiative
OPEC	Organization of the Petroleum Exporting Countries
PETRAD	International programme for petroleum management and administration
PSA	Norwegian Petroleum Safety Authority
SASOL	Suid Afrikaanse Steenkool en Olie
SFT	Norwegian Pollution Control Authority
UNDP	United Nations Development Program
USAID	United States Agency for International Development

1 Introduction

The point of departure for this thesis is the paradox that natural resource abundance has had a negative impact on development in a number of countries, an empirical regularity that has come to be known as the “natural resource curse”¹. This phenomenon has received considerable attention in academic circles and amongst policy-makers worldwide, focusing on the reasons why some countries fail to achieve development from income generated from petroleum resources. Norway is often referred to as the exception in this body of literature, known as one of the most successful cases in terms of transforming income from petroleum resources into social and economic development (Gylfason, 2001). This successful management of petroleum resources has generated interest for the Norwegian experience in international circles, and Norwegian government institutions have accordingly been involved in assisting developing countries in improving their petroleum sector for almost three decades. In 2005 this assistance was brought together in the Government’s Oil for Development Initiative (OfD) (NPD, 2006).

In response to the natural resource curse, achieving “good governance” has been identified as crucial in order to combat the resource curse (Havro and Santiso, 2008:28; McPherson and MacSearraigh, 2007:194). Interestingly, the call for good governance within the resource curse literature is in accordance with mainstream development approaches in recent decades. The widespread call for good governance in the resource curse literature has influenced the OfD initiative, illustrated by the following statement: “The assistance provided by OfD within resource management, revenue management and environmental management is aimed at improving governance of the petroleum sector.” (Norad, 2009).

¹ It is important to note that the concept of development is widely debated. However, an in depth discussion on the various understandings of the concept is beyond the scope of this thesis. Development as it is applied in this thesis is in accordance with the following definition: “An economic transformation of a country or a region that leads to the improvement of the well-being and economic capabilities of its residents.” (*A Dictionary of Economics*. John Black, Nigar Hashimzade, and Gareth Myles. Oxford University Press, 2009. *Oxford Reference Online*. Oxford University Press. Oslo University. 2 March 2010 <http://www.oxfordreference.com/views/ENTRY.html?subview=Main&entry=t19.e3582>)

Despite the focus on governance and good governance within the resource curse literature and in development approaches in general, the discourse and application of governance is far from straightforward. Critics question the focus on governance and good governance, pointing to the different ways governance is understood by academics and practitioners. Is governance the answer? And what is governance? If there is a lack of common understanding concerning governance, how can it be prescribed as the solution to the resource curse? These questions introduce the main theme of this thesis, namely the role of governance as a remedy for the resource curse, and how Norway through petroleum-related assistance attempts to influence good governance.

This thesis aims to provide a contribution to the discussion of Norway's role in petroleum-related assistance to developing countries. The thesis will focus on the aspect of governance in this type of development assistance, based on the premise that the qualified version of governance, namely good governance, is a prerequisite for avoiding the resource curse. These issues will be analysed using a framework for good governance in the petroleum sector as presented by Chatham House and Centre for Environment, Petroleum and Mineral Law (CEPMLP) at the University of Dundee. This framework is the result of a dialogue with decision makers from twenty-three oil and gas producing countries over a two-year period, resulting in common guidelines for good governance (Lahn et al., 2007a:8).

1.1 The Research Focus

The main objective is to study the role of Norwegian petroleum-related assistance, focusing specifically on the relevance, perception and implementation of governance and good governance within this context. This objective generates the following research question:

How can Norway, through petroleum-related aid, influence the quality of petroleum sector governance in developing countries?

The main question concerning the role of Norway in terms of influencing petroleum sector governance brings about three sub questions that will be answered systematically throughout this thesis:

1. How does the Norwegian experience of developing a petroleum sector reflect principles of good governance?
2. What is the perception of good governance within the framework of OfD?
3. How is the aim of good governance reflected in the work of OfD in the case of Mozambique?

These questions will be addressed in light of the Chatham House framework, consisting of five principles and benchmarks that form a broad framework for good governance for the petroleum sector (Lahn et al., 2007)². The figure below lists these five main principles, which will be discussed in more detailed in chapter two of this thesis.

Figure 1: Chatham House Framework for Good Governance

CHATHAMHOUSE FRAMEWORK FOR GOOD GOVERNANCE IN THE PETROLEUM SECTOR				
Clarity of Goals, Roles and Responsibility	Sustainable Development for the Benefit of Future Generations	Enablement to Carry Out Roles Assigned	Accountability of Decision Making and Performance	Transparency and Accuracy of Information

(Source: Lahn et al., 2007)

The next sections in this chapter will introduce the central elements of this thesis, namely the resource curse, the case of Norway, Norwegian petroleum-related assistance, and the case of Mozambique.

² See appendix 3 for Chatham House Framework for Good Governance including benchmarks

1.2 Introducing the Resource Curse

Due to the high demand for petroleum in the global market, the discovery of petroleum³ in a country generally provides the opportunity to generate major income from oil and gas production and exportation. The income provided by the petroleum sector in turn offers significant potential for economic and social development. Subsequently, the discovery of petroleum in a country often creates an atmosphere of hope and optimism amongst the population. However, transforming income from oil and gas production and exportation into domestic economic growth and socio-economic development has been challenging for many countries where petroleum resources have been discovered. Rather than creating a basis for development, it has been claimed that “Countries that depend upon oil-exports, over time, are amongst the most economically troubled, the most authoritarian, and the most conflict-ridden states in the world today” (Gary and Karl, 2003:18). Such observations have given way to terms like the “paradox of plenty” (Karl, 1997) and “the resource curse” (Auty, 1993), symbolizing that rather than being a catalyst for economic growth, in many countries, there is a causal relationship between the degree of income from natural resources and lack of democracy, increased corruption, civil war and stagnating economic growth. In general, it can be said that natural resource abundance in these countries is experienced as a curse, not a blessing for the population as a whole.

1.3 Avoiding the Resource Curse: Norway and Good Governance

Although there are several examples that provide support for the notion represented by the “resource curse”, of which the most infamous can be said to be the cases of oil-rich Angola and Nigeria, there are examples of petroleum-rich countries where this curse has been successfully avoided (Mehlum et al., 2006:1). Norway is one of the countries

³

The word ‘petroleum’ refers to both oil and gas resources throughout this thesis.

in which oil has been a blessing, not a curse, as income from oil production has benefited the Norwegian population as a whole (Gylfason, 2001). In Norway, the discovery of oil has played a role in enabling rapid industrialization and has been part of the foundation for the extensive development of the welfare state. Norway, a country where the petroleum sector represents 26% of the Gross Domestic Product (GDP) (Nordvik et al., 2009:14), is one of the richest countries in the world in terms of per capita income, and has in recent years been ranked at the top of the Human Development Index signalling that the Norwegian people enjoy the highest standard of living in the world based on a set of indicators (UNDP, 2009). The Norwegian success story in terms of petroleum management indicates that the resource curse is not inevitable. Rather, the success or failure of petroleum management is dependent on certain factors and conditions that influence the effect of petroleum resources on economic development and the standard of living of the population. There are various mechanisms that are claimed to lead to the resource curse, and these are often claimed to be linked to the quality of governance in a given country (Kolstad et al., 2009:956). Studies show that the resource curse is not cast in iron, but that the quality of governance plays an important role in defining the extent of the resource curse (Collier et al., 2009:3-4; Palley, 2003). Governance is regarded as a prerequisite for development, of which petroleum-rich countries face particular challenges. Achieving good governance has accordingly been advocated as essential in order to avoid the resource curse (Havro and Santiso, 2008:28, McPherson and MacSearraigh, 2007:194).

1.4 Norwegian Petroleum-Related Aid and Oil for Development

The resource curse is not inevitable. Accordingly, there has been an increasing focus on what causes the resource curse, and on what can be done in order to avoid the negative impacts of major income from oil and gas production. Petroleum-related aid, defined as activities aiming to improve the development impact of petroleum resources, has been significant in this matter (Kolstad et al, 2009:954). There have

been several petroleum-related initiatives promoted in recent years, aiming specifically at hindering the mechanisms of the resource curse incursion in petroleum rich countries potentially at risk. Examples include the Canadian International Development Agency's programming in oil and gas sectors, and USAID oil projects (ibid).

Based on the Norwegian acquired competence across the petroleum sector, the Norwegian government has been involved in petroleum-related support to other oil producing developing countries since the early 1980s. In 2005, as a continuation and formalisation of the petroleum-related development assistance, the Norwegian government introduced the Oil for Development (OfD) initiative. OfD is coordinated by a secretariat at the Norwegian Agency for Development Cooperation (NORAD), and functions as an umbrella programme for the different actors involved in petroleum-related assistance, with its steering group consisting of a cross ministerial representative. The OfD initiative is part of the government's focus area in international development cooperation, and the stated aim of OfD is to "assist developing countries, upon their request, in the efforts to manage petroleum resources in a way that generates economic growth, promotes the welfare of the population in general and which is environmentally sustainable" (Norad, 2008:5). Furthermore, in the presentation of OfD provided by Norad, it is explicitly stated that the aim of the initiative is, in short, to combat the resource curse (Norad, 2008a).

The Oil for Development initiative builds on an integrated and holistic approach to the petroleum sector that is based on three central themes: resource management, revenue management and environmental management. Within the OfD initiative, good governance is promoted as the cross cutting dimension, crucial to have in place in order to achieve improved environmental, resource and revenue management (Norad, 2009). This holistic approach makes the Oil for Development initiative unique compared to other petroleum assistance initiatives, as it is the only petroleum-related programme that integrates different petroleum-related aid activities into a single programme (Kolstad et al., 2009:955). The attention given to governance within the framework of OfD is of particular interest in this thesis.

1.5 The Case of Mozambique

The study of the role of governance within OfD entails a need for a single case study. Using one of the OfD countries as an illustrative case enables the study to exemplify how governance is applied in a given context. The chosen case study for this thesis is Mozambique. Mozambique is one of ten core cooperative countries in OfD, indicating that Norway is involved in environmental-, resource- and revenue management (Norad, 2008:12). Mozambique is one of the world's poorest countries, ranking at number 172 out of 182 countries on the Human Development Index in 2009 (UNDP, 2009). Thus, the discoveries of gas resources that have been made in recent decades, in addition to the possibility and expectations of finding oil resources, could have a significant impact on the socio-economic conditions in Mozambique. It can be expected that the way the petroleum resources are managed will determine the degree to which Mozambique will benefit from the country's petroleum resources. Based on this presumption, Norway has been committed to the provision of assistance to the petroleum sector in Mozambique since early 1980s (Norad, 2008:5).

Mozambique has, in terms of financial support been the most significant and long-term recipient of Norwegian petroleum-related assistance, with the first cooperating programmes starting already in 1983, more than 20 years before Mozambique became a gas exporter in 2004. The Norwegian assistance has throughout these years evolved from being mostly technical towards become more holistic in terms of integrating various sectors involved in the petroleum industry in the cooperation (NPD, 2006:5). Improving governance has in recent years been highlighted as one of the main goals of the OfD initiative, a policy that has been integrated into the OfD cooperation in Mozambique (Norad, 2008:28).

1.6 Methodology

This section will present the research strategy chosen for this thesis, explaining why a

qualitative case study is appropriate. Secondly, the different sources used for answering the research question will be introduced, before exploring the issues concerning the validity and reliability of the thesis.

1.6.1 Qualitative Case study

This thesis is based upon a qualitative approach, due to the few available relevant cases of Norwegian petroleum-related assistance (small-N), and the lack of quantitative data concerning the role of governance in this type of initiative. According to Ragin and de Meur (2007:750), the demands and assumptions of quantitative methods are difficult to meet in a small-N situation. As this applies for OfD, it explains why a qualitative approach is chosen for this thesis.

According to Yin (2003:1) “case studies are the preferred strategy when “how” or “why” questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon with some real-life context”. The purpose of this thesis is to explore the Norwegian petroleum-related assistance programme OfD. By addressing the concept of governance, the object is to examine governance in the Norwegian context, to show how governance is understood, and how it is applied within this context of petroleum-related assistance. OfD is a contemporary phenomenon in that it is an ongoing programme, of which I as the researcher have little control of events. These factors illustrate that a case study is an appropriate research strategy for this thesis.

The unit of investigation, or case, is the Oil for Development Initiative. However, this thesis investigates and analyses the role of governance at what can be understood as three different levels or contexts. First, within the history of developing the Norwegian petroleum sector, second within the context of the Oil for Development programme itself, and thirdly in the context of OfD’s programme in Mozambique.

The apparent unit when studying Norwegian petroleum-related assistance is the Oil for

Development initiative, as this is the current coordinating initiative for all of the Norwegian efforts under this thematic strand of development assistance. Chapter four of this thesis investigates how governance is conceptualised across the Oil for Development initiative, and OfD is in this way the relevant case of this thesis. However, in order to get insight into how the aim of governance is reflected in the actual work of OfD, it is necessary to study a specific country of which OfD is present. Of the ten core countries where OfD is involved, this thesis will focus on Mozambique, as a way of illustrating how the focus of governance within OfD is reflected in a country. In this way, the type of case study design in this thesis reflects what Yin (*ibid*: 42-43) calls an embedded, single-case study, that is to say the case of Mozambique is a subunit of the main case which is Oil for Development.

Mozambique is chosen for several reasons. First, Mozambique has been one of the most important countries in terms of this type of development assistance, both in terms of the extensive time-period in which the cooperation has been carried out, but also because of the significant financial contributions in this case. Because Mozambique has been a long term programme, it makes a good case for comparing earlier efforts of petroleum-related efforts, to those in more recent years after the establishment of OfD. Furthermore, in documentation provided by Norad on Oil for Development, it is clearly stated that increased focus will be given to the issue of governance in the case of Mozambique, thus making it an interesting case for examining how the rhetoric of good governance is applied within a programme (Norad, 2008:28).

The study of Norwegian petroleum-related assistance can be regarded as a theoretical interpretative case. The existing theory of good governance in the petroleum sector, formulated by Chatham House, provides criteria for the relevance of the empirical evidence provided in the case of Norway, Oil for Development and Mozambique. The aim is thus not development of theory, but to use theory to shed light on the empirical data (Andersen, 1997: 68).

1.6.2 Data

Throughout this thesis, different types of sources are used in order to examine the different questions that are addressed, and data triangulation has been the aim where this is possible and necessary. Besides chapter three, where the discussion on the history of Norwegian petroleum sector governance is based mainly on existing, secondary literature, the analysis in the thesis is based on a variety of sources. These include different types of documents and interviews. By using different types of documents, supplemented by interviews, the aim has been to support the facts of the case study by more than a single source of evidence. This in turn contributes to address the potential problems of construct validity (Yin, 2003:99).

The data that the thesis is based upon is a combination of primary and secondary sources, including numerous interviews. Norad and the Ministry of Foreign Affairs have provided documents from the process of cooperation with Mozambique, including documents such as summaries of annual meetings. These sources are by and large documents provided by the Norwegian Embassy in Mozambique and Norad, from the time frame of 2007, 2008 and 2009. Documents and information on the OfD initiative in general have mainly been based on officially available resources provided by Norad, by and large online, as well as reviews conducted by external actors, supported by academic literature. Combining different types of documents this way is important in order to avoid biased information provided by a single type of source.

Interviews

Interviews were carried out in order to supplement the available written sources. Based on a prepared interview guide, interviews were carried out with in total eight informants, representing various institutions related to OfD. The aim of the interviews was to find more information on the perception of governance and good governance, and the case of Mozambique, as there were limited written sources available on these issues. The interviews were semi-structured. This means that they were based on a prepared interview guide, but where the actual interviews were flexible and

sometimes included new questions or diversions from the interview guide. Semi-structured interviews entail variation and flexibility, where the conversation moves from interviewer to interviewee (Johannessen et al., 2004: 133). This flexibility was very beneficial, as it allowed for follow-up questions, diversions from the original questions, and in-depth answers to my questions, in which useful additional information was provided.

The informants were selected according to the twofold purpose of conducting interviews, namely to increase understanding of the perception of governance in the OfD context in general and secondly to gather more information about the case of Mozambique more specifically. Accordingly, informants thus included actors working explicitly with OfD and the Mozambique programme⁴ and actors who had more general experiences concerning OfD⁵. By firstly interviewing members of the OfD steering committee, Norad and Ministry of Foreign Affairs, I was given suggestions as to whom I should approach for interviews. In this way, I was put in touch with legal consultants to INP.

Although I used the same interview guide in all interviews, questions concerning Mozambique were purposely excluded where the informants had no in depth knowledge of this case. Of the potential informants I approached with regard to interview, two did not respond to my inquiry and therefore I was not able to carry out these interviews. Therefore, I was not able to interview representatives from the Norwegian Ministry of Petroleum and Energy or the director of the OfD Initiative. However, I had several interviews with other representatives from the OfD secretariat, as well as representatives from the oil sector through interview with NPD. Thus, different viewpoints are included.

⁴ Representative from OfD Norad, Representative from Ministry of Foreign Affairs, Representatives from the Norwegian Embassy in Mozambique, Simonsen Law,

⁵ Representatives from Ministry of Finance and Ministry of the Environment

1.6.3 Validity and Reliability

Construct validity

Construct validity is about “establishing correct operational measures for the concept being studied” (Yin, 2003:34). In other words, construct validity is about how the findings in a study reflect the purpose of the study as well as represents reality (Johannessen et al., 2004:195). When dealing with unclear concepts such as governance, construct validity can be challenging. However, in this thesis I discuss the concept thoroughly in the theoretical chapter, and operationalize good governance according to the Chatham House framework. Also, I look at different perspectives concerning governance, in this way getting a more complete picture of the concept being studied, namely governance in Norwegian-petroleum related assistance.

Internal validity

Internal validity is about establishing causal relationships, that is to say that A leads to B (Yin, 2003: 34). When studying development assistance and an outcome such as good governance, it is often difficult to confirm that it is A (in this case OfD) that really has led to B (in this case good governance). In order to avoid low internal validity, I chose to focus on how governance is perceived and applied within the context of Norwegian development assistance, as opposed to assessing whether or not Norwegian assistance has helped improve the quality of governance.

External validity

External validity refers to “the problem of knowing whether a study’s findings are generalizable beyond the immediate case study” (Yin, 2003: 37). Case study as a research design has generally received much criticism related to external validity, of which it is argued that there are few opportunities for generalisation based on this type of study (ibid; Andersen, 1997: 13). The challenges concerning external validity are also relevant for this thesis. For example, due to the fact that the OfD programmes are demand driven and locally adapted, it is difficult to claim that the findings in the case of Mozambique apply for all OfD programmes. However, this does not affect the

value of the study as it shed lights on a topic of which there is limited academic literature available.

Reliability

Reliability is referred to as “demonstrating that the operations of a study – such as data collection procedures – can be repeated with the same results” (Yin, 2003:34). The objective of reliability is to reduce the errors and biases in a study (ibid: 37). In this study, all sources are documented in a precise and extensive literature list. Primary sources are official, and can be accessed and reviewed by others. These factors increase the reliability of the study. One of the problems concerning case studies and the issue of reliability is the extensive use of interviews as a way of collecting data. The information collected in interviews is more difficult to reproduce, especially those in the cases where a recorder was not used. In order to counter these effects, I have transcribed interviews of where recorders were used and made citations used from interviews available for those interviewed upon their request.

1.7 Thesis Outline

As a way of answering the main research question, three issues will be addressed throughout this thesis. These are: the Norwegian experience in terms of petroleum sector governance, the perception of governance within contemporary petroleum-related assistance, and finally how the principles of good governance are reflected in the cooperation with Mozambique. These three subjects will be discussed in light of the Chatham House framework for good governance.

The next chapter of this thesis will introduce the theoretical perspectives that form the framework for analysis in the subsequent chapters. Firstly, the concept of governance will be discussed, by looking at the role of governance in the development discourse, and how governance and good governance can be defined. Secondly, the resource curse will be presented. Some of the central ideas within this literature will be illustrated, before discussing the mechanisms of the resource curse and the challenges of governance in resource-rich countries. Finally, the chapter will look specifically at

the meaning of petroleum sector governance, and provide a framework for the analysis by introducing the five Chatham House principles on Good Governance in the petroleum sector.

The third chapter will examine why petroleum-related aid has become a focus area in Norwegian development cooperation, or in other words, why the Norwegian experience is seen as a model for other petroleum rich countries. This chapter will provide insight into the history of the establishment of the Norwegian petroleum sector, as a way of illustrating the relevance of the Norwegian experience to developing countries. The experiences of the Norwegian petroleum governance will be linked to the Chatham House principles of good governance, as a way of considering the legitimacy of Norwegian petroleum-related assistance. Finally, the transferability of the Norwegian experience in the context of development assistance will be discussed.

The fourth chapter will provide a more in depth introduction to the Oil for Development initiative, focusing on the objectives, history and organization of the initiative. Next, the role of governance within the OfD framework will be discussed, by addressing the issue of how good governance is perceived within the OfD framework. Finally, the OfD conception of governance will be linked to the Chatham House framework for good governance.

The fifth chapter will address the question of how Norway through OfD attends to the issue of good governance in the actual OfD programmes, focusing on the current programme in Mozambique. This question will be investigated, using the principles of the Chatham House framework as analytical tools. The focus will be on the priorities, tools, processes and focus of good governance implemented in the OfD programme in Mozambique.

Finally, concluding remarks will be presented in chapter six, summing up the findings of this thesis.

2 Theoretical Perspectives

The purpose of this chapter is to introduce the theoretical perspectives of this thesis. The first part of the chapter will present the increasing focus on the role of governance in the field of development. Secondly, the concept itself will be discussed, by presenting different definitions of governance and then good governance. Next, the resource curse theory will be portrayed; illustrating that resource-rich countries face certain governance related challenges. These challenges will be presented briefly, in this way emphasizing the link between the mechanisms of the resource curse and the role of governance in resource-rich countries.

The first two sections form the premise that governance is important for development, and that countries with natural resources are vulnerable to particular challenges related to governance. The final part of this chapter will present a set of indicators for good governance in the petroleum sector, based on the so-called Chatham House Framework for good governance. The framework was developed on the basis of a long-term dialogue where decision makers from twenty-three oil and gas producing countries formulated a set of common guidelines for good governance. The result was five principles of good governance for the petroleum sector (Lahn et al., 2007). These five principles form the framework for the analysis in chapter three, four and five in this thesis.

2.1 The Role of Governance in the Development Discourse

Governance is a complex term, often meaning different things for different people (Hyden et al., 2004:12). The common perception of what governance means, as well as the potential role of governance for achieving development has evolved in the years after World War II. The application of governance in development approaches has become more prominent in the last few decades, following the pattern of mainstream thinking within development circles in the same period. According to Hyden et al. (ibid: 10) the increased emphasis on the role of governance can be seen as a shift by donors and other development actors away from focusing mostly on programmes,

projects and policies from the 1950s to the 1980s, a priority that implies that development in this period was considered apolitical, to include politics into the sphere of development. The respect for national sovereignty, which is argued to be one of the reasons why politics was held separate from development, has now been challenged by the international community and there is a growing recognition that getting politics right is a prerequisite for development (ibid: 10).

Weiss (2000) agrees, contending that the shift in which the discussion of a country's political and economic governance system became acceptable within international public policy came about for several reasons. Firstly, the end of the Cold War removed the incentives for the West to support authoritarian rule, and eliminated the acceptance of ignoring illegitimate regimes. Secondly, the character and quality of local governance was brought into focus in the context of widespread democratisation both in the Third World and in the former Soviet Bloc. Thirdly, the proliferation of non-state actors affected the political landscape in many countries by way of influencing matters that before had been almost solely matters of state policy, such as economic and social policy. Finally, Weiss points to the introduction of responsibility as a necessary component of national sovereignty. The need for the international community to hinder humanitarian tragedies, gave weight to the argument of critically assessing governance patterns (ibid: 799-800). Accordingly, the climate for governance has changed throughout the years. Governance is now seen as both an end in its own right, and as a means to development (Smith, 2007; UNDP, 1997). As Santiso (2001:3) argues, improving governance in developing countries "has become both an objective and a condition for development assistance".

2.2 Defining Governance and Good Governance

The above section has illustrated that the focus on governance within the development discourse has increased during the last decades. It did not, although it was indicated that governance is related to politics, provide a concise definition or explanation for what governance actually entails. This is telling of the general complexity of the concept and how it is applied. Despite the acceptance of introducing governance into

development, the concept of governance itself is ambiguous and continues to vary both in theoretical discourse and in more practical applications (Hyden et al., 2004:12). Weiss (2000), for example, notes that amongst various development organizations such as the UN and the World Bank, the interpretation of governance differs substantially. Different organizations emphasize different elements under what seems to be a broad umbrella of governance. This section will address this complexity, by pointing to some of the common understandings of governance within the development context.

According to Weiss (2000:795) many academics and international practitioners employ governance to mean a set of structures and processes, whereas popular writers have had a tendency to use it interchangeably with government. The latter perspective generally refers to characteristics associated with system of national administration. It can be argued that this perspective illustrates a narrow understanding of the concept of governance. Distinguishing the two concepts, Smith argues that governance usually means government plus something else, such as public policies, institutions, a system of economic relationships, or a role for non-governmental sector in business of the state (Smith, 2007:3). Weiss agrees claiming that “we need to conceptualise governance in terms that include but also transcend the formal government apparatus” (Weiss, 2000:801). Hyden et al. (2004:3) suggests that the governance realm includes the arenas of civil society, political society, government, bureaucracy, economic society and judiciary, in this way indicating a broad understanding of governance.

The World Bank defines governance as “traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them” (World Bank, 2009).

Another definition has been formulated by Neumayer (2003:8), identifying governance as: “...the way in which policy makers are empowered to make decisions, the way in

which policy decisions are formulated and implemented, and the extent to which it is allowed to encroach into the rights of citizens”.

Thirdly, UNDP (1997:9) defines governance as “exercise of political, economic and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences”.

The above definitions, which are only a selection of the many different interpretations⁶, contribute to an understanding of governance as a broad and encompassing concept. There is no universal consensus on a common definition of governance, which the above suggestions reflect. Despite the differences in the definitions, certain elements can be identified that can be understood as part of the agreed understanding of governance. Firstly, governance is closely related to institutions. Furthermore, it is clear that governance entails the way authority is exercised, and how decisions are made, and how effective these are. In addition, what rules are in place and how these are regulated is important, focusing on the respect for the rights of the citizens.

2.2.1 Good Governance

The previous paragraphs have presented different definitions of governance, showing that despite the different formulations of the concept, certain cross-cutting features can be identified. In the development context, the idea that the quality of the different components that make up governance can differ, has led to the introduction of “good governance”. Governance is not sufficient in order to achieve development; “good governance” needs to be in place. The relevant question is thus what constitutes good governance?

Neumeyer (2003:8) contends that good governance “respects the political, civil and human rights of citizens, is in accordance with the rule of law, provides effective and

⁶ See Weiss (2000) for a more extensive presentation of different governance definitions in the context of development

non-corrupted public services to the people and utilises public resources in an accountable and transparent way and with the aim of promoting the general social welfare”.

A more comprehensive contribution is the UNDP list of characteristics of good governance. Here good governance means legitimacy, freedom of association and participation, freedom of the media, fair and established legal frameworks that are enforced impartially, bureaucratic accountability and transparency, freely available and valid information, effective and efficient public sector management and cooperation between governments and civil society organizations (UNDP, 1997:19).

Good governance, is as illustrated here, based on a set of ideals for the quality of governance.

2.2.2 The Link between Governance, Democracy and Development

Based on the above definitions of governance, illustrating that it is a multifaceted concept, it is possible to discuss governance in terms of containing a political aspect and an economic aspect.

In terms of the political aspect of governance and good governance, the ideals of governance are in all generality linked to the ideas of liberal democracy. This is in accordance with the observation that, “good governance is not sustainable without *effective* democratic institutions” (Santiso, 2001:16). Issues of accountability, participation, corruption and rule of law, as listed in the description of good governance, are undoubtedly closely associated with the democratic ideals.

The economic aspect takes a step further, and is linked to the role governance can play in promoting economic growth and human development. Based on the political dimension of governance as presented in the previous paragraph, this can be linked to the school of thought that democracy is a precondition for economic growth and development (for instance Olson, 1993). The idea is that the elements of governance, such as control of corruption as well as accountability contribute to economic growth.

The general introduction to governance in the context of development as portrayed above entails an acceptance of governance as a multifaceted concept of which there exists no universal definition. However, with a deeper understanding that governance is about the workings of politics beyond government, institutions, and is linked to democracy and economic growth – the next section will show that resource rich countries face certain governance related challenges which in turn can function as obstacles for the potential benefits of income from petroleum resources.

2.3 The Challenges of Governance in Resource-Rich Countries

The above sections described how the focus on governance has increased within the discourse of development. The attention given to the role of governance in developing countries is closely linked to resource rich developing countries, which have been prone to face certain challenges with regard to governance. These challenges are most often associated with the phenomenon known as the “resource curse”. This section will first introduce the central ideas in the body of literature concerning the resource curse that have evolved in recent decades. Secondly, key transitional mechanisms of the resource curse will be presented briefly, in this way highlighting the link between resource abundance and governance.

2.3.1 The Resource Curse Thesis

There is an abundance of literature covering the resource curse phenomenon, of which overviews can be found in Rosser (2006) and Stevens (2003). The literature concerning the role of natural resources in relation to development is extensive and varied. Prior to the late 1980s, the conventional wisdom was that natural resource abundance was a blessing for developing countries as it contributed to substantial income for a country. This idea was challenged extensively in the literature of the late 1980s and 1990s, when many studies gave support to the notion that resource abundance increases the likelihood of poor economic performance, civil war, and low levels of democracy. Seminal studies in this field include Auty (1993) and Sachs and

Warner (2001). Rosser (2006:7) argues that the literature that supports the notion of the negative impact of natural resource abundance has been influential to the point that the current conventional wisdom is the opposite of the ideas prior to the late 1980s.

The literature during the 1990s focused on the empirical relationship between natural resource wealth and economic performance, of which important contributions providing evidence for a negative relationship include those of Sachs and Warner (2001). These studies have been important contributions in terms of establishing the empirical foundations of the resource curse, finding that natural resources can have a negative effect on economic growth. It is however, relevant to note that even though the notion of the resource curse was originally associated with the relationship between economic performance and natural resource wealth, research has been conducted on the relationship between natural resource abundance and civil war and on natural resource abundance and political regimes (Rosser, 2006:8). With regard to civil war, the idea is that countries rich in natural resources are more likely to experience civil war (Ross, 2004). The notion that natural resources are linked to the type of political regime is based on the idea that resource abundance contributes to authoritarianism, and thus hinders democracy (Ross, 2001). It is important to note, however, that economic growth, civil war and democracy are closely linked, each of which can have an effect on development.

Since the end of the 1990s, a shift in the resource curse literature can be detected, from illustrating the empirical relationship between resources and development, to focusing on uncovering the mechanisms behind the resource curse (Jones, 2008:12). Whereas former literature tried to establish the empirical evidence for the negative relationship between natural resources and the performance of resource-rich countries, more recent studies aim to address the question of why there is such a resource curse, and subsequently, what can be done to avoid it. Amongst the large quantity of literature, there are a number of variations of resource curse theory, most commonly divided into different sets of explanations for the resource curse. The differences are often based on the divergence of explanations promoted by economists and political scientists (Ross, 1999).

Jones presents a version of the resource curse thesis building on existing empirical results, which provides a coherent and generic explanation for the curse (Jones, 2008:13). According to Jones, the core notion of the resource curse can be condensed into four principal claims: “(1) conditional on pre-existing weak institutions, a resource curse operates as an empirical regularity; (2) mismanagement of public resource rents is its defining feature; (3) weak public sector governance is the fundamental explanatory mechanism; and (4) an appropriate solution is to improve governance conditions” (Jones 2008:15).

These claims can be recognized as a combination of the popular ideas of the resource curse. However, it is important to recognize that this understanding of the mechanisms of the resource curse is far from indisputable. Indeed, Jones is critical of this conventional understanding of the resource curse himself (ibid). However, for the purpose of this thesis, the above summary is relevant and applicable, as it gives a coherent insight and introduction to the mainstream arguments of the resource curse. This short-form of the resource curse does not provide an in-depth understanding by itself, for that it is too simplistic. However, it illustrates the relevance of governance, and is a good starting point for the further discussion on the mechanisms of the resource curse posing challenges for good governance in resource-rich countries. It is also relevant to note how Jones’ fourth point is directly related to one of the main themes of this thesis, namely that improving governance is important in avoiding the resource curse.

2.4 Mechanisms of the resource curse

The question of why some countries suffer from a resource curse will be addressed in this section, presenting some of the main transitional mechanisms of the resource curse as presented in the available literature. Within such an extensive academic field as studies on the effect of resources, it is important to note that the mechanisms presented in this section are few amongst the many suggested explanations for the resource curse. However, the amount of literature focusing and supporting these mechanisms illustrate their significance in offering explanations for why the resource curse occurs

in some countries, and not others (Kolstad et al., 2009; Karl, 1997; Mehlum et al., 2006). These mechanisms will highlight the particular challenges resource-rich countries face with regard to achieving good governance, thus illustrating the link between the issue of governance and the resource curse.

2.4.1 The Role of Institutions

North defines institutions as the rules of the game in a society (North, 1990). According to Bucuane and Mulder (2007: 18-19) the institutional quality of a country reflects the efficiency of the bureaucracy, level of corruption, political stability, democratic values and transparency and the quality of laws and their enforcement. Based on this, it is easy to detect the parallel between governance and institutions.

The positive correlation between strong institutions and economic growth has been widely manifested in economic literature (Bucuane and Mulder, 2007:18). In the resource curse literature, however, much attention has been given to the link between institutions and the impact of natural resources on economic growth, stressing that institutions play an important role in determining whether income from natural resources become a blessing or a curse in a country.

Two lines of argument can be identified with regard to the causal relationship between institutions and the resource curse. One branch of scholars claim that institutions are the intermediate causal link to the negative effect of resources, as natural resources actively undermine the quality of institutions in resource-rich countries (Mehlum et al., 2005: 3). A case in point is Nigeria, where the fight for the control of natural resources has caused civil war (ibid: 4). Scholars in support of this argument include Ross (2001) and Karl (1997).

A second perspective on the link between natural resources and economic growth is that it is determined by the *quality* of institutions. This argument differs from the above as it contends that natural resources do not necessarily cause institutional decay. Instead, the effect of resource abundance on economic growth varies in accordance with institutional quality (Mehlum et al., 2005:5-6), that is to say, good or bad

institutions. This argument is supported by Kolstad et al. (2009: 956), contending that “the resource curse is not explained by deteriorating governance, i.e. that resources destroy institutions is not the key to understanding the resource curse. There is however, strong evidence that the negative impact of resources is *conditional* on governance”. The second argument illustrates again the strong link between institutions and governance.

2.4.2 Use of rents

Countries that possess petroleum resources are capable of generating extraordinary rents, due to the fact that income from petroleum industry is disproportional to the cost of production (Kolstad et al., 2009: 955). Economists define rent as the profit from a differential advantage for production, meaning that the shortage of a resource such as oil allows its owner to charge a price that significantly exceeds its price of extraction (Shelley, 2005:42).

In countries where a large share of the income comes from this type of production, so-called rent-seeking behaviour has a tendency to emerge. Gary and Karl (2003:19) define rent-seeking as: “widespread behaviour aimed at capturing petrodollars through unproductive and even corrupt means”. The idea is that in petroleum-rich countries, in which the revenue accrues to the state, actors have overwhelming incentives to seek links with the state in order to make money. The consequence is that growth is hindered, and economies become distorted (ibid). As Stevens (2003: 15) notes, there is a general agreement that rent-seeking behaviour produces unfavourable results for the economy.

In practice, the implication of rent-seeking can be that although growing rents increase income, there is a displacement effect of skills, time and energy due to the fact that more entrepreneurs chose to become rent-seekers, for example by becoming oil bureaucrats. One observation in this regard is that the “the more agents are involved in rent-seeking activities, the less income increases” (Kolstad et al., 2008:21).

Mehlum et al. (2005:7) links the quality of institutions to rent seeking by distinguishing between “producer friendly” and “grabber friendly” institutions. The core notion of the argument is that production and rent-seeking are competing activities when institutions are grabber friendly. Grabber friendly institutions can mean low transparency enabling corruption, weak rule of law, and weak protection of property rights. Thus, when institutions are grabber friendly there is a disadvantage from being a producer in competition for natural resource rents. However, when institutions are more developed, it is according to Mehlum et al. (2005:7), difficult to be an effective rent-seeker without also being a producer. The argument then is that the social cost of rent seeking is higher in countries lacking good institutions. Thus, where good institutions with elements of good governance are in place, the degree of rent-seeking will be reduced.

2.4.3 Patronage

Another perspective relates to patronage, defined as the use of public resources to secure political power. Patronage is seen as a form of corruption, when politicians exploit their political positions for their own gains. The important difference between patronage and rent-seeking is that in the case of patronage, the incentive is political (Kolstad et al., 2008:21). The implications of patronage can be that the increased income from the oil and gas industry enables the political elite to buy political support as a way of remaining in power.

Different types of patronage activities can be identified. Firstly, politicians can invest in projects that have political, but not economic payoffs. Secondly, as the future utility of having political power will increase with more resources, politicians will potentially change policy in order to increase the probability that they will remain in power. This can happen for example through the employment of a specific person that they know will provide political support (Robinson and Torsvik cited in Kolstad et al., 2008:21). Consequently, patronage can lead to increased public spending and to inefficiency of the use of expenditure. Inefficient investments consequently hamper development (Kolstad et al., 2008:21). Ross argues that by spending oil wealth on patronage, the

underlying pressures for democratization are undermined (Ross, 2001:333). Ross thus links patronage directly to the aspects of governance that are associated with democracy.

Keefer and Knack argue that in countries where there is high level of accountability, inefficient public investments are more difficult to make. Thus inefficient public investments are generally higher in countries where checks on political behaviour are weak (Kolstad et al., 2008:21).

2.5 Good Governance In the Petroleum Sector

The previous sections have presented causal mechanisms explaining why natural resources can have a negative effect on development. The sections above have also shown that these mechanisms are not inevitable. Rather, the important point is that these mechanisms can be avoided if certain factors, linked to the quality of governance, are in place. Improving governance has in this way been prescribed as the cure for the resource curse (Havro and Santiso, 2008:28).

Also, the concept of governance within the context of development discourse was presented above. Having shown that resource-rich countries face particular governance challenges, this section will focus specifically on governance within the petroleum sector. As will be demonstrated, the principles of governance in the petroleum sector reflect the broad understanding of governance. In this way, petroleum sector governance can be seen to be a narrow branch of governance, focusing specifically on the challenges in petroleum rich countries. This is important in the context of this thesis, as OfD work specifically towards the petroleum sector. Thus, although some of the mechanisms of the resource curse transcend sector specific governance, good governance within the petroleum sector is the focus in this thesis.

A specific definition of petroleum sector governance is useful in this context. One clear and concise definition of petroleum sector governance is that it refers to “the system for making and implementing decisions concerning the exploitation of a nation’s oil and gas resources” and furthermore, that it includes “the structural and

hierarchical **organization** of the sector, the decision-making and communication **processes**, the policies and objectives governing sector activities and the **regulation** of those activities” (Lahn et al., 2007:5). This definition addresses the question of what petroleum sector governance entails, however, it does touch upon what is meant by good governance in the petroleum sector.

As illustrated previously in this chapter, the question of what good governance entails has been debated. This is also the case for petroleum sector governance, and it has been difficult to reach consensus on an international standard of good governance for the petroleum sector. The consequence has been that the widespread call for good governance in relation to the resource curse has been criticised for the ambiguity and unclear use of the concept (Jones, 2008:33). However, in 2007, Chatham House in London, in cooperation with Centre for Environment, Petroleum and Mineral Law (CEPMLP) at the University of Dundee published “Good Governance of the National Petroleum Sector” (Lahn et al., 2007). This publication was the result of a two-year project based on a dialogue in which decision makers from twenty-three oil and gas producing countries shared experiences and worked towards a set of common guidelines for good governance. The main outcome of the project was five high-level, universal principles forming the basis of good governance guidelines, as well as 40 benchmarks for improving good governance. The five universal principles are clarity of goals, roles and responsibilities; sustainable development for future generations; enablement to carry out the role assigned; accountability of decision making and performance and transparency and accuracy of information (Lahn et al., 2007a:8).

These principles for improving good governance offer a broad framework petroleum sector governance, and are meant to be used to develop criteria, measures and expectations that form the basis of good governance guidelines (ibid:8-9). Furthermore, 40 conceptual benchmarks are meant to function as way of setting and achieving petroleum governance that is in accordance with the universal principles (Lahn et al., 2007:4). The benchmarks will not be used directly in this thesis as it is

outside the scope of the essay to analyse governance at such a detailed level⁷. The advantage of this framework is the acceptance of the principles amongst a number of stakeholders in a large number of petroleum countries. Also, the extensiveness and clarity of the framework makes it a good instrument when examining governance in the petroleum sector. However, it is important to note that the framework is recently developed, and despite the consensus amongst the stakeholders involved in formulating the principles, this does not necessarily mean that it is universally adopted in resource rich countries. However, for the purpose of this thesis, the Chatham House framework is well-suited for analysing good governance.

2.6 The Requirements of Good Governance in the Petroleum Sector

The principles of the “Good Governance of the National Petroleum Sector” will function as indicators for good governance throughout this thesis. This chapter will present these principles, providing a short introduction reasoning why each particular principle is relevant.

2.6.1 Clarity of Roles, Goals and Responsibility

The importance of clarity of goals, roles and responsibility is seen in relation to the nature of the petroleum sector in terms of its special importance to national politics and economics, as it has the potential to generate large income. This means that the petroleum sector makes the industry vulnerable to overlaps in political and commercial decision-making, which again can lead to duplication of effort, conflicting agendas and policy paralysis (Lahn et al., 2007:7). On the broader level, the central idea is that for each policy, strategy or operational decision, clarity is important with regard to the intended outcome of the decision, how will the decision be made, and who will be involved. Furthermore, those involved need to be aware of who is responsible for

⁷ The Principles and Benchmarks is included in the appendix of this thesis.

providing input, recommending a course of action, approving the decision, implementing the decision, and monitoring the implementation (Lahn et al., 2007a: 9).

2.6.2 Sustainable Development for the Benefit of Future Generations

The petroleum industry is capital intensive and dependent on non-renewable resources. Thus sustainability, in the sense of meeting the needs of the present without compromising the well-being of future generations, is a fundamental issue that needs to be addressed in the management of resources (Lahn et al., 2007a:11). Environmental considerations are important, as is support for the non-oil economy, commitment to education within and outside the sector, prudent management of petroleum revenues, and sustainable resource management (Lahn et al., 2007:11-12).

2.6.3 Enablement to Carry Out Roles Assigned

In petroleum producing countries, there is often a mismatch between where skilled personnel are concentrated (operating companies) and where they are also needed (ministry, regulator or government). Another issue can be the lack of financial capacity of an actor undermining the potential of reaching the objectives and responsibilities that are given to it. The important issue of being able to carry out roles assigned therefore depends on access to necessary means, including authority, financial resources, information, human capacity, and supporting processes. Delegation of decision making authority and reinforcing capacity is important. Furthermore, the issue of regulation is challenging, in particular finding the balance between creating a strong regulatory framework while not inhibiting the operator's competitiveness (Lahn et al., 2007a: 12).

2.6.4 Accountability of Decision Making and Performance

The role and meaning of accountability in decision-making and performance is to provide assurance to society that decision makers are identified and that their performance is assessed objectively. Corruption and malpractice has been widespread in certain oil and gas producing countries, and it is clear that accountability is an

important measure in order to avoid this. The requirements of accountability are, clear delegation, capable institutions and mechanisms of enforcement. Furthermore, in the petroleum sector, the operators are accountable to their shareholders, and the government is accountable to society. Also, the role of civil society and media can be important with regard to accountability, by increasing widespread understanding amongst people on the potential benefits of the people and by doing so, enhance the potential for checks and balances on the practice (Lahn et al., 2007a:13).

2.6.5 Transparency and Accuracy of Information

The significance of transparency, or openness, cannot be underestimated. As Lahn et al. (2007a:14) asserts, “whatever the precise mechanisms of governance and accountability in a particular national context, their effectiveness depends on reliable, relevant and timely information”. Transparency hinders corruption, allows for good decision-making, rapid intervention and builds trust. In the Chatham House framework, a distinction is made between internal transparency, which means transparency amongst institutions directly involved in petroleum governance, and external transparency, that is from sector to public (ibid).

These five principles will form the basis for analysis of the next three chapters in this thesis, focusing on the Norwegian experience of petroleum sector governance, the perception of governance within the OfD context and finally in the Norwegian petroleum-related assistance towards Mozambique.

3 The ‘Norwegian Model’ of Managing Petroleum Resources

The purpose of this chapter is to look at the Norwegian experience of petroleum sector governance in light of the resource curse and the Chatham House principles, in order to gain deeper understanding of Norwegian petroleum sector governance. In this way, the chapter also addresses a broader issue highlighted by Rosser (2006:8), namely asking what factors enable some resource abundant countries to utilise their natural resources to promote development. By doing this, the general understanding of when resource abundance is associated with poor development outcomes is enhanced, and in a broader context, useful policy recommendations for addressing the resource curse can be generated.

3.1 Norway and the Resource Curse

In the 1960s Norway was a novice in relation to the oil industry, with little or no experience in terms of petroleum-related technology, oil and gas markets and multinational oil corporations. In the decades since the 1960s, Norway has become an oil-nation. Aase and Olsen (1985:24) suggest two main factors explaining why Norway can be categorised as such. Firstly, and probably most importantly, the financial implications of petroleum production and exportation have been of tremendous significance for the national economy. Secondly, extensive and broad expertise within the Norwegian industry with regard to services, product development and deliveries to the oil sector, has been generated and development throughout the decades since oil was discovered. The relevant question in light of the resource curse theory is: has oil been a blessing or curse in the case of Norway?

Karl (1997: 213-215) notes that in the 1970s it was possible to identify the same tendencies in Norway that had been common for other petroleum rich countries, illustrating that Norway was subject to the same pressures as other resource rich countries. For example, the sudden high income from the oil sector caused certain economic challenges. In Norway, the rise in public expenditure caused inflation of the

economy. However, although Norway in this way can be said to have had the potential of contracting the resource curse, the mechanisms and pressures of high and sudden income to the economy were resisted in the Norwegian case, allowing for economic growth in the Norwegian economy (Røed Larsen, 2005:83).

In 2008, the petroleum sector provided the Norwegian state with around 34% of its income, 26% of its GDP and crude oil, gas and pipe services made up 50% of the Norwegian exportation value. Altogether, throughout the four decades of producing and exporting oil and gas, the petroleum industry has generated value amounting to 7000 billion NOK (Nordvik et al., 2009:14-15). The large income generated by the oil industry has not lead to diminished economic growth and low levels of development as the resource curse contends. Rather, Norway's growth performance has been remarkable. GDP per capita has increased from 90 per cent of the OECD average to 150 per cent in the last three decades (Havro and Santiso, 2008:12). Røed Larsen (2005) shows that the discovery, exploration and exportation of oil has been the main cause for the significant economic growth, by comparing Norway to the similar countries Sweden and Denmark who have no oil and accordingly lower growth rates. It is clear that the discovery of oil in Norway has not impaired the economic or political development in Norway. Also, the stability of the Norwegian democracy has not been affected by the high income from the oil sector, nor has Norway experienced civil war in the decades since oil was discovered. These factors combined lead to the conclusion that Norway has not been subject to a resource curse.

The sections above demonstrate that Norway has not been subject to the resource curse. The relevant questions to ask are: why did Norway escape the resource curse, and what can other countries learn from the Norwegian experience? Based on the definition of petroleum sector governance presented earlier in this thesis as “the structural and hierarchical **organization** of the sector, the decision-making and communication **processes**, the policies and objectives governing sector activities and the **regulation** of those activities” (Lahn et al., 2007:5), it is significant to focus on some of the main aspects of the Norwegian petroleum governance and the institutional framework, and secondly the management of petroleum income.

3.2 The Discovery of Oil: Formulating a Political Platform for the Future

The Norwegian oil adventure commenced when Philips Petroleum approached the Norwegian Ministry of Foreign Affairs in 1962, applying for concession to carry out oil and gas exploration along the Norwegian coast (Claes, 2001:338). At this point, there was little belief amongst experts that there were significant oil and gas resources in the North Sea, a point which is illustrated by the initial response Trygve Lie (at the time responsible for attracting foreign investment to Norway) gave the Phillips delegation: “I think you are mistaken. Norway has no oil” (Helle cited in Andersen, 1993:57). However, the first concession round was held in 1965, with a concession system formed so that applicants were not permitted to form license groups amongst themselves. Instead it was the Norwegian authorities, on the basis of competing applications that formed the license groups. This meant that there was an inter-company competition, which in turn created an important element of checks and balances, which is unique in the Norwegian setting (Andersen, 1993:58). Exploration activity was carried out from 1965, and in December 1969 the first commercially viable oil field was discovered. The exploration activity, and accordingly the discovery of oil, increased the focus on petroleum sector governance, and it was clear that bureaucratic and institutional issues with regard to petroleum management had to be settled (Claes, 2001:339).

In the establishing phase of the Norwegian oil sector during the 1960s, the main political goal for the Norwegian government was to attain control and sovereignty over the petroleum resources, and to secure the income from the development of the resources. Because the Norwegian economy was growing parallel to the discovery and exploration of Norwegian oil industry, there was no pressuring need for the new industry (Aase and Olsen, 1985). This is an important point, in addition to the fact that there were no initial expectations of discovering significant petroleum resources on the Norwegian coast. These conditions allowed the government to take a more careful approach and attain a strong negotiating position in relation to the international oil

companies, which the Norwegian government looked upon with great skepticism (Andersen and Austvik, 2000).

In 1971, two years after it became clear that it was commercially viable to start oil production, the Norwegian Parliament presented the so-called “ten oil commandments”, providing a political framework in which they formulated what the government wanted to achieve. One of the fundamental ideas was that oil wealth should be managed in a way that would benefit the Norwegian people and Norway as a whole (Andersen, 1993:95). Furthermore, the principles reflected the view that the market could not be relied upon to achieve the aims that were set; an interventionist state was necessary (Andersen and Austvik, 2000). Based on the principles in the “commandments”, the main institutional framework for the Norwegian oil industry was established in 1972 (ibid). Furthermore, in this phase of the establishing an oil industry in Norway, expanding Norwegian participation and expertise was seen as paramount. Participation and expertise was developed by establishing a national knowledge capital and by capacity building, in order to realize the strategy of active control (Andersen and Austvik, 2000; Aase and Olsen, 1985). These developments include important attributes of the Norwegian model of petroleum sector governance, namely what Al-Kasim (2006:242) sums up as national steering and securing Norwegian participation. Central in the initial years of the oil industry was thus for the Norwegian government to attain sovereignty of the resources, maintain control and steering of the process, and to formulate the political platform for the future potential oil income.

3.3 The Organization, Processes and Regulation of the Sector: Administration, Institutions and Management

The Norwegian model of petroleum sector governance became based on an active role for the state, of which the state functions were 1) policy making, meaning formulation of national objectives, 2) controlling function, that is supervising oil activities to ensure that laws and regulations are respected, and 3) executive function, by means of implementation in practice (Andersen, 1993:32). The institutional framework was

created during the 1970s, with the establishment of the national oil company Statoil and the National Petroleum Directorate (NPD) in 1972, and the Ministry of Oil and Energy (MOE) in 1978. NPD, which until 1978 was under the Ministry of Industry, handled the daily administration, exploration and control, whereas Statoil was in charge of the government's business interest (Claes, 2001:339). The Norwegian government continued its careful approach, slowing down the development of new licenses, and in this way allowing for the buildup of domestic Norwegian competence, in which Statoil played a large part. Statoil became an important instrument in developing petroleum competence, shaping a specific technical and organizational trajectory, and delegating tasks to Norwegian industry (Engen, 2007:10-11). This carefulness, in the light of a protectionist state approach, allowed for a gradual build up of the oil companies simultaneously with an institutional maturation process (ibid:12). The gradual approach was relevant also with regard to petroleum legislation. The first law on petroleum in 1963 confined itself to clarify the issue of sovereignty (Al-Kasim, 2006:160). Avoiding elaborate and comprehensive legislation in the early years was justified considering these were the formative years of the oil industry in Norway. This allowed for the authorities to be sufficiently familiar with the challenges and implications of the petroleum sector, before enacting a comprehensive petroleum law as late as in 1985, which was again revised in 1996 (ibid).

The roles and responsibilities of the different oil sector institutions mentioned above, namely Statoil, NPD and MOE deserve further attention, as it is clear that institutions are important in regard to oil and gas sector. Within the oil sector, the main issues with regard to functional responsibilities were policy-making, technical control and resource management and commercial participation, and this was, and still is, reflected in the structure of the petroleum sector administrative system. The Ministry of Petroleum and Energy was responsible for policy making, for awarding licenses and for ensuring that proposed field development plans met Norwegian requirements. Secondly, the role of the NPD on the other hand covered responsibility for technical control, regulatory and advisory functions. The NPD reported administratively to the Ministry of Petroleum and Energy. Thirdly, Statoil was founded as a fully state owned

company in 1972. The role of Statoil was to function as an instrument for the implementation of government policies, while at the same time taking care of the commercial interests also on behalf of the government. In addition, Statoil played a role as a counterbalance to international oil companies operating on Norway's continental shelf (Heum, 2008:5). At the time, apart from securing state participation, one of the reasons for establishing Statoil was to create an institutional distance between the Ministry of Industry who originally had the constitutional responsibility to the Parliament and the actual daily administration of the commercial functions (Al-Kasim, 2006:179).

The emphasis on separation between regulatory and commercial functions is interesting, as this has been seen as a challenge for some countries. Al-Kasim notes that in some cases, the mixing of these functions has created unfortunate situations where the national oil company attained a strong position of power. If the company was assigned a regulatory role, this undermined the impartiality of the regulatory authority (Al-Kasim, 2006:174-175).

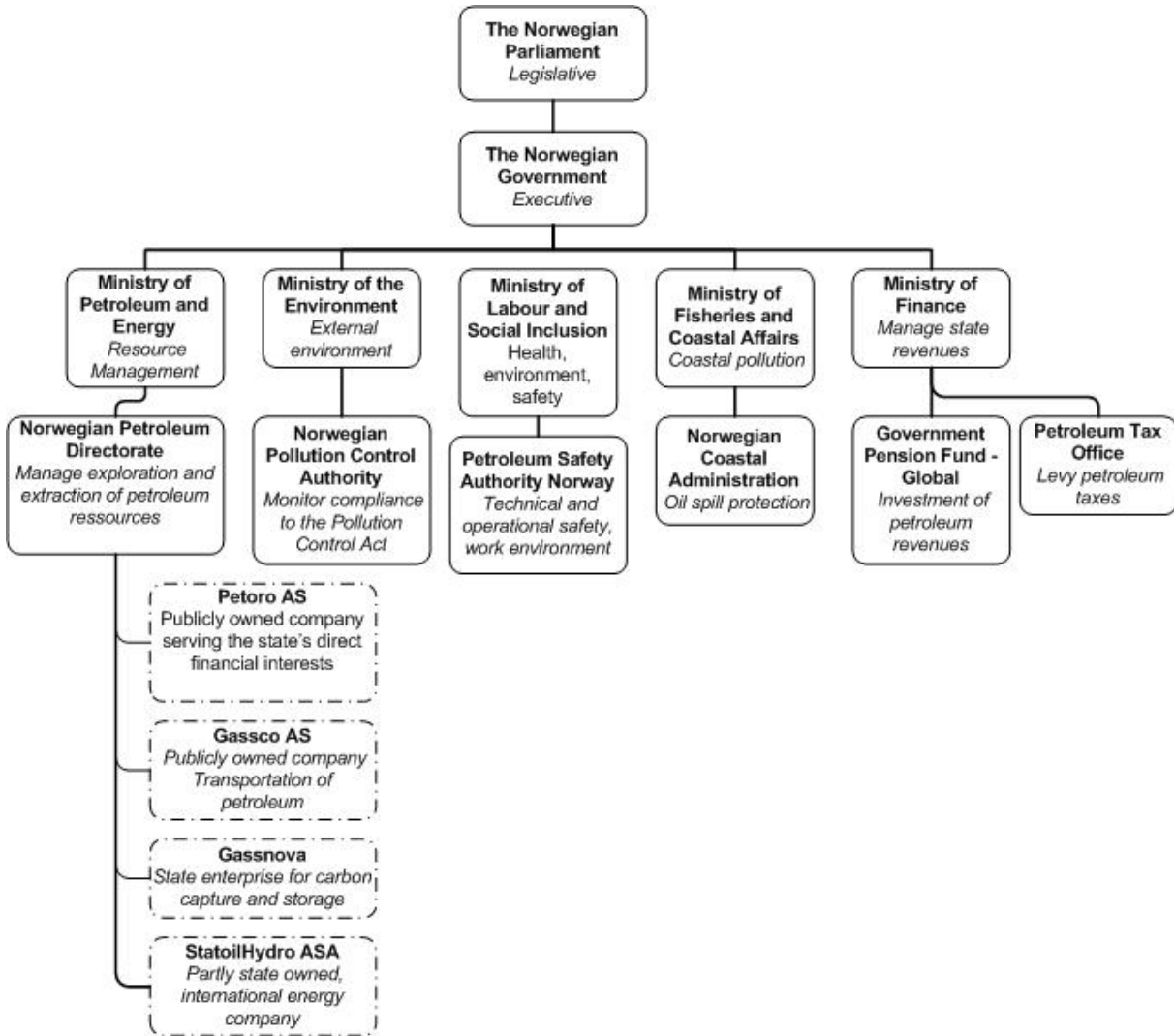
In Norway, a large number of regulatory functions were, as already mentioned, delegated to NDP. In order to emphasize its integrity as a strictly professional and objective institution, the directorate was to be administered by a board of directors appointed by the Ministry of Industry (later MOE). To establish an objective NDP was important in order to secure that NDP would act as a faithful guardian of public interests in upholding standards for health, safety, environmental protection and resource management in offshore petroleum activities. Also, objectivity was important in order to assure to international oil companies that NDP would perform its task without bias to the Norwegian commercial interests (ibid: 180).

Although the institutional division was established at an early stage in the development of the petroleum sector, the boundaries for responsibilities of each institution was subject of discussion, and took time to define (Hanisch and Nerheim, 1992: 266-330). The role of Statoil as a state-owned oil company was particularly interesting, as this

company was given a political function beyond its commercial function in the early years (ibid, 330-331)

The central considerations behind the institutional set up in the early years of the Norwegian petroleum sector have been presented above. There have naturally been some re-organizing and reforms since the 1970s. One example is the separation of responsibility for some authority from NPD into a new institution the organ Petroleum Safety Authority (PSA) (ibid: 181). However, the core institutional framework has persisted and remains today. The figure below depicts the Norwegian petroleum sector as of 2009 (Nordvik et al., 2009).

Figure 2 Institutions of the Norwegian Petroleum Sector



(Source: Nordvik et al., 2009:18)

This figure shows the separation of roles and responsibilities in the Norwegian Petroleum sector, as well as the broad inclusion of government agencies in this sector.

The above sections and illustration of the organizational model demonstrate some of the fundamental elements of the Norwegian model in terms of the stated missions and aims formulated at an early stage and the buildup of the institutional framework. Core elements in terms of the Norwegian “structural and hierarchical **organization** of the sector, the decision-making and communication **processes**, the policies and objectives governing sector activities and the **regulation** of those activities” (Lahn et al., 2007:5) thus include the principle of national steering, with close monitoring and decision making by the national authorities with regard to the petroleum operations; that the oil income was to benefit the population as a whole; and the clear framework for division of roles and responsibilities. Also, the by and large careful approach was important, allowing for Norwegian participation by both state and Norwegian companies.

The above section has illustrated the institutional framework and political strategies carried out in the early years of the Norwegian oil exploration and development. However, discussing how the income from the petroleum industry has been controlled and managed is also important in order to understand how Norway has avoided the resource curse. Two factors will be addressed in this regard, namely the system of taxation and the establishment of the petroleum fund.

Taxation is important for several reasons. Because of the generation of extraordinary rent from oil and gas production, Norway has a specific system in place in order to secure that the income from the petroleum sector accrues to the state. The taxation of petroleum activities is based on regular corporate tax, but because of income from rent, there is an extra tax on the oil industry, bringing it up 50% (Nordvik et al., 2009:24). Also, another important aspect with regard to taxation is that Norway sought to protect the non-oil fiscal capacity, and accordingly did not permit oil revenues to replace its normal revenue base by lowering taxes (Karl, 1997:220). Havro and Santiso (2008:14) argue that keeping a large tax amongst the population base also important, as it makes the electorate more determined to hold their governments accountable.

This can be linked to the issue of “no taxation no representation” issue, which has been significant in other oil rich countries. A case in point is Nigeria, where the levels of taxation have been low amongst the population, and particularly from the oil sector. It can be argued that when states do not have to tax their population it makes the states autonomous from their population, potentially reducing the demand for accountability (Sandbakken, 2006: 137-142).

Instead of replacing non-oil taxation with oil revenue, Norway set up a petroleum fund. The Petroleum Fund was established in 1990, as a way of institutionalizing an expenditure-limitation policy of fiscal prudence, set up to shield the economy from spending effects. A so-called “Usage Rule” was agreed upon, limiting exploitation of the fund to annual four percent of returns of the Petroleum Fund (Røed Larsen, 2003: 17). The purpose of the Petroleum Fund is also to cater for future generations’ pensions (Havro and Santiso, 2008:13). Skancke sums up the twofold purpose of fund: first it is meant to act as long-term savings-vehicle in order to allow the Norwegian government to accumulate financial assets to help cope with the expenditures related to the ageing of the population, and secondly it has the purpose of evening out the spending of oil revenues, as oil revenues are extremely volatile (Skancke, 2003: 316-317).

3.4 The Norwegian Experience: Reflecting principles of Good Governance?

This chapter has so far illustrated that Norway has not been subject to the resource curse. Having presented some of the central occurrences and decisions made in the years during the development of the Norwegian petroleum sector, it is relevant to link these experiences to the Chatham House framework for Good Governance.

The principle of *clarity of roles goals and responsibility* is clearly reflected in the chosen approach toward creating an institutional framework in the 1970s, as we have seen above. Policy-making, regulatory functions and the commercial functions were divided into different institutions, the responsibility in MOE, NPD and Statoil

respectively. The aim to achieving an objective NPD was also addressed early in the process, and organizational steps were taken in order to achieve this important objectivity. The Norwegian experience illustrate that clarity of goals, roles and responsibilities has been achieved, however, not achieved without a power-struggle concerning who should be responsible for what in the early years of the Norwegian oil-adventure.

Sustainable development for the benefit of future generations is challenging with regard to petroleum resources due to the fact that these are non-renewable resources. In Norway, the idea that the income from petroleum resources should benefit the population, and of the rate of development, was formulated even before revenues became significant to the Norwegian economy (Karl, 1997:219). And as Al-Kasim (2006:241) notes, the principle has been adhered to throughout the years. The “ten oil commandments” were central in formulating this policy. Certain policies have been implemented aiming to achieve the goal of sustainability of the income from petroleum sector, in light of awareness that petroleum resources are not infinite. This includes the establishment of the Petroleum Fund.

With regard to the third principle of *enablement to carry out roles assigned*, several elements of the Norwegian experience can be mentioned. As highlighted earlier, there were few people with expertise in petroleum-related issues when oil was discovered. However, there was a well-functioning education system in place which could adapt to the needs of the petroleum sector (Havro and Santiso, 2008:16). This educational sector was able to adapt to the needs of the petroleum sector, and studies in petroleum geology were offered at various Norwegian educational institutions in the 1970s (Hanisch and Nerheim, 1992:352-362). Also, investments were made into the oil sector, with the government clearly giving priority to Norwegian involvement. Financial investment and the education to develop skilled personnel were important measures in order to create a functioning petroleum sector.

Accountability of decision-making and performance is the third principle of the Chatham House framework. This principle must be linked to mechanisms of

accountability already in place before oil was discovered. These include ombudspersons, special courts and public access to documents (Karl, 1997:217). Taxation is also relevant in this regard. Not reducing taxation amongst the population due to high income from oil is important in order to maintain the demand for accountability.

The final Chatham House principle is *transparency and accuracy of information*. In Norway, traditions of openness, integrity and transparency were in place when the first discoveries of oil were made in 1969. For example, the press had (and still has) free access to almost all public documents related to government decisions. Also, documents submitted by government to the national assemblies are made public, and are accordingly available for research by institutions which in this way monitor government performance. (Al-Kasim, 2006:242). Having these fundamental principles in place at an early stage had important implications for the success of petroleum management. More recently, Norway has become an Extractive Industries Transparency Initiative (EITI) candidate country, meaning that Norway is implementing EITI regulation setting standards for achieving transparency of financial transactions in a country's oil sector (EITI, 2010)

3.5 The Transferability of the Norwegian Experience

It is important to comment on the potential ability Norway has to transfer its experiences of petroleum sector governance to developing countries. Making petroleum-related assistance a focus area in Norwegian development aid stems from the idea that Norway should focus on promoting development in areas where it has special competence, that is to say where Norway has a comparative advantage. The previous section illustrated that the Norwegian experience reflects principles of good governance. Does this mean that Norway has the ability to transfer good governance experiences to other resource-rich countries?

Although it is stated that Oil for Development does not promote an export of the Norwegian Model of petroleum governance (Norad, 2008a), the fact that the initiative

and Norwegian petroleum aid in general has been a focus area for Norwegian development policy due to the successful experience in the Norwegian petroleum sector is clearly and explicitly declared. The current Norwegian Minister for Development and the Environment, Erik Solheim, for example, notes that when oil was discovered in Norway, there was technical expertise from other relevant industries, a bureaucracy free from corruption, and a stable democracy. Furthermore, Solheim contends that due to the fact that these factors are not necessarily present in other oil and gas countries, Oil for Development does not offer a blueprint of the Norwegian model to be copied. Instead, there are certain historical factors from the Norwegian experience that can have relevance for other countries in building up, or improving their oil and gas sector (Solheim cited in Gundersen, 2006:4).

The existing political, economic and social situation that was in place in Norway prior to the discovery of oil is of great importance. When oil was discovered, the Norwegian political framework was characterised by a mature democracy and consensus oriented policies. In addition, lack of corruption, firmly established institutions with independent civil servants, recruitment by merit and egalitarian societal structures were elements of the Norwegian political and economic system (Havro and Santiso, 2008:18). Also, characteristics of the Norwegian society include cultural homogeneity, low levels of urbanization and a diversified economy (Karl, 1997:216). These are important factors, which in turn highlight broader issues of using one case as an example for others. A combination of variables led to the success of the Norwegian case in terms of petroleum sector governance, so the question of transferability is important and highly relevant.

This chapter has shown that the Norwegian experience by and large reflects principles of good governance. However, it has also illustrated that some of the important elements of a good system of petroleum governance has come into place because of pre-existing conditions, such as the already in place mechanisms for accountability, and a well-developed educational system. As is recognized within the OfD initiative, the Norwegian model cannot be copied directly to avoid the resource curse, as countries have different starting points when discovering petroleum resources.

However, Norway is in a unique position to give advice to resource-rich countries that wish to develop their resources. The main reason for this is that Norway's own experience implies an understanding of institutional and political economy dynamics present in resource-rich countries, including in-depth knowledge of licensing rounds (Havro and Santiso, 2008:28).

This chapter has established that the Norwegian experience of building up an oil industry represents elements of good governance. The next chapter will provide a further introduction to Norwegian petroleum-related assistance and the interpretation of good governance.

4 Norwegian Petroleum-Related-Assistance: Oil for Development

This chapter aims to provide a more in-depth background of the case of Norwegian petroleum-related assistance, namely Oil for Development and the current programme in Mozambique. The first part of the chapter will portray OfD, focusing on the history, organization and objectives that guide this development initiative. Also, the question of how good governance is understood within the OfD framework will be answered in this chapter, linking the OfD interpretation of good governance to the Chatham House framework. The exploration of this question accordingly addresses the second of the three main themes of this thesis.

4.1 The Oil for Development Initiative

4.1.1 History and Objectives

In the early 1980s Mozambique became the first country to receive Norwegian assistance in form of a petroleum sector support programme. At this time, Norway was still relatively immature in terms of being a petroleum country. Following Mozambique; Tanzania and Angola received support in 1985 and 1987 respectively. In the subsequent years, development assistance in the form of petroleum sector programmes expanded both in terms of economic support and geographical distribution. From 1994 to 2004, the total value of the petroleum assistance amounted to 439 million (Ekern, 2005:10). A total of 31 countries were identified as recipients of petroleum sector support from 1994 to 2005, of which 69 percent was allocated to Africa, 29 percent to Asia and 2 percent to the Americas (ibid: 11-12). It is important to note that Norwegian petroleum-related assistance was in this period channelled through various Norwegian institutions and partners, of which the most important with regard to implementation has been the Norwegian Petroleum Directorate, rendering technical advice and implementing development assistance projects in petroleum sector on request (NPD, 2006; Ekern, 2005:33).

The launch of OfD in 2005 represented several alterations for petroleum-related development assistance. First, OfD represented a thematic broadening of the long-term and still ongoing Norwegian petroleum assistance. Secondly, the thematic broadening had significant implications for the organizational framework for this kind of assistance. Thirdly, OfD represented the introduction of petroleum aid as an official priority area within Norwegian development cooperation. With the establishment of OfD, the Norwegian government committed itself to petroleum sector development cooperation representing an amount of NOK 250 million for the 5-year period of 2006-2010 (Norad, 2007: 4).

As already stated, the main objective for Oil for Development is to “help cooperating countries to manage their petroleum resources in a way that generates sustainable economic growth, promotes the welfare of the whole population and is environmentally benign” (Norad, 2008a). The foundation of OfD is built around three integrated themes, namely resource management, environmental protection, and revenue management. This is illustrated in the figure below, with the arrow representing the cross cutting themes of good governance, transparency and accountability (ibid). Examples of the focus areas within each theme are included in figure 3 below.

Figure 3: The thematic pillars of OfD



(Source: Norad, 2008a)

Good governance is seen as a means to an end, that is economic growth and development, but also as an end in itself. As is noted on the OfD website, the totality

of the assistance through the different themes is the aim of improving good governance in the petroleum sector (Norad, 2009).

4.1.2 Organization

In comparison to earlier petroleum-related assistance, the OfD initiative unites the efforts of the various different government bodies involved in petroleum sector assistance. Norad is the coordinator of OfD, and Norad is also where the OfD secretariat is located. The secretariat is responsible for the coordination and implementation of the initiative, including operational control, information exchange and facilitation of quality control (Norad, 2009a). As of April 2009, there were 12 people working in the OfD secretariat (Norad, 2009b:74).

The Oil for Development Steering Committee consists of five members. In addition to the director for OfD, the Steering Committee is made up by a representative from the following ministries: Ministry of Foreign Affairs, Ministry of Petroleum and Energy, Ministry of Finance and Ministry of Environment. The role of the Steering Committee is to formulate strategic directions and guidelines and priorities for the Secretariat and implementing agencies, as well make decisions regarding major proposals (Norad, 2009b:74).

The Norwegian embassies also play a crucial role in the Oil for Development Initiative, as many development cooperation responsibilities are assigned to them. The importance of the embassies is related to their local and regional knowledge, as well as the wide-ranging networking with different sectors in the respective countries, including government agencies, industry, civil society in addition to international organizations and other donors (ibid).

Key implementing agencies of the OfD programme are first and foremost Norwegian Petroleum Directorate (NPD) and Petrad (International programme for petroleum management and administration), the Norwegian Pollution Control Authority (SFT), and the Directorate for Nature Management. There are also a number of consultancies

and research institutions involved, and the Norwegian oil and gas industry is utilised in the transfer of competence and knowledge (ibid: 75).

It is important to recognise that the above presentation of the OfD organization provides a broad overview of involved agents. Thus OfD is not one actor, but a hub of actors involved in international petroleum-related assistance. Which institutions or agencies are involved in the individual programmes with the different countries varies substantially, as does the degree of involvement from the various agencies. These variations stem from the nature of the OfD assistance as demand driven, and agreement with each country is aimed to be suited to the individual needs of a given country (Norad, 2008a).

4.2 Understanding Good Governance within the OfD framework

As shown above, the OfD initiative is based upon three pillars, namely resource management, environmental management and revenue management. Having a system of good governance in place is a fundament for successful improvement of the management of the three pillars. When governance is of such importance for petroleum rich countries as has been shown earlier in this thesis, the question becomes how good governance is understood and applied by Oil for Development and its cooperative partners. As good governance is a cross cutting principle, it is necessary to identify if and in what way there exists a common understanding of governance that in turn is detectable in the various country specific programmes. As illustrated in previous chapters, governance can have different meanings. This section will seek to identify how good governance is perceived within the OfD Initiative. The perception of good governance will be then be discussed in light of the principles of the Chatham House framework.

4.2.1 The Increased focus on Governance

According to Ekern (2005: 28-29), good governance was not a principal issue in the Norwegian petroleum assistance prior to the establishment of the Oil for Development initiative, nor was good governance registered for any of the activities carried out. Rather, the lack of focus on good governance is noted to be “striking knowing the rampant corruption that exists in the majority of partner countries” (ibid: 29). Despite the lack of explicit reference to good governance in this period, Ekern (ibid: 28-29) notes that principles of governance based on Norwegian experiences have still been integrated in the capacity building and competence transfer as part of the assistance.

Whereas earlier Norwegian petroleum assistance had less direct focus on promoting good governance, this focus is now integrated as a core, cross cutting issue in the Oil for Development initiative. It is explicitly stated: “Good governance and anti-corruption are both vital components in all petroleum-related assistance the OfD offer” (Norad, 2009c:3) Furthermore, according to the Oil for Development Work Plan and Budget 2009, further developing governance and anti-corruption measures for the petroleum sector is one of a list of four tasks which OfD have chosen to prioritise in 2009 (ibid: 1). Several informants confirm that there has been an increasing focus on good governance in recent years. (Interviews, 1/9/2009; 28/10/2009; 2/11/2009).

As shown in presentations and documentation concerning OfD, good governance is continually highlighted as a crucial element and aim of the initiative. However, despite the noticeable increase in explicit focus on good governance, a clear and concise definition of the concept has been difficult to identify. Hence, from the available resources on OfD, it has been difficult to detect the boundaries of the concept as understood within the OfD framework. An example is illustrated in the above figure based on information from Norad, where transparency and accountability is presented as additional elements to good governance. However, recently there has been a significant effort in creating a framework with indicators for good governance, as will be seen in the next section of this chapter.

The following quote indicates the interpretation of good governance by Oil for Development: “Good governance and anti-corruption are an integrated part of institutional development and policy advice. Assisting governments in establishing mechanisms that allow transparent and efficient processes to evolve within the value chain of the petroleum sector is a core objective for OfD-assistance. Topics such as clarity of roles, sound and efficient administration, transparency and predictability represent a major part of the advice from Norwegian institutional partners.” (Norad, 2009c:3). The role of a competent regulatory authority to monitor oil companies is also highlighted, along with a strong civil society that can hold the government accountable for its actions (Norad, 2008:5). From this, it is possible to detect clear parallels to the Chatham House principles. Also, this illustrates a departure from a narrow understanding of petroleum governance as closely linked to anti-corruption and transparency, to a more holistic approach (Nore, 2009).

Moreover, based on the increased focus on governance within OfD, in September 2009, OfD published a checklist for petroleum sector governance. This checklist is the first complete framework developed by Oil for Development, meant to constitute an ideal for governance of the petroleum sector based on best-practice, drawing to a large degree on the Chatham House framework (Norad, 2009d). It is however, relevant to address each principle in more detail to get a full understanding of firstly, the degree of difference between the Chatham House principles and the OfD framework, and secondly, the way in which different actors within the OfD initiative relate to these principles. This is interesting firstly because, as noted, the Chatham House framework was the result of a dialogue with twenty-three different stakeholders. Although the OfD checklist draws heavily on the Chatham House principles, one can expect differences in the OfD framework to reflect that it has been formulated in a more limited context.

4.2.2 The Interpretation of Good Governance

Clarity of roles, goals and responsibility is the first principle of the OfD checklist, thus corresponding with the first Chatham House principle. In comparison to the Chatham

House, the OfD checklist underlines the importance of laws and regulation in a more direct way, and less on national oil companies. Furthermore the issue of onshore and offshore jurisdiction is included (Norad, 2009d).

The second Chatham House principle is *Sustainable development for the benefit of future generations*. The OfD checklist has adopted this principle, but added the component of risk management in the overall principle. Moreover, the interpretation of this principle by OfD clearly differs from the original Chatham House principle. This is evident when comparing the benchmarks in Chatham House with the indicators of OfD⁸. With regard to the issue of avoiding negative impact of the petroleum infrastructure, the OfD indicator has a more explicit and wider focus. This means including more than environmental impact, also unacceptable social impact and human rights violations (Norad, 2009d).

Enablement to carry out the role assigned is also listed in both the Chatham House framework and OfD Checklist. Both address the importance of knowledge and capacity in order to set policy and objectives for the sector. The OfD framework, in addition, stresses the importance of institutionalizing policy making to enable long-term policy making. Incentives and best person for the job staffing are similar in both frameworks.

The fourth principle in the OfD checklist, *Accountability of decision-making and performance* is also the same in as noted in the Chatham House framework. Under this principle, OfD has adopted several of the Chatham House benchmarks. However, whereas the Chatham House mentions dialogue between local communities and operators, there is more explicit reference to the importance of capacity and independent petroleum sector knowledge amongst civil society and media in relation to accountability in the OfD framework. This is in accordance with the general focus the OfD has on the importance of civil society (Norad, 2009d).

⁸ See appendix 3 for the Chatham House framework principles and benchmarks

Finally, the fifth principle of *Transparency and accuracy of information* is also adopted from Chatham House. With regard to this principle, the indicators and benchmarks in Chatham House framework and OfD are very similar. However, in the OfD framework additional attention is given to transparency with regard to environmental processes. OfD have included an indicator that underlines the need for openness around environmental and strategic impact assessments (Norad, 2009d).

Based on the above discussion of OfD perception of governance in relation to the Chatham House framework, it is clear that there is a substantial degree of overlap, as would be expected due to the explicit reference OfD makes to Chatham house. However, there are certain notable differences. For example, the Chatham House framework, when considering the benchmarks, has more focus on national oil companies, a focus that is less present in the OfD framework. Also, OfD seem to have integrated focus on the environmental concerns into good governance in a more explicit way than Chatham House. This is clear in two of the five principles. Thus it is clear that OfD has made its own version of the framework.

The OfD checklist for good governance can be interpreted as the official understanding of governance, presented the way it is ideally meant to be applied within the OfD framework. However, based on the fact that OfD is set-up as an umbrella initiative, based on the cooperation of several different partners on the Norwegian side, one can expect that there are different views on the elements of good governance within the OfD framework. Based on interviews, the familiarity with and common understanding of the OfD Checklist will be discussed shortly in the following paragraphs.

As already mentioned, several of the informants agreed that there has been an increased focus on good governance in recent years. The representative from the OfD Secretariat responsible for the Mozambican programme and the thematic field of good governance was seemingly the most familiar with the Chatham House framework (Interview, 3/11/2009). This is, however, not surprising, considering that the work on the good governance checklist has to a large degree been carried out by the OfD

Secretariat. Other informants were familiar with the framework, and identify their work with the principles. However, there are different views with regard to the expected impact of having such a framework available. One informant refers to the checklist as something already in place, contending that these issues have been addressed within the institution, noting that “we have been doing it for years and continue to develop these issues. So in that way, what is in the framework is not new to us” (Interview, 28/10/2009). Naturally, the understanding of governance within different institutions was reflected by which institution the different informants belonged to. Whereas some respondents focused mostly on financial transparency, others focused more on aspects related to governance within the environmental sector, namely instruments used to promote good practice for environmental concerns (Interview, 6/11; Interview 28/10).

This chapter has shown that there has been increased focus on good governance within the OfD, with a broad understanding of the concept. The establishment of OfD itself has played a role in this matter, involving institutions and governmental bodies that have traditionally been less central in the petroleum development cooperation. The discussion has also shown that the understanding of good governance varies amongst different partners on the Norwegian side. Discussions with various informants indicated that the familiarity with the new checklist for good governance differed greatly. This is, however, not unexpected, due to the fact that informants were associated with the secretariat in Norad on different levels, and secondly the Checklist for good governance has very recently been introduced into the OfD framework.

5 OfD and the Focus on Good Governance in Mozambique

The previous chapter illustrated how the focus on good governance has increased within the OfD framework. This chapter seeks to assess to what degree the focus on good governance is reflected in the specific OfD programme in Mozambique, and in this way, the chapter will answer the third research question as outlined in chapter 1. In order to do so, the case of Mozambique will be presented focusing on the situation with regard to petroleum resources. Secondly, the Norwegian efforts through OfD will be examined in light of the Chatham House framework. It is important to stress that the purpose of this chapter is not to evaluate the quality of governance in Mozambique, but rather to address how if and how the aims of good governance have been integrated into the cooperation between OfD and Mozambique.

5.1 Mozambique: Petroleum Resources and Sector

Mozambique is one of the poorest countries of the world, ranking at 172 on the Human Development Index, a list consisting of 182 countries (UNDP, 2009). The implications of Mozambique's widespread poverty are encompassing and multidimensional: 24% of children under the age of 5 are underweight, 55% of the population over 15 years old are illiterate, and there is 40% probability that a new-born Mozambican will die before he/she is 40 years old (UNDP, 2009a).

However, Mozambique is not a country commonly associated with the resource curse. The existence of petroleum resources is not blamed for the widespread poverty in Mozambique, nor has economic growth worsened since the discovery of gas resources as is the case in resource "cursed" countries such as Nigeria (Bjorvatn, 2008). Thus, income from the oil and gas in Mozambique has not been sufficient enough to argue that petroleum should have lifted Mozambique out of poverty. However, taking the presumption that the resource curse thesis is conditional on the quality of governance into account, the purpose of addressing the issues of governance in countries with

petroleum resources (although currently modest amounts, as will be shown below) becomes clear.

5.1.1 Oil and Gas in Mozambique

Abundant resources characterize the energy sector of Mozambique, but generally with a low level of exploitation and internal use (Scanteam, 2005:8). As Bucuane and Mulder (2007: 3) note: “Mozambique is still predominantly virgin soil: most natural resources are yet to be explored, including natural gas, coal, mineral sands, hydropower and most likely oil as well.”

Exploration for hydrocarbons in Mozambique commenced in 1904 when thick sedimentary basins were discovered onshore. However, due to poor technology and lack of funds at the time, it was not until 1948 onwards, when international oil companies carried out extensive exploration that significant gas fields were discovered. The result of the exploration was the discovery of the Pande Gas Field in 1961 by Gulf Oil, followed by the gas discoveries of Búzi (1962) and Temane (1967). Hydrocarbon exploration activity declined due to political unrest in the 1970s, but revived again in the 1980s, under the enactment of the Petroleum law 3/81 from October 1981, and the establishment of National Oil Company Empresa Nacional de Hidrocarbonetos de Mozambique (ENH). In 2003, Sasol, a South African petroleum company, conducted extensive drilling campaigns, which included exploration and production wells in the Pande/Temane Block. This allowed for expansion of gas reserves and led to the discovery of the Inhassoro Gas Field. To date, there are four proven gas fields in Mozambique, namely Pande, Buzi, Temane and Inhassoro (INP, 2009).

Natural gas export started in March 2004, with deliveries through the 865 km pipeline to Secunda in South Africa (Scanteam, 2004:9). According to OPEC’s Annual Bulletin from 2008, Mozambique’s natural gas export amounted to 3200 million standard cubic metres in 2008, a 12.3% increase from 2007 and almost a 300% increase from 2004 (OPEC, 2009:93). CIA report that the total amount of proven gas reserves in

Mozambique is 127.4 billion cubic metres based on estimations from 2009 (CIA, 2009). These figures indicate that, in comparison to other countries with significant resources, Mozambique is a small petroleum nation (OPEC, 2009:93).

This transcends to the importance of petroleum for the Mozambican economy. Compared to other sectors, such as agriculture and services, oil and gas exportation and production is a relatively small sector, contributing 5, 7% of the country's GDP. However, as shown, Mozambique is in its early stages of petroleum production and exportation, and there are expectations that the petroleum sector in Mozambique will become more significant in the coming years as exploration for further gas and potential oil resources are ongoing (Bucuane and Mulder, 2007:5). This makes Mozambique an interesting case in terms of the future significance of petroleum, and accordingly the relevance of the resource curse theory.

5.1.2 Organization of the Mozambican Energy Sector

Until 1995 both the commercial and governmental functions linked to hydrocarbon exploration and exploitation had been placed within the national hydrocarbon company ENH. In 1994, the National Directorate for Coal and Hydrocarbons (DNCH) was set up under the administrative control of the Ministry of Mineral Resources and Energy, with the purpose of splitting commercial and governmental functions. Furthermore, in 2005, DNCH was converted to an autonomous body, Instituto Nacional de Petroleo (INP), under a new Ministry of Mineral Resources (Smelror et al., 2006:18).

INP is the regulatory authority for the Mozambican petroleum sector. The mission of INP is “to manage the petroleum resources of Mozambique and administer the related operations for the benefit of the Society, and in compliance with the existing laws, government policies and contractual commitments.” (INP, 2009a).

The figure below shows the central institutions of the Mozambican petroleum sector reflecting the resource owner, regulatory institution, and commercial institutions.

Figure 4: Petroleum Sector Institutions in Mozambique



(Source: Adapted from powerpoint: Simonsen Law, Interview, 9/11/2009)

5.2 Norwegian Petroleum Assistance and Oil for Development in Mozambique

5.2.1 1980-2005

Within the field of Norwegian petroleum-related assistance, Mozambique has by a large margin received most in terms of financial support, and is also the most long-term recipient country. Norway started cooperating with Mozambique at an early stage during the development of the Mozambican petroleum sector, in a so-called virgin setting (Ekern, 2005:42). Over the years, the support has been channelled on the basis of numerous different agreements, of which the main themes will be presented here.

In the first twenty-five years of Norwegian assistance to the Mozambican petroleum sector, the main cooperating institution in Mozambique was firstly the National Hydrocarbon Company (ENH) and later (when the regulatory responsibility was separated from the commercial responsibilities) the National Directorate of Coal and Hydrocarbons (DNHC). In the first phase of the cooperation, lasting until 1992, the support entailed for the most part technical assistance related to exploration, including geological/geophysical work and activities related to the Pande Gas field. Capacity building, entailing training of staff, of ENH was in this period included in the objectives of agreements in this period. However, it was reported in 1992 that the results in terms of administrative capacity building had been limited (Flemming et al., 2007a:16-19).

In the early 1990s, agreement on institutional support to ENH focused on the development of Mozambique's gas potential, whereas continuing technical support and sustaining institutional infrastructure and competence was the objective. When DNCH was established in the early 1990, thus separating commercial and regulatory functions and placing the latter at DNCH, the Norwegian funds were mainly directed at DNCH as the much emphasis here was on the development of the legal framework. Accordingly, DNCH drafted a new petroleum law with Norwegian assistance in the period of 1995 and 2001. Despite the establishment of ENH as a public enterprise, support to both DNCH and ENH continued throughout the 1990s and into the 2000s, (ibid: 20-28).

In the course of the 1990s and first half of 2000s, institutional capacity building was integrated into the agreements to a larger degree, in addition to the ongoing assistance of more technical nature (for example assistance to assess technical and engineering documents) (ibid, 25-26). The stated goals for the Norwegian assistance were broader including the aim of enabling Mozambique to manage their petroleum resources to ensure best national interest, (ibid, 20-26). This was reflected in the type of training provided in the late 1990s and early 2000s, including regulatory and environmental workshops (ibid, 28).

In the first period of support to the Mozambican petroleum sector, main assistance was related to technical aspects of the petroleum sector on a relatively limited and seemingly ad hoc basis. Throughout the years between the early 1980s, up until 2005, both the scope of the assistance and the type of assistance was broadened, in accordance with the establishment of regulatory institutions and of the prospects of the petroleum sector in general. The assistance became more holistic, covering a wide aspect of tasks in the petroleum sector, and with a wider focus in terms of capacity building and institutional support. The fact that the issues addressed by the Norwegian assistance programmes have changed throughout the years is confirmed in the evaluation from 2007, where it is asserted that the programmes have focused on "relevant issues at the different stages of the development of the sector" (Flemming et al., 2007a:5).

5.2.2 From 2005 until today: Oil for Development

In 2006, a new programme was initiated between OfD and Instituto Nacional de Petróleo (INP) which is the cooperating institution in Mozambique, as a continuation of the extensive and long-term Norwegian petroleum assistance in Mozambique. The project is called Institutional support NPD-INP, and the stated overall goal of the new programme is “To strengthen the administration of petroleum resources to enhance economic development and welfare in Mozambique”, with the objectives being to “further develop the administrative capacity related to petroleum resource management in Mozambique” (Norad, 2008:27).

Specifically, as is stated in the agreement Article I (2) , the purpose is to achieve the goal and objectives by “strengthening

- The National Institute’s regulating capacity in order to carry out their responsibilities in a sustainable and competent matter
- Relevant ministries’ administrative responsibilities within the management of the petroleum resources (I.e. the ministries for mineral resources/environment/energy and finance); and
- Interest groups and public’s general competence regarding Mozambique’s petroleum activity

to ensure a good and transparent administration of the petroleum resources.” (Agreement cited in Michelet et al. 2009:18).

Subcomponents of the programme include improving the legal and regulatory framework, policy and strategy development, monitoring and supervision, promotion of exploration acreage, negotiations of agreements of authorising petroleum operations, assessment of petroleum resources, management of national petroleum data, administration, human resource and finance (Michelet et al., 2009).

In the current programme in Mozambique the main cooperating institutions in Norway are Norwegian Petroleum Directorate, the Petroleum Safety Authority Norway,

Norwegian Pollution Control Authority and Petrad. The Norwegian embassy in Maputo has the main responsibility in terms of managing funds for the Norwegian-Mozambican cooperation. The OfD secretariat in Norad, on the other hand, is involved in quality assessment of the programme (Interview, 3/11/2009). The main partner in Mozambique is the INP, the regulatory authority of the Mozambican petroleum sector.

5.3 Implementing Good Governance in Mozambique

How governance is understood within the context of the OfD initiative was analysed in the previous chapter. It is clear that there has been an increase in the articulated focus on achieving good governance, reflected in the recent work on the OfD good governance checklist published in September 2009. However, it has been argued that although “governance is claimed to be a cross-cutting issue in the three main themes, specific activities in main cooperating countries do little to suggest that this is in fact the case”(Kolstad et al., 2009: 960). This criticism is interesting, and forms the basis for this chapter and the case study of Mozambique. The purpose here is to assess what priorities are given to good governance, and what activities and tools are applied and implemented to achieve good governance through the current OfD programme in Mozambique. In order to maintain a stringent analysis, the Chatham House principles for good governance are applied as the framework. This examination will indicate how the rhetoric on good governance as discussed in the previous chapter is reflected in the case of Mozambique. It is once again important to underline that this analysis does not seek to assess of the quality of governance in the Mozambican petroleum sector. That is to say that the conclusion will not state whether governance in Mozambique is “good” or “bad”. Nor is the aim to assess the quality of the Norwegian support to the Mozambican petroleum sector⁹. Rather the purpose is to look at how if and how certain elements recognised as good governance are introduced and included in the programme.

⁹ The most recent comprehensive external assessment of Norwegian petroleum-related assistance to date can be found in the Evaluation from 2007. The conclusion of this evaluation is that the Norwegian petroleum assistance to Mozambique has overall been successful (Flemming et al. 2007).

5.3.1 Clarity of goals, roles and responsibility

In Norway, the commercial, regulatory and policy-making functions within the petroleum sector were clearly separated already during the early days of the establishment of the petroleum industry. In comparison, the commercial and governmental functions were in Mozambique for many years placed in the oil company ENH. This organizational set-up was based on the first Petroleum Law of 1981, which stated the right of ENH to maintain responsibility of both commercial and regulatory functions. In 1992, the Mozambican government decided to divide these functions, by establishing the National Directorate for Coal and Hydrocarbons (DNCH) for regulatory purposes, and keep commercial activities in ENH. This division led to an organizational set-up that to a large extent resembled NPD in Norway (Flemming et al. 2007:12). This decision was made on the basis of recommendations from cooperative institutions from the Norwegian petroleum sector (Al-Kasim cited in Fält, 2009:57). By 2004, DNHC was transformed into the autonomous institute INP, a reorganization that entailed a more independent position for INP as regulator from political decision-making than was the case for a directorate such as DNHC. According to a recent review of the OfD cooperation in Mozambique, INP is not fully independent from the Ministry of Mineral Resources (MIREM) in terms of decision-making. This relationship is compared that of a Norwegian Ministry and subordinate Directorate, highlighting that INP is not wholly independent, but that the general impression is that INP operates fairly independent in most respects (Michelet et al., 2009:17).

The Norwegian participation in the workings towards the new Mozambican Petroleum Law was significant. The law was adopted in February 2001 and aimed at codifying the separation of regulatory and market activities. According to the evaluation from 2007, the Norwegian assistance has contributed to the establishment of a well-functioning legal and regulatory framework (Flemming et al., 2007:11).

A representative from OfD involved in the Mozambique programme stressed the importance of achieving clarity with regards to roles and responsibility, both between institutions and amongst individuals within the different institutions, implying that this has been an important focus within the programme (Interview, 3/11/2009). The representatives from Simonsen Law, the Norwegian law firm that has provided consultancy services to INP under contract with INP and NPD (and thus OfD), note that by using the existing Petroleum Law from 2001 as the framework, their role in cooperation with INP has been to develop an institutional system where it is clear who has responsibility and is accountable to for the performance of which tasks and why. Furthermore, specific reference was made to the importance of knowing in what capacity and role the different stakeholders may act. This means clarifying the differences between acting as a resource owner, a commercial interest (i.e. shareholder of a company), or a regulator (Interview, 9/11/2009).

The representative from OfD agrees that the Norwegian assistance has been particularly important with regard to the principle of clarity of goals, roles and responsibility in the case of Mozambique, and refers to the legal assistance and legal framework in this respect (Interview, 3/11/2009). Based on the available data and interviews, it seems as though this principle is recognized as paramount for a successful petroleum sector. According to legal consultants, this has been one of the main priorities in developing the legal framework for petroleum activities in Mozambique (Interview, 9/11/2009). As the current Norwegian assistance is mainly channeled to INP, it can be assumed that the roles, goals and responsibilities of this institution are in focus. The legal framework on petroleum regulation furthermore clarifies the responsibilities of commercial operators within the Mozambican petroleum sector (Decree, 2004).

Interviews, documents and evaluations confirm that the main instrument for achieving clarity of goals, roles and responsibilities between the different institutions has been the development of the legal framework, of which the Norwegian assistance has been significant. Whereas it seems as though the clarity of goals, roles and responsibilities

between institutions is well covered, it is more difficult to draw conclusions on the focus on these issues on individual level within the different institutions, due to the lack of detailed data available on this matter.

5.3.2 Sustainable development for the benefit of future generations

In the Norwegian experience, the aim of turning the discovery of oil into an advantage for the population through sustainable development was an overarching principle which was formulated before oil exploration started. As mentioned in chapter three, this principle was adhered throughout the years, and policies have been put into place in order to maintain the sustainability, the petroleum fund being a case in point.

The Mozambican petroleum law from 2001 (Article 4,1) asserts that the overarching goal of enabling petroleum resources to benefit and contribute to social and economic development of Mozambique (Petroleum Law, 2001). Thus, the aim of achieving development is clearly stated. However, the issue of a petroleum fund in the case of Mozambique is considered to be a premature issue. This is related to the relatively small income from petroleum generated in Mozambique at the time. However, this does not mean that establishing a petroleum fund in Mozambique is out of the question at a later stage, but it is at the present time a premature issue on which there accordingly is little focus (Interview, 9/11/2009). Instead, focus has been given to the issue of increasing understanding with regard to the fact that petroleum resources are non-renewable. As Olsen (2009) notes, “Resource-rich countries often forget that resources are finite”. It seems, however, as though creating awareness concerning these issues is addressed through dialogue with the partner institutions in Mozambique (Interview, 9/11/09).

The INP –NPD programme goal explicitly addresses the aim of enhancing development and welfare in Mozambique. However, according to Flemming et al. (2007a:37) the key objective for Norwegian development cooperation, stated as poverty alleviation, is only addressed indirectly in this programme. This observation seems to be in accordance with the view of the representative from the Norwegian

embassy in Maputo, who expressed that sustainable development is the underlying vision for the programme, but that the process of developing a sound legal framework contributes to express the vision that development is the purpose.

Environmental considerations are important in relation to the principle of sustainable development. According to representatives from the Ministry of Environment in Norway, there has been little involvement from their side in the case of the OfD programme in Mozambique (Interview, 28/10/09). The representatives from the Norwegian embassy in Mozambique agrees, noting that there will be increased focus on strengthening the environmental component in the next phase of the support to Mozambique (Interview, 2/11/2009) Before OfD was established, the programme in Mozambique was based on a bilateral agreement with the petroleum institutions in Norway, which can be seen as a possible explanation for the limited focus on environmental issues. However, it is clear that the focus on environmental issues is increasing in the Mozambican programme, illustrated by the references to the work on environment issues in the National Petroleum Institute Work Programme for 2009 (IPN/MFA, 2009).

5.3.3 Enablement to carry out the roles assigned

The issue of capacity building is addressed under this principle. There is, as noted earlier, often a mismatch in that skilled personnel are placed in the operating companies, and not in the governmental bodies. This mismatch can to be related to issues such as the level of wages. In the case of Norway, there was a considerable lack of expertise on the issue of petroleum sector management and with regard to more technical operational knowledge at the start of the oil adventure. However, based on the educational system in place, in combination with the political focus on national involvement, national capacity was built up in the years after the discovery of oil. The same foundation has not been in place in Mozambique. Within the framework of the Norwegian petroleum-related assistance, however, there has been support for education of Mozambican officials (IPN/MFA, 2009).

Sources of capacity building within the OfD context have been courses offered by Petrad, which address different aspects of petroleum management. According to the 2007 evaluation, a few persons at management level in the Mozambican petroleum sector have participated in Petrad's general and broad 8-weeks training course. However, according to the evaluation, training at university level, on-the-job training, and targeted seminars/courses have been more applied (Flemming et al., 2007a:55).

A concern expressed amongst the informants on the Norwegian side is the ability of institutionalising the capacity building in cooperating countries (Interview, 28/10/2009). This is to say, the degree to which the gained knowledge amongst individuals who have attended the courses is transferred to other parts of the institutions. Several of the informants closely involved in Mozambique express concern with regard to the dependency on certain resourceful persons in INP. INP is a new organization, and there has not yet been a generational shift within the institution. Informants suggest that while there has been a large degree of focus and accordingly success with regard to achieving capacity building on an individual level, the challenge remains to achieve institutional capacity building (Interview, 1/9/2009).

5.3.4 Accountability of decision-making and performance

The key issues related to this principle are making sure that mechanisms are in place to ensure regulation and monitoring, that the petroleum sector is subject to regular audit and dialogue between local communities and operators in terms of impact of operational activities.

Representatives from the embassy point to the weak auditing institution in Mozambique (Interview, 2/11/2009). A report has shown that corruption control in Mozambique has worsened in the last decades, an issue with implications for anti-corruption work (Westberg, 2006).

The issue of support to civil society organization is relevant here. As shown in the previous chapter, there is more focus on the role of civil society in the OfD checklist for good governance than in the Chatham House framework. From this, it can be

expected that there has been more focus on civil society in the actual OfD programmes. In the case of Mozambique, several informants highlight the importance of the work done by the Mozambican civil society group Centre for Public Integrity, an organization working on improving public transparency in the Mozambican public sector (Interview, 1/9/2009; Interview, 6/11/2009). However, the degree of direct support to this or other civil society organizations in Mozambique is unclear.

5.3.5 Transparency and accuracy of information

According to Flemming et al. (2007a:53), Norwegian principle of promoting a transparent regulation of the petroleum sector has been understood and accepted in Mozambique.

The issue of transparency is seemingly well- covered in the OfD framework. This is one of the points in which the understanding within the framework of OfD coincides with the principle presented by Chatham House to a large degree.

In a reference document from 2008, the issue of EITI (Extractive Industries Transparency Initiative) membership is addressed. With Norwegian support, a scoping study on Mozambique and the potential adoption of the EITI Principles. It is stressed that “Norway is a major supporter of the EITI, and that the Norwegian government puts a lot of emphasis on the importance of the signing up to this initiative. Norway is also favourable to continue the support to the implementation process, should Mozambique decide to adopt the EITI principles” (INP/MFA (2008).

Previous Minister Councilor at the Norwegian Embassy in Maputo, confirms that there has been considerable encouragement from the Norwegian part with regard to Mozambican membership to EITI (Interview, 1/9/2009).

Also in relation to the issue of transparency, several informants emphasize the role of civil society organizations, in particular the organization CIP (Centro de Integridade Publica/Centre for Public Integrity), working for transparency and openness in the public sector in Mozambique (Interview, 2/11/09; Interview, 1/9/2009).

5.4 Summary of findings

Identifying the components of governance related assistance in the Norwegian-Mozambique is a challenging task. This is due to the complexity, extensiveness and technicality of the issues that the petroleum sector demands, but also because of the many different actors and institutions involved in the programme. Therefore, it is difficult to claim that the findings in this chapter include every aspects of governance-related activity in the OfD-Mozambique cooperation. As one informant observed, the devil is in the details (Interview, 1/9/2009). This section will, however, point to some of the clear tendencies in terms of the role of Norwegian institutions in the work towards better governance in Mozambique as a summery of the sections above.

The role of external legal consultants has seemingly been an important instrument implemented as an indirect way of achieving good governance, as several of the informants point to the importance of having a legal framework in place in order to secure good governance.

Furthermore, it seems, as can be expected, as though the current Norway – Mozambique cooperation is formed by the years of cooperation with Norwegian petroleum institutions, where a narrower focus on good governance has been promoted. This is reflected in the relatively low focus on tools and instruments with regard to ensuring that the environmental aspect is strengthened, compared to newer programmes under the OfD, where environmental aspects are addressed early in the cooperation.

The broad principles of good governance as presented in the Chatham House framework are seemingly all addressed to some degree in the current OfD programme in Mozambique. However, there is a great difference in how much focus has been given to each principle. We have seen that clarity of roles goals and responsibility and enablement to carry out roles assigned has been addressed extensively. On the other hand, the issue of sustainable development is more indirectly addressed. This might be explained by the difference in clarity between the principles. However, this can

seemingly also be partly explained by which partners and governmental bodies have been involved on the Norwegian side.

6 Conclusion

The outset of this study was the empirical regularity known as the resource curse thesis, in which the main idea is that natural resources can have a negative effect on economic growth based on certain conditional factors. Norway's success in generating development for its population because of the large income from the oil industry has meant that Norway is regarded as the principal exception of the resource curse. Based on this success, and the interest it has generated in international circles, Norway has been involved in petroleum-related development assistance since the early 1980s. One important aspect within this type of assistance has been the role of governance and good governance, based on the main idea that the resource curse is not unavoidable, but instead it is contingent on the quality of governance in a given country.

The theoretical framework for this thesis was based on perspectives on governance, the resource curse and good governance in the petroleum sector. In sum, the theoretical perspectives led to the following suggestion: 1) the qualified version of governance, namely good governance is a prerequisite for development 2) countries rich in natural resources are vulnerable for certain challenges with regard to governance 3) improving good governance in the petroleum sector is the answer, that is ensuring clarity of goals, roles and responsibility, sustainable development for the benefit of future generations, enablement to carry out roles assigned, accountability of decision making and transparency and accuracy of information.

The thesis thus set out to explore the specific aspect of governance within Norwegian petroleum-related assistance, aiming to answer the question of Norway's role in influencing good governance in petroleum-rich developing countries. The question generated three themes which formed the structure of this thesis. First, the issue and relevance of Norwegian petroleum sector governance. Secondly, Oil for Development and the understanding of good governance. The final theme was the implementation of good governance in the current OfD programme in Mozambique. These three themes formed the basis for three analyses in this thesis, all linked to the third part of the theoretical framework, namely the Chatham House framework for good governance.

6.1 Norwegian Petroleum-Related Assistance and Governance

In order to understand why Norway should have a role in promoting petroleum sector governance, the third chapter of this thesis examined the Norwegian history of developing a petroleum industry and in this way establishing a system of good governance in the petroleum sector. Evidence was provided to demonstrate that Norway has in fact escaped the resource curse. The rate of economic growth, increase in GDP per capita and the increased rating on the Human Development Index illustrated that rather than being subject to the mechanisms of the resource curse, Norway has turned the income from oil to benefit the population as a whole. In order to assess how the resource curse was avoided, central elements of the decisions and developments in the early years after the discovery of oil were presented, focusing on the administration, institutions and management of petroleum resources. Finally, the chapter compared the main elements of the Norwegian experience to the principles of Good Governance as presented by Chatham House.

The main finding in the third chapter was that the Norwegian experience does reflect principles of good governance. Achieving clarity of goals, roles and responsibility was formulated at an early stage at the process, separating the important policy-making, regulatory and commercial functions. Sustainable development was stated as an aim before income from oil was generated, and the Petroleum Fund has been established, with the aim of functioning as long term saving. There is also clear enablement to carry out the roles assigned in the Norwegian model, partly due to the education system in place which adapted to the needs of the petroleum sector. High degree of accountability was already an established principle in Norway when oil was discovered, as were principles of transparency and accuracy of information. The conclusion from this chapter was that although certain elements of the Norwegian experience of good governance were in place when oil was discovered, such as a consolidated democracy and high degree of accountability in the public sector, Norway does have the ability to improve good governance in developing countries.

The fourth chapter focused on Norwegian petroleum-related assistance and the case of Oil for Development. The history, objectives and organization of the OfD initiative was presented, illustrating that OfD focus on three central pillars, namely environmental management, resource management and revenue management. The focus on good governance as a cross-cutting theme was highlighted. Secondly, the question of how good governance is understood within the OfD framework was investigated. The OfD checklist for good governance was compared to the Chatham House principles, before differences amongst OfD partners in Norway with regard to the interpretation of good governance was discussed briefly.

In sum, the fourth chapter showed that there has been increased focus on the element of good governance within the OfD framework. Furthermore, the analysis on the understanding of good governance demonstrated that the OfD checklist on good governance is based largely on the Chatham House principles. However, certain differences were highlighted. In the OfD checklist there was more direct focus on the importance of laws and regulations, environmental considerations, and the role of civil society than in the Chatham House framework. Finally, in order to underline that OfD is an initiative which combine the efforts of different institutions in Norway, different perspectives on the relevance and meaning of good governance were briefly presented. This showed that there is agreement that there has been an increased focus on good governance in recent years. However, there were different perspectives on what this actually means for the OfD-related work in the various institutions. A perception was that the OfD checklist can be a useful tool, but that the formulated principles were already integrated in the work in each institutions, and therefore that the effect of the increased focus on good governance had been limited. However, because the formulation of good governance principles is relatively new, it is unclear if this will have more impact in the future.

The fifth chapter set out to examine what the increased formulation on good governance has meant for a country specific programme. The chosen case for this was Mozambique, the country where Norway has carried out this type of assistance since 1983. The purpose of this chapter was not to examine the quality of governance in

Mozambique, but rather to look at to what extent the principles of good governance as presented by Chatham House are addressed through various tools and instruments. The first part of the chapter demonstrated Mozambique's situation with regard to petroleum resources, showing that gas is currently a small part of the Mozambican economy. However, ongoing exploration means that there are hope and expectations of discovering more petroleum resources. Secondly, the chapter presented the history of the Norwegian petroleum assistance to Mozambique, and the current programme on institutional support to INP.

The findings from the analysis in the fifth chapter illustrated that there are great varieties with regard to how different principles are reflected in the programme. The principle of clarity of goals, roles and responsibilities has been adhered to throughout the assistance to Mozambique, based on the extensive support provided with regard to the legal framework in which this principle has been an objective. Ensuring transparency has been important, manifested in the support provided with regard to licensing rounds. With regard to the principle of enablement to carry out the roles assigned, the Petrad Courses and general exchange of experiences has been relevant. This implies that capacity building for individuals has been central. However, the analysis showed that considerable concerns were expressed with regard to the extent these courses have had on institutional capacity building, in other words the transfer of knowledge within INP. In terms of the principle of accountability, there has been focus on the role of civil society, and the importance of civil society groups is widely recognized. Support to these groups is given, however the extent is unclear.

Finally, a few comments need to be made with regard to the issue of sustainable development for the future generations. It is clear that sustainable development is the underlying vision for the programme. However, in terms of the issues discussed in the Norwegian example, for example the establishment of petroleum fund, this has not been an issue in Mozambique. This is to be expected, due to the fact that gas resources continue to play a relatively limited part of the Mozambican economy. The involvement of Norwegian environmental bodies has to date been limited, probably

due to the fact that the Mozambican assistance was already established when OfD was launched, and the environment gained more impact generally in OfD.

6.2 Concluding Remarks

This thesis has shown that the discovery of oil can have a positive impact on a country's economy, and the welfare of the population. This has been illustrated by the case of Norway. Thus, the resource curse is not inevitable. Instead, many of the mechanisms influencing the impact of natural resources on the economy are conditional on the quality of governance. Rent-seeking, patronage, the quality of institutions, and Dutch disease can be hindered if fundamental principles of governance are in place, namely how authority is exercised, decisions are made and the effectiveness of these decisions, the rules and regulations in place, and respect for the rights of the citizens. The defining factor is, however that governance is good governance.

Thus, the thesis has shown that resource-rich countries face certain challenges with regard to governance. If the premises of this argument are in place, trying to improve the quality of governance is the right solution. Thus, the integration of good governance into OfD has an important role in current future development assistance, thus representing the role of Norway in terms of influencing petroleum sector governance in developing countries.

The full impact of the newly systemised integration of good governance in OfD remains to be seen. This seems to be an issue under continuous development within the OfD framework, illustrated by the fact that just during the course of this thesis, several work-shops and seminars have addressed this issue.

In conclusion, Norway as a successful oil nation does have an important role to play in offering support to developing countries when requests for such petroleum-related assistance are made. With the potential benefits from successful management of petroleum resources for developing countries, and on the other hand, the alternative

negative effects – it is crucial that efforts are made to provide assistance to countries that could benefit from the Norwegian experience.

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Appendices

Appendix I: Interviews

Ministry of the Environment

Interview with *Turid Sand (Deputy Director General/Member of OfD Steering Committee) and Terje Kronen (Senior Advisor)* Oslo: 28/10/2009

Ministry of Foreign Affairs

Interview with *Mette Masst, Previous Minister Councillor at the Norwegian Embassy in Maputo* Oslo: 01/09/2009.

Ministry of Finance

Interview with *Ingrid Rasmussen (Deputy Director General/Member of OfD Steering Committee)* Oslo: 06/11/2009

NORAD

Interview with *John Tore Vatnar (Advisor, Coordinator, Bolivia, Mozambique)* Oslo: 12/08/2009 and 03/11/2009

Norwegian Petroleum Directorate

Telephone Interview with *Øystein Kristiansen*, Oslo: Stavanger 04.11.2009

The Royal Norwegian Embassy in Maputo

Telephone Interview with *Øystein Botillen (First Secretary (Petroleum, Environment and Climate Change) and Ms. Marit Strand Counsellor (Budget Support and Macroeconomic Reforms)* Oslo/Maputo: 2/11/2009

Simonsen Advokatfirma DA (“Simonsen Law”)

Interview with *Preben T. Willoch (Senior Lawyer) and Bjørn Erik Leerberg (Partner)* Oslo: 9/11/2009

Appendix 2: Interview Guide

- Information about respondent (position, education, professional career)
- Respondent's role in OfD
- Cooperation with Norad, the Embassy, Mozambiquan institutions etc.
- Development of the petroleum cooperation, before and after OfD
- Main challenges
- OfD focus on good goverance
- OfD understanding of good governance
- Instruments to achieve good governance
- Advantages and disadvantages of having a demand-driven initiative
- Technical versus political cooperation
- OfD inclusion of the five Chatham House principles of petroleum sector governance

Appendix 3: Good Governance of the National Petroleum Sector

The Chatham House Document: (Lahn et al. 2007)

1. Clarity of goals, roles and responsibilities

1.1 National development objectives and the role of the oil and gas sector in contributing to those objectives are clear and well communicated to all stakeholders.

1.2 The roles of (a) policy-making, (b) strategy-making, (c) operational decision-making and (d) monitoring and regulating industry activity are clearly defined and assigned to individuals and/or agencies (see 3.3 and 5.1).

1.3 Responsibility for the regulatory functions is assigned to allow for objective, fair and independent oversight, to avoid conflicts of interest and to minimize duplication of effort (see also 3.6).

1.4 Where there is an NOC, its purpose and mission are well defined and its objectives are transparent and aligned with national development goals (see section 2).

1.5 The NOC's operating role is defined in a way that allows commercial and noncommercial responsibilities to be distinguished, and prioritized if necessary.

1.6 The legal framework for the NOC clearly defines the rights and responsibilities of shareholders and other stakeholders.

1.7 The governance structure specifies the role of the NOC board, the limits of its authority, what it is accountable for, and to whom (see 4.1).

1.8 The legal, fiscal and regulatory framework in which foreign and private operators/service companies will operate and any obligations to the country beyond their agreed work programme are clearly defined in their contracts.

2. Sustainable development

2.1 The national petroleum revenue management system provides for fiscal stability and gives assurance that petroleum resources contribute to sustainable benefits for future generations (see 3.4).

2.2 Education and training are sufficient to meet the sector's needs, and the transfer of skills to the non-oil sectors is promoted.

2.3 Fair and realistic local procurement and employment policies promote human capacity, technology transfer and diversification of the economy.

2.4 Corporate social responsibility (CSR) policies and programmes are aligned with a national development agenda (see 3.11 and 4.7).

2.5 The 'opportunity cost' of giving social objectives to the sector is thoroughly assessed (see 3.5).

2.6 The promotion of social welfare and/or economic development through selling petroleum products at below international prices to national consumers are pursued only as part of a fair, transparent and costed policy, for example, to smooth the effects of fluctuations in international prices or address questions of energy poverty.

2.7 Effective processes and incentives are in place to ensure that the development of hydrocarbon infrastructure and its operations do not result in long-term damage to local and regional environmental assets (see 4.1 and 4.5).

3. Enablement to carry out the role assigned

3.1 Policy-makers have sufficient knowledge, capacity and internal alignment to set effective policy and realistic and prioritized objectives for the sector (see 5.2).

3.2 Checks and balances are in place at government level to enable consistency for long-term policy-making.

3.3 Actors are delegated financial and managerial authority to carry out their role and/or function.

3.4 The fiscal and budgetary relationship of the NOC to the state is structured to enable the NOC to achieve its objectives efficiently, i.e. there are checks and balances to ensure that NOC spending is in the national interest; the NOC is able to make purchases and investments promptly and have the stability to make longterm investment plans.

3.5 There is an exit strategy to enable the NOC to transfer any non-commercial, social and/or national development functions to the government or other agencies when they are ready and able to take over.

3.6 The selection criteria for appointments to the NOC board and executive management are transparent and the board has the appropriate knowledge, skills and resources to carry out its role (see 5.7).

3.7 Operational and commercial decisions of the executive management and the board are separated from political and other conflicting interventions.

3.8 The industry regulating bodies have the necessary technical skills, financial resources, knowledge, access and legal authority to exercise their powers effectively (see 1.3).

3.9 Audits of operators within the sector are coordinated to minimize duplication and avoid unnecessary bureaucracy (see 4.2).

3.10 Staffing decisions are based on the principle of 'best person for the job' (see 5.7).

3.11 NOC managers and employees are incentivized to improve performance (see 4.5).

4. Accountability for decision-making and performance

- 4.1 Mechanisms are in place to ensure that operators in the sector are in compliance with national and international regulations and contractual obligations (see 3.8).
- 4.2 The national petroleum sector as a whole is subject to regular audit, accounting for revenues due to the government, revenues paid to the government and revenues received by the government.
- 4.3 The NOC has internal audit functions (conducting financial, physical and process audits) which report to the board (see 3.9).
- 4.4 The NOC is subject to regular, functionally independent audited reports and accounts prepared to international accounting standards, such as the IFRS (International Financial Reporting Standards) (see 5.2 and 5.3).
- 4.5 NOC performance is benchmarked in a way that demonstrates relative as well as absolute performance i.e. functional performance against comparable organizations.
- 4.6 There is an effective mechanism for dialogue between local communities and operators to account for the impact of operational activities.
- 4.7 Corporate social responsibility/national mission spending in the petroleum sector is accounted for separately and evaluated against stated objectives (see 2.4).

5. Transparency and accuracy of information

- 5.1 A simple, comprehensive guide to the petroleum sector governance structure is available publicly (see 1.2).
- 5.2 The government and other shareholders receive timely and accurate financial and operational information from operators (see 3.1).
- 5.3 Where information about the sector remains confidential (not available publicly), the rationale for that confidentiality is explained and justified, for example by the need to preserve commercially sensitive information.
- 5.4 The cost of any non-market pricing of supplies of products to national consumers (including government and national companies) is identified, taking account of the appropriate market reference (see 3.1 & 3.4).
- 5.5 Criteria for awarding licences are published and licensing decisions are explained.
- 5.6 Criteria for awarding major government procurement contracts for the sector (including those awarded by the NOC) are published and major award decisions explained.
- 5.7 Employment policy for each agency within the sector is transparent.