

Afghan hydrocarbons: Addressing corruption to fuel development?



Photo Geir Ytreland

Use of Afghanistan's oil and gas resources, if properly handled, could have considerable spinoff effects for development and reduce dependence on high-cost energy from neighbouring countries. But mistrust between local and central authorities, and a perception among domestic and international actors that corruption risks are widespread, suggests that governing the country's hydrocarbons will be far from straightforward. Specific corruption challenges are compounded by insufficient skills and coordination within the hydrocarbon sector, plus the ongoing fragility of security where resources are located. Given these constraints, donors should seek further clarity from Afghan authorities on how they aim to develop and use their hydrocarbon resources, including how they plan to address corruption risks.



Hydrocarbons and corruption in fragile settings

Re-opening or developing new hydrocarbon sectors in fragile settings presents a double set of policy challenges: (i) Governance of resource revenues should be structured in a way that avoids the risk of renewed violence and promotes peace. But (ii) revenue management arrangements should also mitigate the risk of corruption and its negative effects on welfare

outcomes and development objectives. Given the potential for hydrocarbon resources to affect the prevalence of corruption, for such resources to potentially affect conflict motivation, type and duration, and for changes in patterns of governance to potentially affect the incidence of conflict, there are no straightforward responses to this double set of policy challenges. Some policy considerations can, however, be drawn from an exploration of the de facto constraints and opportunities in fragile settings where pursuing hydrocarbon extraction is one option for funding development.

It is acknowledged that the shift between war and peace can present rich opportunities for corruption, which may in turn be linked to deteriorations in security (le Billon 2003). Where natural resources have been an important element in the political economy of war, the incentives and opportunities for engaging in corrupt activity to secure resource rents during the early days of peace may be quite significant. The revenues, jobs and infrastructure accompanying natural resource projects are double-edged, providing hope for the future but also stirring historical resentments or creating new problems (Boege and Franks 2009). In the hybrid political orders¹ present in fragile settings, deriving lasting welfare benefits from hydrocarbon resources is challenging – as is ensuring that arrangements in place to capture these benefits are perceived as fair. These challenges are compounded by potential security risks and by problems of determining whose consent is required for a particular resource to be accessed.

All this implies that extreme caution is required when considering international assistance for developing hydrocarbon sectors in fragile settings. Two of the most critical questions for donors are: (i) to what extent can interventions help improve existing governance arrangements to promote societal welfare gains from hydrocarbon sector activity?, and (ii) how might this be done in a manner that does not disrupt governance arrangements to an extent that a return to violence becomes an attractive option?

Afghanistan's re-emerging hydrocarbon sector

Afghan hydrocarbon resources have mainly been found in the north of the country. The first oil field was located in 1959, and the Soviet Union made extensive use of oil and gas resources from 1979-1989. In addition to extensive exports via pipelines to the Soviet Union, gas was distributed locally and transferred to a fertilizer factory in Mazar-e-Sharif. The resources were managed by the Afghan Gas Company and a technical college was established in Sherbergan to educate and train technicians and staff. The area with hydrocarbon resources has for most of the recent period been under the control of the Uzbek leader General Dostum.

Resource estimates for northern Afghanistan were released by the United States Geological Survey in 2006, and were of 1,596 million barrels of crude oil, 15,687 billion cubic feet of natural gas, and 562 million barrels of natural gas liquids. Most of the undiscovered crude is expected to be located in the Afghan-Tajik Basin, while most of the undiscovered natural gas is in the Amu Darya Basin, where exploration is currently taking place.

Following initial Norwegian technical support to the Government of Afghanistan, a new Hydrocarbons Law entered into force on 1st February 2009. A first bidding round cov-

ering the Jangalikalan Block, the Juma-Bashikurd Block, and the Kashkari Block followed, also assisted by Norway. Eleven companies registered interest for these blocks, though only one submitted a bid, which was rejected by the Afghan government in April 2010.

As efforts to develop Afghanistan's hydrocarbon potential continue, a number of energy transfer projects are also planned in the wider region where the country could act as a hub. An electrical transmission line has been constructed from Uzbekistan to Kabul, and there are plans for a new transmission line (termed CASA REM) from Central Asia through Kabul to Peshawar in Pakistan. The Trans-Afghanistan Pipeline (TAPI), which aims to bring natural gas from Turkmenistan to Pakistan and eventually India, has been under discussion since the mid-1990s. Pakistan and India have also pursued negotiations with Iran for the Iran-Pakistan-India Pipeline (IPI), resulting in Pakistan signing an agreement with Iran in March 2010. The Shanghai Cooperation Organisation (SCO) has also announced an intention to develop regional energy projects.

The governance setting for hydrocarbons

There is currently increased international concern about the ability of Afghanistan's governance system to support welfare improvements and development objectives. Concern about corruption is frequently mentioned as a factor that reduces support for the government among both international donors and Afghan citizens. A recent nationwide survey conducted by Integrity Watch Afghanistan found that citizens consider corruption the third biggest problem in the country (following insecurity and unemployment), and that one adult in seven experienced bribery directly in 2009.²

Afghanistan has a highly centralised governance structure, and elected bodies such as the parliament and provincial councils (PCs), have limited authority and budget influence. In all provinces where oil and gas extraction has taken place so far, there are governors appointed by either President Karzai or the Independent Directorate for Local Governance (IDLG).³ The governors' influence appears to depend on their ability to draw on networks in the province and region, their contact with and political and financial support provided by the president and/or the IDLG, and their support from international donors and the military. The governors hold only limited influence over funding channelled to each province, but are key actors in the development of the Provincial Development Plan (PDP).

The elected PCs likewise have limited influence on governance and on development planning and implementation in the provinces, beyond being consulted and tasked to maintain a check on other governmental actors. Recent PC elections involved major changes to members in Faryab, Jowzjan and Balqh provinces, though existing political parties seem to have maintained their influence. The PCs relate to the elected parliament in Kabul only to a very limited degree, and are administered through the IDLG, as are the governors.

The bulk of funding for each province is channelled through representations of line ministries, e.g. the Ministry of Rural Rehabilitation and Development. These departments are involved in development of the PDP, but prefer to relate to their ministry in Kabul than to governmental and elected actors in the provinces. There are tensions between the

different actors, and between Kabul and the provinces, over influence as well as access to funding and the degree of information and consultation over provincial issues. Informal networks and party or personal affiliations remain an important element in obtaining and maintaining positions and for ensuring influence.

It should be noted that the Extractive Industries Transparency Initiative (EITI) accepted Afghanistan as a candidate country in early 2010.⁴ It appears, however, that various Kabul ministries as yet lack information about the initiative, including what responsibilities rest with Afghan actors in the process towards implementing EITI requirements.

Areas of concern regarding corruption

Not all challenges for future development of the Afghan hydrocarbon sector relate directly to corruption. There are significant needs with regard to the technical and human resource capabilities of specific actors and institutions, the imperative of further stabilisation of security in the north, inward private sector investments, and relations with neighbouring countries and energy markets. Yet there are close links between corrupt activity, governance capacity, levels of distrust in government, access to information, political bargaining and acts of violence in Afghanistan. The following highlights particular areas of concern relating to corruption, keeping in mind these broader linkages.

Access to information

The knowledge held by members of parliament, governors, PCs, non-governmental organisations and members of the public on key aspects of the development of the hydrocarbon sector is limited and varies among these different actors. Though major progress has been made in the technical expertise of the Ministry of Mines to develop a Hydrocarbon Law, getting it approved by parliament, and running the first hydrocarbon bidding round, members of parliament have limited knowledge about oil and gas bidding procedures, as well as the larger issues of managing hydrocarbon revenues effectively. Some governors and PC members have also claimed not to have received formal information about the Hydrocarbon Law or the ongoing oil and gas bidding process. This serves to underline a general perception among some provincial officials that ministries in Kabul are reluctant to share information about developments likely to have an impact on their province. It should be noted here that the dedicated webpage for “The First Afghan Hydrocarbons Law” is available only in English, limiting its usefulness for Afghan businesses, local officials and elected council members.⁵

Oil and gas tendering

A frequently suggested reason why information in relation to tendering is not forthcoming from officials in Kabul is that these officials deliberately withhold knowledge to create opportunities for extracting rents during these processes. Some parliamentarians make reference to the alleged corrupt practices in the bidding and allocation process for the Aynak copper mine, drawing unfavourable comparisons to the risk of corruption in the current oil and

gas tendering process. While the Aynak allegations have not been substantiated and no legal action has been taken against the minister concerned, there is a strong perception among elected officials in parliament and at provincial level that the hydrocarbon tendering process remains at risk from corruption. This perception has been reinforced by recent international emphasis of the need to address corruption in the Afghan government.

Lack of a master plan for energy

There is a lack of an up-to-date master plan for the energy sector. As a result, there is a risk that the internal-external coordination of hydrocarbon projects could be driven by the interests of single actors (either Afghan or international) rather than by a clearly defined and agreed set of goals. The apparent urgency of documenting progress in the hydrocarbon sector may be seen as overriding sound longer-term planning.

Distributing resource benefits

Since 2001, the central government has emphasised that all revenue and tax is to be channelled through the Ministry of Finance in Kabul, allowing it to keep track of income and ensure distribution of funding in compliance with national priorities. Although this income is at present low – as most development funding is provided by external donors – the principle remains important to officials in Kabul since it enables them to maintain a degree of authority and an ability to prioritise support based on broad national or other priorities. Central government officials insist it is premature to discuss the utilisation of income from hydrocarbons in the provinces or districts where these resources originate. Indeed, local officials do not argue that locally-generated resource income should only be used in their part of Afghanistan. What is of concern among many local elected officials and Kabul’s parliamentarians, however, is that job creation, development of infrastructure and opportunities for private sector investments are ensured at local level. Given the critical assessment on the part of local officials and parliamentarians on the possibility of corruption in oil and gas tendering, it should be expected that similar concerns with regard to distributing expected benefits may arise once revenues from new hydrocarbon projects come online.

Addressing corruption to promote welfare gains from hydrocarbons

International donors argue that considerable welfare and development benefits could be derived locally, nationally and regionally from the use of Afghan hydrocarbon resources. Available estimates of gas resources indicate a potential generation of 1000 megawatts (MW) over 25 years, which could make possible extensive electrification in northern Afghanistan and allow electricity supply to mining operations in Aynak (copper) and Hajigak (iron ore). The United States Agency for International Development (USAID) is considering support for a 100-150 MW gas plant in Shegerghan, while the Asian Development Bank (ADB) is considering a project to upgrade gas fields in Jowzjan province. The UK’s Department for International Development (DFID), too, has recently urged international



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investors to help Afghanistan benefit from its mineral and hydrocarbon resources.

Although it was a setback that only one company submitted a bid during the 2009 oil and gas licensing round, and that this bid was eventually rejected by the evaluation committee, progress has been made in the development of the capacity and technical expertise needed within Afghanistan to benefit from hydrocarbons. Legislation is now in place for the management of natural resources that could be of key importance for the country's development, and the Ministry of Mines has gained expertise and experience from managing international bidding processes.

But there is evidence of a number of risks and challenges to the further development of the Afghan hydrocarbon sector. Although the security situation in the north is at present stable, there is an increased risk for instability if the internal political balance is changed and/or the relationship between local power-holders and central government is altered. There is also a high degree of mistrust between central and local governance levels, not least relating to the utilisation and distribution of income from natural resources. Mistrust of intentions is not limited to Afghan actors: there is a high level of suspicion about the motives and intentions of neighbouring countries and, increasingly, about the role of the international community. And while the Afghan Gas Company and the Ministry of Mines have been able to maintain a degree of professionalism, there is a risk that the knowledge and skills within these institutions will not match requirements for further development of the sector, either in policy and organisational terms or in terms of technical skill.

Given this wider environment, what can donors presently do to address corruption risks and promote welfare and development gains from Afghan hydrocarbons? There is a clear need for the Afghan government to further clarify how it aims to develop and utilise its hydrocarbon resources, and for its strategies and goals for the sector to be articulated in some sort of master plan that directly addresses corruption risks. Donors would do well to seek such clarity before embarking on further engagement on policy matters relating to implementation of the Hydrocarbons Law and any new hydrocarbons bidding round. Donors could also consider (upon request of the Afghan authorities) forms of assistance that currently appear to entail fewer risks, but which address underlying governance challenges and needs in the energy sector:

- Provide advice on the political-diplomatic process of negotiating agreements for the utilisation and division of underground natural resources with neighbouring countries.
- Assist in training and development of Afghan expertise in oil and gas management, aiming to ensure that both the Technical Faculty in Jowzjan and the Afghan Gas Company has the required professional skills and capacity to meet present and future needs in the sector.
- Be active in providing information about past and present international donor assistance in the hydrocarbon sector, including in local languages and in multiple media channels. Further information about EITI requirements could, in particular, be disseminated within key institutions.

Further reading

For more information relevant to the topic of this U4 Brief visit our website on *Corruption in Natural Resource Management* www.U4.no/themes/natural-resources

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Le Billon P. (2003) Buying Peace or Fuelling War: The Role of Corruption in Armed Conflicts, *Journal of International Development*, 15, 413-426.

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Strand A., M. Hakim, S. Newrozi, A. Sarwari and A. Williams (2010) Afghan Hydrocarbons: A Source for Development or for Conflict? A Risk Assessment of Norwegian Involvement in Development of the Afghan Oil and Gas Industry. CMI Report 2010: 5, Chr. Michelsen Institute, Bergen.
<http://www.cmi.no/publications/publication/?3763=afghan-hydrocarbons>

Notes

This U4 Brief is based on field- and desk-based research conducted in spring 2010 as part of a risk assessment of Norwegian involvement in development of the Afghan oil and gas industry commissioned by Norad's Oil for Development programme. (See Strand et al: 2010)

1. This term from the literature on state-building refers to governance environments in post-war settings where formal and informal power relations interlink.
2. The survey covered 32 provinces and 6,500 respondents: www.iwaweb.org/corruptionsurvey2010/Main_findings.html
3. The IDLG was established in 2007 with the stated objective of improving local governance. Some responsibilities for local governance also remain with the Ministry of Rural Rehabilitation and Development (MRRD).
4. Afghanistan accepted as EITI Candidate: www.eiti.org/news-events/afghanistan-accepted-eiti-candidate
5. The first Afghan hydrocarbon bidding ground: www.afghanistanpetroleum.com/index.php
6. Afghan minister accused of taking bribe: www.washingtonpost.com/wp-dyn/content/article/2009/11/17/AR2009111704198.html