Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures - case studies of Bolivia, Mozambique Uganda
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures—case studies of Bolivia, Mozambique and Uganda

Final report

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26th September, 2012
Acknowledgements

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<th>Description</th>
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<tbody>
<tr>
<td>AECID</td>
<td>Spanish Agency for International Cooperation and Development</td>
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<tr>
<td>AFD</td>
<td>French Development Agency</td>
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<tr>
<td>AFIEGO</td>
<td>Africa Institute for Energy Governance, Uganda</td>
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<tr>
<td>ANH</td>
<td>Agencia Nacional de Hidrocarburos, the Bolivian regulator</td>
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<tr>
<td>AT</td>
<td>Autoridade Tributária (auditor general), Mozambique</td>
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<td>CEADL</td>
<td>Centro de Estudios y Apoyo al Desarrollo Local, Bolivia</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CIP</td>
<td>Centro de Integridade Publica, Mozambique</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corporation</td>
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<td>CPI</td>
<td>Corruption Perception Index</td>
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<td>CSO</td>
<td>Civil Society Organisation</td>
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<td>CSR</td>
<td>Corporate Social Responsibly</td>
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<td>DANIDA</td>
<td>Danish International Development Agency</td>
</tr>
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<td>DFID</td>
<td>Department for International Development, UK</td>
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<tr>
<td>DS</td>
<td>Decreto Supremo, a regulation in Bolivia</td>
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<tr>
<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<tr>
<td>EITI</td>
<td>Extractives Industries Transparency Initiative</td>
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<td>ENH</td>
<td>Empresa Nacional de Hidrocarbonetos de Mocambique</td>
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<tr>
<td>FOSTER</td>
<td>Facility for Oil Sector Transparency and Reform in Nigeria</td>
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<td>GCCCC</td>
<td>Office for combating corruption, Mozambique</td>
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<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit (German Technical cooperation)</td>
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<td>IESE</td>
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<td>INEFP</td>
<td>National Institute of Education and Professional Training, Mozambique</td>
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<td>INP</td>
<td>Instituto Nacional de Petróleo, Mozambique</td>
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<tr>
<td>LNG</td>
<td>Liquified Natural Gas</td>
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<td>MAGTAP</td>
<td>Mining and Gas Technical Assistance programme, Mozambique</td>
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<td>MAS</td>
<td>Movimiento al Socialismo, Bolivia</td>
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<td>MASC</td>
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<td>MEMD</td>
<td>Ministry of Energy and Mineral Development, Uganda</td>
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<td>MICOA</td>
<td>Ministry of the Environment, Mozambique</td>
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<td>MIREM</td>
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<td>MHE</td>
<td>Ministry de Hidrocarburos y Energia, Bolivia</td>
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<td>NCPE</td>
<td>The political constitution of Bolivia</td>
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<td>NEMA</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<td>NPD</td>
<td>Norwegian Petroleum Directorate</td>
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<td>NPTA</td>
<td>Norwegian Petroleum Tax Authority</td>
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<td>NRC</td>
<td>Natural Resources Committee of parliament, Uganda</td>
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<td>OAG</td>
<td>Office of the Auditor General, Uganda</td>
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<tr>
<td>OfD</td>
<td>Oil for Development</td>
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<td>OPM</td>
<td>Oxford Policy Management</td>
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<tr>
<td>PARP</td>
<td>Poverty Policy Management</td>
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<tr>
<td>PDVSA</td>
<td>Petroleos de Venezuela</td>
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<td>PDVSA</td>
<td>Petroleos de Venezuela</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>PEA</td>
<td>Political Economy Analysis</td>
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<tr>
<td>PEPD</td>
<td>Petroleum Exploration and Production Department, Ministry of Energy, Uganda</td>
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<tr>
<td>PIREP</td>
<td>the Ministry of Education’s Vocational Education Reform Project, Mozambique</td>
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<td>PSA</td>
<td>Production Sharing Agreement</td>
</tr>
<tr>
<td>PWYP</td>
<td>Publish What You Pay</td>
</tr>
<tr>
<td>RWI</td>
<td>Revenue Watch Institute</td>
</tr>
<tr>
<td>SADC</td>
<td>the Southern African Development Community</td>
</tr>
<tr>
<td>SAIH</td>
<td>Norwegian Students’ and Academics’ International Assistance</td>
</tr>
<tr>
<td>SNV</td>
<td>Netherland’s Development Organisation</td>
</tr>
<tr>
<td>TGN</td>
<td>Tesoro General de la Nación, the Bolivian Treasury</td>
</tr>
<tr>
<td>UDAPE</td>
<td>Unidad de Análisis de Políticas Sociales y Económicas (Unit of Analysis of Social and Economic Policies)</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>URA</td>
<td>Uganda Revenue Authority</td>
</tr>
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<td>WGI</td>
<td>Worldwide Governance Indicators</td>
</tr>
<tr>
<td>WWF</td>
<td>World Wildlife Fund</td>
</tr>
<tr>
<td>YPFB</td>
<td>Yacimientos Petrolíferos Fiscales de Bolivia</td>
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Executive Summary

This is a summary of the Oxford Policy Management report for the Oil for Development (OfD) Secretariat which reviewed the vulnerabilities to corruption and support for integrity of the OfD programmes in Bolivia, Mozambique, and Uganda.

The OfD programme

The overall objective of the OfD programme is to promote economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations. To achieve this, the OfD programme works towards supporting good management of petroleum resources through sound legal frameworks, implemented by the relevant institutions, with accountability. The OfD delivery of the programme is focussed around three pillars: resources, revenue and environment. The OfD programme is currently conducting activities in about 20 countries, many of which experience corruption. Transparency International's Corruption Perception Index (CPI) 2011 shows that all but three OfD programme countries are in the bottom half of the ranking table, with half of the OfD countries ranked in the lower third.

Purpose of the study

The purpose of the study was to provide recommendations for the OfD programme for more strategic and effective stakeholder engagement, and reduced project risk, grounded in the political and economic context of the countries in which OfD programmes are being implemented. This is not an appraisal of OfD programme performance, nor an audit of corruption. This study was completed in a relatively short time given the ambition of the ToR. We have nonetheless sought to make it a practical and focused document.

One consistent theme which emerged in-country was that the OfD programme has been successful in supporting capacity-building. The programme’s demand-driven approach and focus on technical capabilities has been greatly appreciated by counter-party institutions, and the programme continues to be well-received.

Methodology and approach to work

The approach to the work included desk research and structured interviews with three country visits. The desk research to arrive at the overview of corruption (see Annex D) showed that all three countries suffer from corruption, each in a particular way. The desk research on the hydrocarbon sector showed significant variation across the countries in terms of the maturity of the sector. Yet all three have in common the challenges for governance that arise when a technically complex sector makes demands on weak public sector governance.

The methodology entailed defining corruption and evaluating the vulnerability to corruption in the hydrocarbon sectors of each country through the strength of accountability. We used the ‘CAR’ framework – ‘Capacity, Accountability, and Responsiveness’ – for analysing good governance; and the idea that accountability can be thought of on three dimensions: vertical, such as accountability to an electorate; horizontal, such as accountability to a regulatory agency; and diagonal accountability, such as when Civil Society Organisations hold the executive directly to account.

Having evaluated vulnerabilities in the hydrocarbon sectors in each of the three case study countries, we then mapped them on to the ‘decision chain’ of the Natural Resource Charter to assess the extent to which they also represent vulnerabilities to the OfD programme. We also present a stakeholder analysis to illustrate the extent to which accountability actors and institutions have interests that are aligned with the overall objective of the OfD programme, and their influence in pursuing that interest.

Common findings across case study countries
There are some common conclusions from the case studies, as well as country-specific features of the sector and respective OfD programmes. For each country, the following were common vulnerabilities:

1. **Legislative complexity:**
   - Incomplete or overlapping assignment of institutional roles and responsibilities, combined with sometimes poorly drafted regulations and thin formal provisions for strengthened accountability in freshly drafted legislation.
   - When the legislation governing what is already a technically complex sector is itself complicated, it dilutes the effectiveness of transparency in supporting accountability.

2. **Weak regulatory and administrative capacity:**
   - The vulnerability arises not from weak capacity *per se*, which is part of the rationale for the OfD programme in the first place, rather from the interaction of weak capacity with the technical complexity of the sector. When combined with overlapping institutional responsibilities, the result is more complicated intra-government relationships. In other words, focused technical support to one agency can weaken others and accentuate a lack of coordination across government.

3. **Accountability: institutions and informality**
   - A consequence of complexity and insufficient transparency is that they lead to weak formal mechanisms of accountability – for example, the legislature struggles to be an informed or effective check on sometimes arbitrary executive decision-making.
   - Equally, civil society – whether the population at large informed by the media, or CSOs – frequently lacks information and technical understanding, and therefore lacks credibility in holding the executive to account.

**Country specific findings**

The country case studies also provided country specific context. For example, Bolivia is in an ongoing process of radical political reform which has sharply diluted the role of the regulator in providing horizontal accountability for the state-owned oil company, yet the desired vertical accountability through social control appears to be ineffective. In Mozambique there are overlapping relationships between the Party, the government, and business that are often obscure; while there is a combination of legalistic formality with weak accountability. Elite-based rule in Uganda also appears to weaken institutions of formal accountability by undermining their prescribed roles.

**Recommendations**

We present our recommendations in two parts: first we suggest what should follow from our analysis; second, we outline what should be considered when putting those recommendations into action.

The recommendations should be put into context: there are significant successes in capacity-building as a result of the Oil for Development programme. While we were not conducting a performance appraisal, it was striking that there was consistent appreciation, particularly in technical agencies, both for support received from counter-part Norwegian institutions, and the way in which professional relationships have been sustained – often over long periods.
Accordingly, our first recommendation is to sustain the programme with its strengths in technical capacity-building.

Our second recommendation is to complement technical strength with a more explicit emphasis on accountability. This is to take explicit account of the political context into which technical capacity-building is delivered – both national and local politics as well as bureaucratic politics.

A third recommendation (and corollary to the above) is to broaden the OfD programme engagement, with a more inclusive set of relationships in-country.

The fourth recommendation is to support the institutions and mechanisms for greater accountability, including through engagement with the operations of international corporations that are under particular scrutiny to be transparent in their operations. While few companies are at the leading edge on transparency, inertia should not be mistaken for a lack of willingness. In Uganda, Tullow Oil has been ready to publish their Production Sharing Agreements (PSAs) and it is the government that is reluctant to publish.

Our fifth recommendation is to avoid being a sole source of technical assistance by facilitating one or two other, independent, world-class sources of advice. The logic is again complementary. We find that a vulnerability to the integrity of the OfD programme is the close identification of Norwegian advice with outcomes that are not up to Norwegian standards. Ensuring that counter-party institutions are presented with a range of world-class advice, such as is already offered by the Fiscal Affairs Department of the IMF, clarifies the national responsibility for decisions – and hence the national accountability for the outcomes.

**Putting the recommendations into action**

Putting these recommendations into action – how to do what we suggest – could be achieved as follows:

First, put the operations of the OfD programme into the context of a focussed, problem-driven political economy analysis (PEA), which would be a more substantial version of the work undertaken for this study. The purpose would be to sharpen the identification of those institutions and actors that share the overall goal of the OfD programme. For example, when key problems in achieving the objectives of the OfD programme have been identified, an understanding of the political economy can help un-block the way forward (Fritz, Kaiser and Levy, 2009). Such an approach would enable the programme to support capacity and influence in pursuit of that goal, and provide a sharper focus to the capacity-building in order to complement the current approach.

Second, shift the relationship with counter-party governments in three ways:

- Open up a discussion on making transparency a condition of sustained OfD programme support – transparency both of revenues (whether through EITI or not), and of contracts. Such transparency could be an objective of such engagement, with the onus on governments to provide a convincing rationale for preventing reasonable transparency – the rationale for transparency supporting reasonable accountability is self-evident. This could be put into action in the form of a roadmap with steps defined by a sequence of changes with some mutual advantage so that there are always reasons to sustain engagement – a focussed political economy analysis could help define such a roadmap;

- Broaden technical engagement, both to avoid being the monopoly authority for technical support, and to avoid OfD programme support running the risk of being captured by one part of government at the expense of coherence across relevant government agencies. One way to do this would be to use the authority of the OfD
programme, derived from success in technical assistance, to convene a meeting of equivalently credible partners;

- Finally, ensure OfD programme relationships are more inclusive as a way to strengthen accountability, by looking to open up a broader engagement with legislatures and civil society – both through the media and CSOs.

Third, establish a regional forum to facilitate newly resource-rich economies to pick up the benefits of the experience of neighbours who have already faced comparable challenges. This could work in East Africa across South Sudan, Kenya, Uganda, Tanzania, Mozambique and Zambia. A starting point to assess such countries' willingness to engage would be for the OfD Secretariat to invite the people who are the key counterparts for OfD support to a conference with an agenda designed both for the formal sharing of experience, and with time for peer groups from different countries to meet more informally. The evaluation of such an event would need to be confident that it had achieved more in regional interaction than existing international meetings.

To deliver broader engagement and relationships in country, in a mode of operation supported by a focussed PEA, would require a stronger role for Norwegians in the embassy on the ground. This would enable the latter to work together with the OfD Secretariat in complementing the presently strong bilateral technically-focussed relationships with specific institutions in-country.
1 Introduction

1.1 Purpose of the study

The purpose of this study is to provide recommendations for the approach Norad could take to further support the integrity of Norwegian engagement with resource-rich economies through the Oil for Development (OfD) programme. We do this with recommendations for approaching the political and economic contexts of the countries in which the OfD programme operates — including options for more strategic and effective multi-stakeholder engagement — to help reduce project risk. This study was completed in a relatively short time, given the ambition of the ToR. We have nonetheless sought to make it a practical document. It can also be thought of as a scoping study for deeper, more focussed work on enhancing integrity in OfD countries.

The OfD programme was launched by the Norwegian government in 2005. It offers transfer of knowledge to developing countries asking for advice on how to manage their petroleum resources. The overall goal of the programme is to promote “economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations”. This goal is further specified through three objectives. First, that sound policy and legal frameworks are developed. Second, that the relevant institutions are able to implement and enforce the policy and legal framework. Third, that the relevant institutions are held accountable by civil society such as non-governmental organizations and media. The OfD delivery of the programme is focussed around three pillars: resources, revenue, and environment.

This study reviews the vulnerabilities to corruption, and ways to support the integrity of the OfD programme through case studies of three resource-rich developing countries: Bolivia, Mozambique, and Uganda. To organise the evidence, we combine the framework provided by the Natural Resource Charter (NRC) with political economy analysis (PEA).

It should be noted that this study is not an evaluation of the performance of the OfD programme; nor is it an audit of corruption in the case study countries or the OfD programme. The Terms of Reference (Annex A) are nonetheless ambitious for quite a bold task.

1.1.1 Outline

The rest of this introduction describes the OfD programme and approach before outlining the key elements of our methodology: the definition of corruption; the operationalization of that definition by evaluating the strength of accountability and vulnerabilities to corruption; the operationalization of the NRC as an organising framework; and outlining some of the vulnerabilities to corruption specific to the oil and gas sectors.¹

The remainder of the report is then centred on the three country case studies, which are organised as follows: an overview of political economy and corruption, the findings on vulnerability and institutional integrity, a stakeholder mapping for reform, and then conclusions for each country. We then conclude the report with key recommendations.

1.2 OfD programme’s approach and structure

In 2011, the OfD programme encompassed activities in a total of 19 countries located in Africa, Latin-America, the Middle-East and Asia. Total programme expenditures in 2011 were 290 million NOK up from 82 million NOK in 2006. Overall the OfD programme is a complex operation that has shown significant success in capacity building. The OfD programme takes a demand-driven approach to delivering technical support and capacity-building. Support is organised across three pillars: resource management, revenue management and environmental management. There are

¹ Annex B sets out the Natural Resource Charter, and Annex C contains a more detailed discussion of the methodological approach we set out to take.
also ‘cross-cutting’ issues, including the application of principles of good governance, such as anti-corruption, transparency and accountability, as well as gender equality. The OfD programme’s mandate has been restricted to ‘upstream’ activities, which means that it does not work beyond the management of resource revenues.

The OfD programme provides advice from a range of Norwegian institutions, based on Norwegian experience and international best practice. Responsibilities lie as follows:

- The Ministry of Foreign Affairs, the Ministry of Energy and Petroleum, the Ministry of Finance and the Ministry of Environment, as founders of the OfD programme, are responsible for the overall quality in advice provided through the OfD programme.
- The Norwegian sub-directorates of the ministries are to a large extent in charge of implementation and delivery of programme activities.
- The OfD Secretariat, based in Norad, is responsible for the overall coordination of programme activities.
- The Norwegian Embassies are responsible for the management of the financials as well as providing country-specific context.

The approach of the OfD programme is respectful, and similar in this respect to Norwegian development assistance more broadly. The advice is demand-led, being delivered where requested. The speed of progress in capacity-building depends on the institutional capability and skills of the recipient institution. For the OfD Secretariat, the delivery of advice from Norwegian counter-party institutions provides strong quality assurance.

The governance dimension of the OfD programme is particularly important in countries that are resource-rich but which have weak institutions or poor governance. The OfD programme has delivered some training linking up with Norad’s anti-corruption unit, and has supported a range of Civil Society Organisations (CSOs) with the aim of improving transparency and accountability. The success of the OfD programme is measured in strengthening of resource management and development effects in countries faced with the risk of rent-seeking, corruption and Dutch disease.

1.3 Overview of corruption levels in OfD programme countries

Since the OfD programme started in 2005, demand for assistance has rapidly increased. Today the OfD programme operates in 19 petroleum rich countries across the globe with large differences in their petroleum sector development and structure. The nature and focus of the OfD programme activities are country specific, but all with the same three overarching objectives.

Where governance structures are weak donors and private companies face vulnerabilities to corruption. In general OfD programme countries exhibit significant levels of perceived corruption. Transparency International’s Corruption Perception Index (CPI) 2011 shows that all but three OfD programme countries are in the bottom half of the ranking table, with half the countries ranked in the lower third (see Table 1-1). In terms of the absolute CPI score, the average of the OfD programme countries is considerably lower than the global average and median. On a scale from 0 (highly corrupt) 10 (highly clean), OfD programme countries score on average 2.6 compared to a global average of 4.0, and the median scores for OfD programme countries and globally are 2.5 and 3.2, respectively.
The perceptions of corruption are also captured by the World Bank’s Worldwide Governance Indicators (WGI). The ‘Control of Corruption’ indicator captures perceptions of the extent to which public power is exercised for private gain. In addition to the CPI, ‘Control of Corruption’ shows (in relative terms) a mixed trend in the level of corruption over recent years in OfD programme countries (see Table 1-1).

Table 1-1 Overview of corruption levels in OfD programme countries

<table>
<thead>
<tr>
<th>Transparency International’s Corruption Perception Index</th>
<th>2010/11 Rank (out of 183)</th>
<th>Control of Corruption</th>
<th>Voice and Accountability</th>
<th>Rule of Law</th>
<th>2010 Rank (out of 213) and trend since 2006</th>
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<td>Uganda**</td>
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<td>Ivory Coast</td>
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<td>Angola**</td>
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<td>Sudan**</td>
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<td>East-Timor**</td>
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<td>South Sudan**</td>
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</tbody>
</table>

* Selected indicators most relevant to vulnerabilities to corruption, see all Worldwide Governance Indicators in Annex D

** Countries with larger OfD programme engagement


Table 1-1 highlights two other areas captured by the WGI: ‘Voice and Accountability’ (i.e. participation by citizens and political openness functions), and ‘Rule of Law’ (i.e. confidence in and abiding by the rules of society). Near half of the OfD programme countries rank in the bottom third in terms of ‘Voice and Accountability’, and the ‘Rule of Law’ indicator paints a similar picture.

The OfD programme supports partner countries to strengthen the management of petroleum resources in a sustainable way. However, operating successfully in high risk environments intensifies the need for integrity and an ability to provide a holistic approach in donor programmes.

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4 No survey has been undertaken in Cuba, Sao Tome and Principe, Nicaragua, Ivory Coast, Angola and East-Timor.
1.4 Methodology and conceptual framework

Our methodology uses the operational definition of corruption\(^5\) and our application of the NRC framework as part of a ‘problem-driven political economy analysis’ to identify the vulnerabilities to corruption in the petroleum sector (see Annex C).

This approach has three steps:

- Identifying the underlying institutions, structural factors and stakeholders that are the key elements of the problem-driven PEA,
- Analysis of vulnerabilities to corruption in NRC’s decision-chain for the petroleum sector in the three case-study countries, and
- Mapping OfD programme activities in the three case study countries on to the decision-chain of the NRC.

These steps allow us to assess the vulnerability of the OfD programme to corruption in parts of the decision-chain both where the OfD programme operates and where it does not.

A desk-based review of OfD programme activities and vulnerabilities to corruption in the petroleum sector was combined with field visits to each case country. During the field visit the primary part of the PEA was carried out supplementing the findings of a literature review and Norwegian and international stakeholder interviews. The field visit then identified vulnerabilities to corruption, using an analysis of accountabilities – discussed further below. The analysis conducted during the fieldwork allowed the research team to map sector stakeholders according to their level of influence and interest in relation to policies or reforms (both in relation to the broad decision-chain and OfD programme activities).

This report attempts, where possible, to distinguish between different forms of Norwegian aid by separating OfD programme-labelled development assistance from other Norwegian efforts. However, this distinction was not always possible during field work, where interviewees would often refer collectively to aid “from the Norwegians”. A total of 11 individuals were interviewed ahead of country visits and a total of 51 were interviewed in country.\(^6\) Across the three countries, researchers spoke with key stakeholders that held roles through-out the policy decision chain, identifying accountability actors from within and outside of government.

1.4.1 Corruption and accountability

We define corruption in line with Section 276a of the Norwegian penal code which reads that any person who “for himself, or other persons, requests or receives an improper advantage or accepts an offer thereof in connection with a position, office or assignment, or gives or offers any person an improper advantage in connection with a position, office or assignment” is liable for corruption.\(^7\)

To make this definition of corruption operational for analysis, we use the observation that when actors or institutions are not accountable for their actions – or not seen to be accountable – then there is an increased vulnerability to corruption. This draws on the UK Department for International Development (DFID) White Paper (2006) which describes accountability as “the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account”.

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\(^5\) See Section 1.4.1  
\(^6\) See List of Interviews for details  
\(^7\) This is consistent with the shorter definition: “The abuse of entrusted authority for illicit gain” that was used in Norad (2009, p. 50).
Accountability is one of the three elements that contribute to stronger governance. The other two are capability and responsiveness (the so-called “CAR Framework”). The three elements reinforce each other: each is necessary but none is sufficient for sustained improvements in governance.

Accountability will be lower, and vulnerabilities to corruption higher, under the following conditions:

1. **Low transparency**: this includes transparency with respect to the mandate of actors, i.e. what their roles and responsibilities should be, as well as transparency on their performance (e.g. reporting/disclosure of licenses granted and to whom).
2. **Low responsiveness**: this includes the strength and independence of the judiciary as well as, for example, no protection for whistle blowers or ministers who remain in office whilst being prosecuted.
3. **Low capacity** of actors to access, analyse and act on the information available. This applies to civil society actors, who need to have the analytical skills and resources to make informed statements and be taken seriously. It also applies to regulators, who are charged with ensuring that government-mandated procedures are followed.

We consider three types of accountability relationships, of varying significance depending on context, as illustrated in Figure 1-1 below:

**Figure 1-1 Accountability**

1. **Vertical** accountability mechanisms include elections, but also informal processes through which citizens organize themselves into associations capable of lobbying governments and private service providers (e.g. by demanding explanations and informal sanctions);
2. **Horizontal** accountability consists of formal relationships within the state itself, whereby one state actor has the formal authority to demand explanations or impose penalties on another (e.g. oil sector regulatory bodies); and in addition:
3. **Diagonal accountability**, which combines elements of vertical and horizontal accountability, and refers to the direct engagement of civil society with government service providers. This includes involvement and oversight of state budgeting, auditing and other oversight processes which have traditionally been the arena of state actors alone. Diagonal accountability processes enable citizens to engage directly in the workings of horizontal accountability institutions, while it also affects the way vertical accountability takes place.
1.4.2 The oil and gas sector

Given the unique features of the petroleum sector, and its implications for national economies, a variety of possible vulnerabilities to corruption present themselves. This sub-section presents the Natural Resource Charter as a way to organise analysis of such vulnerabilities, and explores some of the potential vulnerabilities that are specific to the oil and gas sector.

1.4.2.1 The Natural Resource Charter

The Natural Resource Charter (NRC) started as an advocacy document. It sets out good practice for the key elements of the chain of public policies that run along the value-chain of an extractives industry — and so determines the impact of the sector on growth and development of the host country. It has recently been used as a tool to benchmark Nigerian public policy.8

Figure 1-2 illustrates the NRC with a broad focus on different stages of the value chain from exploration, award of contracts, production, through to tax collection, revenue management and investment decisions.

**Figure 1-2 The Natural Resource Charter**

<table>
<thead>
<tr>
<th>Decision to extract</th>
<th>Getting a good deal</th>
<th>Collecting revenues</th>
<th>Managing volatile resources</th>
<th>Investing for sustainable development</th>
</tr>
</thead>
</table>

**Accountability of governments and the role of other actors**

*Source Natural Resource Charter (2012)*

Because the OfD programme focuses on ‘upstream’ activities, our approach to using the NRC to focuses on the first three stages of the decision-chain: the decision to extract, getting a good deal and collecting revenues. We add in the overarching issues of transparency and information-sharing and the role of companies and international standards.

1.4.2.2 Sector specific vulnerabilities

There are specific features that accompany large-scale natural resource extraction that pose particular challenges to governance. The volume of transactions, the high level of rents, a concentration of revenue flows, technical complexities of the sector, easily formed natural monopolies, strategic significance, and negative spill-over effects are some of the key features that make the oil and gas sector particularly vulnerable (Campos and Pradhan, 2007, p. 196). These are all exacerbated when a technically complex sector of strategic significance starts up in a developing country with weak public sector capacity.

Beginning with the exploration phase of development, vulnerabilities present themselves in the negotiation and awarding of production rights. The most sensitive topics in these negotiations, and hence the most vulnerable are provisions for recovery of costs, profit sharing, and rate and extent of state relinquishment. This suggests that warning signals in this phase would be:

- absence of competition
- awards to companies without demonstrated ability to perform
- waivers of bid bond requirements
- seriously unbalanced contract terms

8 Facility for Oil Sector Transparency and Reform in Nigeria (FOSTER) is a DFID-funded project led and managed by OPM, which has worked in partnership with the NRC to benchmark Nigerian policy in the extractives sectors.
- unexplained contract extensions.

As local content and local procurement provisions become more prevalent in host country legislation, procurement processes have begun to be acknowledged as one of the largest vulnerabilities in the development phase of an extractives project. Warning signs of vulnerabilities to corruption would include:

- unreasonable permitting and approval delays
- unclear or opaque procurement processes
- limited or no use of competitive bidding procedures
- awards to firms with limited demonstrated capacity,

The production phase, or the revenue collection phase along the decision chain, is the stage most vulnerable to ‘grand corruption,’ or misappropriation of funds on a major scale. This can involve the underreporting and diversion of production volumes or through more direct means, such as tapping into production wells or pipelines (World Bank, 2007).

1.4.3 General recommendations from the literature

Norad’s (2009) joint review of anti-corruption interventions highlights that focusing on vulnerabilities through narrow institutional reform or capacity building may have limited success. Corruption is often of a systemic nature that depends on specific contextual factors. For example, various case studies (including those undertaken for the present study) show how patrimonial relationships and systems of rent pursuit and allocation may distort authority and accountability structures, reducing the effectiveness and reach of formal institutions. Norad (2009) observes that PEA approaches are a useful starting point for uncovering these systemic factors.

Research has also shown that it is far more cost-effective to focus on corruption prevention than corruption prosecution. The present study internalizes much of the sentiment of this literature by identifying potential hotspots for weak governance ahead of time and allows those planning interventions to work proactively on possible responses. In this light, the literature review found that one of the most promising groups to target in anti-corruption efforts was a country’s parliament. Parliament’s reach can potentially stretch into its multiple roles as lawmaker, political oversight watchdog and accountability mechanism. Other interventions that proved to return a degree of positive returns were simplifying bureaucratic procedures, moving to systems of e-government, where more processes are automated, hence removing unnecessary discretion and override powers, and finally rationalizing, improving, and formalizing human resource management within government.

As a rule of thumb, the Norad (2009) review recommends working on goals that are identifiable, practical and manageable, in particular where local leadership has already shown commitment to reform. Without domestic political leadership championing reform, even with strong civil society, it is unlikely much will be accomplished.
2 Country case study: Mozambique

2.1 Context

The political and macroeconomic stability following the end of civil war in 1992 has provided a foundation for economic growth rates that are among the highest in Africa, yet corruption and inequality remain high.

The policy and legislative development process is dominated by the Executive. Parliamentarians are chosen through a party list rather than directly elected, and many government positions are political appointments (including at the sub-national level). This dominance has resulted in an overlap between the ruling FRELIMO party and various parts of the state machinery, influenced by a wider network of personal relationships. A Bertelsmann Foundation report from 2010 argues that, as a result, officials place loyalty to the party above their mandated roles as civil servants. Moreover, important legal documents, for example the regulations detailing how laws will be implemented, are decided by decree by the Council of Ministers led by the President.

Although the formal institutional framework for combatting corruption is broadly seen as adequate, in reality many parts of government lack the power to enforce their rules. Many accountability mechanisms are weak: the legal system suffers from capacity and coordination constraints, and is subjected to political and commercial interference from the ruling elite (Transparency International, 2012; Business anti-corruption portal, 2012). There is limited protection for whistle-blowers which reduces accountability, as people fear denouncing corrupt acts (CIP, 2008).

The media and civil society play a limited role in providing effective checks and balances. Media is only partially independent and suffers from weak capacity, deficits in sector knowledge, and generally low transparency of official information (Transparency International, 2012). Civil society focusing on extractive industries is largely Maputo-based, suffers from a lack of coordinating mechanisms, and has little capacity to influence government or the general public (USAID 2005; CIP 2012).

There have been recent efforts to address some of these issues, partly as a result of pressure from donors (Business anti-corruption portal, 2012). In July 2012, the Council of Ministers adopted parts of a long standing 'Anti-Corruption Package' which included new requirements in asset declaration and a code of conduct for public officials to reduce conflict of interests, and increased protection for whistle-blowers. However according to interviews with non-government stakeholders, the package had been 'significantly watered down' by Parliament.

Personal relationships are important in the Mozambique oil and gas sector, and large companies typically have a close relationship with senior government officials. There are also close networks of often overlapping business and political elites which lead to conflicts of interest, as highlighted in CIP (2012), and these appear to be broadly tolerated in Mozambican society (USAID 2005). There is anecdotal evidence of well-connected Mozambicans operating through such networks in trying to secure licenses by acting as a ‘broker’ for foreign investors. However this risk is partly mitigated by requirements set out by the regulator Instituto Nacional de Petróleo (INP) that bidders demonstrate prior experience.

In a context of weakly enforced domestic legislation, the standards espoused by international petroleum companies are likely to have an influence on the integrity of large projects. Large companies such as those likely to invest in the off-shore gas sector will often require compliance

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9 However stakeholders highlighted the improvements in press freedom over the last decade – there were five independent weekly newspapers at the time of writing.

10 This is also exacerbated by the limited official transparency in the sector.

11 It should be noted that some close relations between elites and business are inevitable in a country with a very limited private sector and a recent history of state led development.
with international standards (e.g. Foreign Corrupt Practices Act and the UK Bribery Act) and also likely to be wary of the watchful eye of international media.

2.2 Hydrocarbon overview and OfD programme activities

Mozambique has been exporting natural gas since 2004 through operations of South Africa-based Sasol, but the petroleum sector has remained relatively small – mineral fuel exports accounted for US$ 512 million in 2010, or 15.1% of total exports (UNCTADstat, 2012).12 Following the June 2012 discoveries of large off-shore natural gas deposits by Anadarko Petroleum, there are expectations that Mozambique could soon become one of the world’s largest producers of liquefied natural gas (LNG).13 Based on estimates that the discoveries hold at least 60 trillion cubic feet (tcf) of natural gas,14 Anadarko is currently in the process of designing facilities involving at least two on-shore LNG ‘trains’, with the capacity to expand to ten trains, each with a capacity of processing 5 million metric tonnes per annum (mmtpa) (Anadarko, 2012).15 The company has announced it will make an investment decision by the end of 2013, for normal production to be in place by 2018. The institution with the mandate to develop the legal framework for off-shore natural gas exploitation is the INP, the semi-autonomous industry regulator based in the Ministry of Mineral Resources (MIREM). INP is also responsible for monitoring and enforcement of exploration and production contracts.

Mozambique is one of Norway’s longest-running petroleum-related assistance programmes, with Norwegian support to the development of the sector dating back to the mid-1980s. Most of the funding for OfD programme activities goes through the Norwegian Embassy, whilst the OfD Secretariat only directly funds selected activities.16 The first agreement under the OfD programme umbrella (for 2006-2010) included a series of activities across different government counterparts. The majority (NOK 44m) consisted of institutional support for the INP, with smaller components of institutional development and capacity building for the state-owned oil company (the Empresa Nacional de Hidrocarbonetos, ENH)17 (NOK 10.3m) and the Ministry of Environment (MICOA) (NOK 5m) – the latter focusing on Strategic Environmental Assessments and Environmental Impact Assessments. This programme also included capacity building for civil society (NOK 3.2m).18

At the time of writing, the only OfD programme agreement in place was with INP (NOK 57.5m),19 with activities focused on the Resource pillar including projects in policy development, data management, capacity building and local content provided by the Norwegian Petroleum Directorate (NPD). Under the Environmental pillar, discussions regarding the signing of a new agreement with MICOA are on-going, with focus on environmental licensing and support for Environmental Impact Assessment (EIA) reviews. At present there are no planned activities specifically within the Revenue pillar, however fiscal issues are covered indirectly through the cooperation with INP and MIREM (as the latter takes the lead in the cross-ministerial committees covering some tax issues).

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12 The one well-known gas reserve, the Pande-Temane field in the south of the country, has been producing gas since 2004 for transport to South Africa through an 850 km pipeline.
13 Four licensing rounds have been conducted since 2005, with exploration and production licenses held by companies including Anadarko, ENI, Statoil and Petronas.
14 Although these estimates are expected to be subject to upwards revisions. One recent estimate puts recoverable gas between 70-100 TCF.
15 Until recently, the world’s largest LNG train was managed by Atlantic LNG in Trinidad & Tobago, with a capacity of 5.2 million mmtpa.
16 For example, this includes support to the World Bank’s large capacity building programme for extractives in Mozambique (currently in inception) and a series of anti-corruption workshops (including both civil society and petroleum industry authorities).
17 INP and ENH both sit within MIREM’s institutional framework.
18 This included a series of courses for civil society, journalists and government officials on environmental impact assessment, and support to civil society in interpreting legislative developments around on oil and gas exploration.
19 Additional petroleum related assistance being provided by the Embassy to civil society.
Support in this area also comes from the Norwegian cooperation with tax authorities, provided by the Norwegian Petroleum Tax Authority (NPTA) (funded in part by the Tax for Development Programme). The Embassy also supports Mozambique’s EITI initiative by working with local civil society groups (Centro de Integridade Publica, CIP,20 and Instituto de Estudos Sociais e Económicos, IESE21) represented on the EITI Multi-Stakeholder Group.

2.3 Vulnerabilities

The political economy of the petroleum sector in Mozambique discussed above presents a range of vulnerabilities to the integrity of current OfD programmes. It should also be stressed that the expected rapid expansion of the sector will place further pressure on such vulnerabilities. We find that there are three groups of vulnerabilities.

- Vulnerabilities associated with public sector efforts to legislate, regulate and administer policy for the oil and gas sector;
- Vulnerabilities in accountability institutions, including both the formal mechanisms for placing checks and balances on government actors, as well as the role of non-state actors to provide effective oversight; and
- Vulnerabilities arising from mismatches between public expectations and reality – of particular importance as the sector grows in the coming years.

The sub-section concludes with a table identifying examples of vulnerabilities discussed across the stages in the petroleum policy chain where the OfD programme operates.

2.3.1 Weak public capacity

While Mozambique has been exporting gas to South Africa since 2004, the scale of recent offshore discoveries and the magnitude of investment, now being ramped up, present new and complex challenges to the legislation, regulation and administration of the petroleum sector.

2.3.1.1 Policy and legislation

Mozambique lacks experience with large-scale offshore developments, and several stakeholders pointed to a ‘rush’ of legislative and policy changes over the last 18 months to prepare the sector for this challenge.22 Some stakeholders highlighted the role of donors in contributing to this situation, by pushing for quick ‘ideal-type’ reforms – overstretching limited government capacity – which conflicts with the desire of political elites to maintain the status quo.

A lack of policy coherence obscures the specific roles and responsibilities of key actors, reducing transparency and accountability in the sector. It points to clear challenges to the OfD programme’s objectives to “facilitate among all relevant regulatory institutions a well-coordinated and efficient handling of policy, planning and implementation” (activity 10 in the 2011-2015 agreement).

This set of vulnerabilities is augmented by a strong reliance on legal instruments for policy, reflecting a tradition of Napoleonic law. This creates ambiguity and excessive bureaucracy in the

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20 CIP is a not-for-profit independent NGO (not members-based) focused on promoting integrity, transparency, ethics and good governance in Mozambique. It differentiates itself from other NGOs in this area by underpinning its activities with primary research.

21 IESE is a members-based independent research organisation, established in 2007, thematically organised around Research Groups involving in-house and external researchers.

22 Laws that are currently under revision include the Mining Law (from 2006 or 2007) as well as the Petroleum Law (both developed by MIREM and under consideration by Parliament).
system. The reliance on legal instruments goes beyond the core sector framework; for example industry stakeholders expressed concern that the new Gas Master plan (supported by the World Bank) may place an excessive reliance on legal instruments to structure sector arrangements.

Although the cross-ministerial Rovuma Committee intends to provide policy coordination, some key issues are not addressed by this forum (e.g. local content) and some stakeholders appear to be excluded from the process (e.g. sub-national government). Moreover, there is an absence of gas sector considerations in government’s main planning documents, including the PARP (poverty reduction strategy), the government’s five-year plan, or longer term national vision (Agenda 2025). This highlights the importance of completing revisions to these planning documents to take into account petroleum sector challenges without undue delay. Interviews suggest that the donor budget support group are at present considering ways to include these issues as part of their partnership with government (including the types of performance indicators that could be used).

2.3.1.2 Regulation and administration

The responsibilities of government agencies will increase in line with expanding legal mandates, as the demand for monitoring and oversight increases with the size of the sector – widening the gap between de jure mandates and de facto implementation capacity. This is likely to place regulatory and administrative agencies under great stress. While revenue from the sector could be used to develop needed capacity, those receipts will lag the need for monitoring by many years.

Although the INP was widely reported to be better prepared than other government agencies, even INP highlighted various capacity constraints, including insufficient capacity to monitor production volumes and implementation of development plans. Other actors (such as Ministry of Finance, MICOA and the Tax Authority) play key roles in the sector, but all cited severe challenges in verifying technical or financial data of companies, as well as issues of lacking databases and systematisation of sector information. Sub-national government is expected to play a growing role under Mozambique’s decentralisation reforms, yet stakeholders broadly agreed that capacity was virtually non-existent in many branches of government at local levels (provincial, district, municipal).

Stakeholders also highlighted the risk of a ‘brain drain’ away from the public sector to the private sector, as requirements for companies to demonstrate local employment may bid up wages for geologists, engineers, IT specialists, environmental managers etc. The political economy somewhat mitigates this, as senior government officials may stay in their positions due to stability and potential access to rents associated with government positions.

These capacity deficits in regulatory agencies result in vulnerabilities to corruption, by reducing horizontal accountability and increasing risks of rent seeking. The OfD programme’s direct support to INP and MIREM will only be a partial solution to this challenge, since the outcomes in the sector – e.g. revenue collection, environmental sustainability and negotiating fair deals (of key to future stability of the sector) – depend on many areas of public policy that reach beyond the focus of present OfD programme activities.

2.3.2 Accountability institutions

In the context of Mozambique’s political economy, the challenges around developing and implementing effective policy are compounded by the weaknesses in formal and informal accountability mechanisms, and by weaknesses in civil society.

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23 For example, industry stakeholders noted how the Resettlement Law includes provisions for public consultation that are inconsistent with those provided in the existing Land Law.

24 Challenges arise from a lack of resources (e.g. vehicles), difficulties in attracting and retaining skilled people and distance from the scrutiny of central government.
2.3.2.1 Formal accountability

The role of Parliament in enhancing accountability is constrained by loyalty to the FRELIMO party and lack of gas sector knowledge. At the same time, it was described as often ‘tinkering’ with laws – thereby potentially undermining the technically sound inputs provided by the Norwegian Petroleum Directorate and other advisors. Other formal accountability institutions like the office for combating corruption (GCCC, situated in the Office of the Prosecutor) are weak, with the GCCC’s mandate being investigation rather than prosecution. There is currently no capacity for this body to pursue grand corruption cases, instead focusing on issues at a local level, for example by providing corruption-related community radio broadcasts and ‘hotlines’.

The Autoridade Tributária (AT, auditor general) is formally independent although as noted above, all public bodies are to some degree influenced by personal relations and party loyalty. In addition it lacks funding and qualified staff (Transparency International, 2012). There are a large number of quasi fiscal provisions for the private sector to fund key government oversight functions in the sector. The INP ‘institutional strengthening tax’ (the main funding source for the INP) and corporate contributions to a community development fund – accounted for 8.5% and 6.3%, respectively, of the total revenues paid to government by the extractive industries in 2009 (Ernst & Young 2012). However the rates for these contributions are set on a case-by-case basis, and managed in an opaque way outside of central budgetary processes.

The 19 donors (G19) participate in the General Budget Support mechanism contributing to almost 20% of the state budget. More than 50% of the state budget is funded through development aid and Norway is the 5th largest bilateral donor. This is creating some leverage to engage government in dialogue on issues related to governance in the sector. However, for this to work effectively requires the group to speak with one voice which is sometimes challenging given the divergent interests among the 19 donors.

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The broad mandate of the national oil company ENH to promote Mozambican business interests – combined with its limited experience and political economy context of pervasive conflicts of interests – presents further vulnerabilities to corruption (CIP, 2012). ENH is in the process of setting up ENH Logistics, a subsidiary with the stated aim of (1) developing and manage infrastructure (airports, rail, ports) and to (2) developing the Mozambique service industry, initially with foreign companies through joint ventures.

2.3.2.2 Informal accountability

Weaknesses in formal accountability mechanisms are exacerbated by the emphasis on personal relationships and the discretion applied by policymakers in setting and enforcing obligations on investors. As noted above, some stakeholders commented that local ‘brokers’ for foreign investors were being used to take advantage of such relationships. However, this risk is partly mitigated by the requirement that bidders demonstrate prior experience. The discretion in the system is partly provided for in the legal framework, but is also a function of the high complexity and ambiguity of these frameworks (e.g. lacking definitions of what constitutes ‘commercially sensitive information’).

The combination of discretionary decision making and risks of political interference presents vulnerabilities to the management of the sector at each stage of the decision chain, from exploration to revenue raising and management. These highlight the importance of OfD programme activities to strengthen the monitoring and supervisory systems of INP (activity 4 in the 2011-2015 programme) as well as work with the parliamentary budget committee, and support to

25 There is, for example, no parliamentary committee focusing on the extractive industries. It should also be acknowledged that parliament as a democratic institution is relatively new in the Mozambique context.
26 For example, in 2009 budget support was withheld as a consequence of a lack of action in anti-corruption measures. This provided some impetus to the recent passing of parts of the Anti-Corruption Package.
27 The current framework allows for direct negotiation of Exploration and Production Contracts, although since 2006 all but one license (Statoil) have been awarded through public bidding rounds.
the Ministry of Finance and the Tax Authority (e.g. expanding on the work to date including cooperation with the NPTA on two audits which led to a recovery of funds). However these initiatives need to acknowledge the incentives of government actors and risks of political interference.

2.3.2.3 Weak civil society

Civil society is comparatively small and suffers from several constraints – limited understanding of the petroleum sector, limited availability of information, a lack of effective coordination, and government perceptions that CSO’s role is to educate the public rather than hold government to account. In some cases CSOs may be co-opted by government or not wish to venture into sensitive issues.

Most stakeholders (e.g. CSOs and donors) acknowledged that the Extractive Industries Transparency Initiative (EITI) has contributed to changing the discourse and broadened understanding of the sector, although CSOs in particular argued that the EITI’s focus was too narrow – advocating for a broader mandate across the entire value chain (referred to as EITI++). A promising development is a new civil society organisation, a ‘natural resource platform’ to coordinate CSOs interested in the petroleum sector, although there are concerns among leading NGOs (CIP and IESE) over its focus and legitimacy (as it is supported by international rather than local actors).

Civil society actors as well as some private sector interviewees argued that effective consultation on new laws was often lacking, despite legal requirements that such consultations should take place – reducing diagonal accountability in the sector. Civil society stakeholders complained that they were not consulted, and when they were, there was little-to-no responsiveness of government to suggested amendments (e.g. Petroleum Bill). The situation is exacerbated by the lack of an effective law promoting access to information (Transparency International 2012). The weakness of civil society – in general a mix of lacking capacity, including for advocacy, and a lack of petroleum-specific knowledge – exacerbates the vulnerabilities to corruption identified above, as it represents a missed opportunity to enhance diagonal accountability in the sector. The OfD programme has worked on strengthening government bodies in the sector (such as INP and MIREM), but doing so without corresponding support to build civil society capacity represents a threat to the integrity of the OfD programme, given evidence of a lack of horizontal accountability between government agencies.

2.3.3 Vulnerabilities from the gap between expectations and reality

Mozambique’s natural gas discoveries give rise to enormous but often unrealistic expectations of development benefits – based on limited understanding of both benefits as well as disruptive

28 The main civil society actors that are relevant to the sector include, CIP, IESE, WWF, Impacto and the multi-stakeholder platforms, EITI, the natural resource platform and PWYP.

29 CIP and IESE are beginning to direct more attention to this sector. For example as members of the EITI multi-stakeholder group they provided some analysis of what they saw as the deficiencies in the current EITI process. CIP also recently released a report on conflicts of interests in the sector (CIP 2012). IESE also plans to include the petroleum sector as one of their main areas of focus for future research in the country.

30 For example the Development Observatory – an annual CSO forum – is seen by some as a government run platform (Topsoe-Jensen et al, 2012).

31 The EITI++ aim is to go beyond that of the EITI and provide countries with technical assistance – financial and policy-related – throughout the entire value chain of extractive industries. For further information, see http://web.worldbank.org/WEBSITE/EXTERNAL/EXTSITETOOLS/0,,contentMDK:21727814~pagePK:98400~piPK:98424~theSitePK:95474,00.html

32 Local NGOs expressed concern that as the secretariat was hosted by WWF – an international NGO – this would not fully represent local CSO views. This initiative is principally being funded by the AFD and the Norwegian Embassy.

33 Although a general access of information law exists it is argued that in practice it is not exercised because of bureaucratic inefficiencies ( Transparency International, 2012).
impacts of the sector (in particular among local communities). Many of these expectations centre on increased local content – understood here to include local hiring as well as procurement – yet debates around a national local content strategy have not started.

Political elites may have an incentive to encourage unrealistic perceptions, since calls ‘on the ground’ for more local content provides space for well-connected business interests to capture rents in the sector. Companies have been quick to respond, in an effort to pre-empt stricter government requirements. Some have set up their own vocational training schools in collaboration with government (e.g. Vale and Rio Tinto), others are offering shadowing opportunities to INP. The government is positioning the ENH to play a broad role in ‘providing space for Mozambicans in the sector’, partly through the newly incorporated ENH Logistics, yet the organisation lacks prior experience in many of the areas targeted.

The broader vulnerability for the OfD programme is that if expectations are fundamentally misaligned with reality, the agreements and policies in place may quickly unravel as demands trickle upward – reducing policy visibility that OfD programme activities are seeking to promote (e.g. activities 1 and 2 in the 2011-2015 agreement). The OfD programme activities envisaged under activity 7 (local content) of the 2011-2015 agreement therefore need to build on what already exists – including the Ministry of Labour’s vocational training system (National Institute of Education and Professional Training, INEFP) and the Ministry of Education’s Vocational Education Reform Project (PIREP).

2.4 Stakeholder mapping

Figure 2-1 plots selected accountability actors in the Mozambican gas sector based on the question: “what is the interest and influence of key accountability actors in supporting more transparent and rule-based sector governance in the natural gas sector?” Importantly, the figure is intended to demonstrate the relative positions, based on a review of the literature and triangulation through stakeholder interviews – at the time of fieldwork. However the rapid changes in the sector are likely to alter this snapshot. For example, interest for such reform may fall among groups that begin to receive rents as the sector develops.

34 Local areas appear largely unprepared for the consequences of recent gas finds. Settlements like Palma, Pemba and Nacala are likely to witness rapid in-migration, resulting in appreciation of non-tradable assets (e.g. land) and exacerbating public services deficits including health and security – leading to social tensions.

35 Other approaches through which elites may ostensibly promote local industrial development include local content boards; however experience from elsewhere (e.g. Nigeria) shows that these can easily be used by political and business elites to capture rents.

36 The new Resettlement Law provides a good example, where the discontent at the local level quickly percolated upwards and resulted in a rushed-through new piece of legislation that conflicted with the preceding Land Act.

37 This appears to be the case with the pilot programme in Cabo Delgado, which is working through existing technical schools and has been designed in consultation with INEFP and PIREP.
2.5 Mozambique conclusions

Stakeholders interviewed generally had a strongly positive view of the OfD programme’s training activities, its technical support with systems and processes, and its long-standing relationship with Mozambican petroleum sector institutions. However, many of these institutions will be under enormous stress as the sector grows – including core institutions as well as other parts of government (Tax Authority, Ministry of Finance, GCCC, Tribunal Administrativo, Law Enforcement and other oversight organisations). This will increase vulnerabilities to corruption and mismanagement, which risks undermining some of the gains made by the OfD programme to date.

Disappointments around the level of perceived benefits could, in the near future, result in social tensions. These are likely to be focused initially at the local level, but may percolate upwards to centre. This risks destabilising the political consensus across policy elites and giving legitimacy for government to exercise discretion in amending the legislative framework and how it is implemented.

Horizontal accountability (i.e. across government) is weak and presents a vulnerability to the OfD programme, pointing to the need to develop civil society capacity. However the two most capable and active civil society organisations (IESE and CIP) in this sector are vulnerable to capture as well as lacking broader alliances. This partly reflects the absence of an effective mechanism in the sector to coordinate and build capacity of a wider group of CSOs, and academic interlocutors, with interests in extractive industries issues.\(^{38}\)

\(^{38}\)Identifying who these wider CSOs could potentially be is difficult. There are some small CSOs outside of Maputo that work on specific issues that relate to the sector (e.g. particular local environment issues) but none were specifically highlighted to the project team as key petroleum focused organisations. It is likely that donor support will need to continue to support CIP and IESE in this area while building wider coalitions (and more competition of ideas) through platforms such as the Natural Resource Platform (or equivalent).
The political economy with overlapping business and political elite networks, limited transparency and a high degree of discretionary policy making conspires to create an environment with pervasive conflicts of interest. These risks are particularly great in the area of downstream development and local content, where the national oil company ENH is being given a very wide mandate to ‘provide space for Mozambicans in the sector’.

**Box 2-1. Mozambique: A note on donors**

**Weak public capacity**: The World Bank through its Mining and Gas Technical Assistance (MAGTAP) programme will provide training for the Ministry of Finance to develop understanding of the overall gas sector, and on-going scoping assessment of future capacity needs. Their assistance will also include the Gas Masterplan (at inception stage at the time of writing). To help address the deficit in general public administration skills, the Danish International Development Agency (DANIDA) and Netherlands’s Development Organisation (SNV) are supporting the establishment of INPFA, a public planning and management school linked to local universities.

**Accountability institutions**: The Ministry of Finance and Tax Authority (along with other government organisations) are also being supported by the IMF in designing an oil and gas fiscal regime as well as receiving general macroeconomic and sector support from the World Bank (through MAGTAP). This includes both traditional technical assistance and longer term capacity building. The World Bank are due to replace Norad’s engagement with ENH as part of their wider mining and gas project which will also have some involvement with MIREM. A number of donors have also been supporting the EITI secretariat and the World Bank has been supporting the Revenue Watch Institute which works closely with GIP. The Natural Resource Platform is currently being funded by the French Development Agency (AFD). Most other donors are also funding the same CSOs either directly or through an on-lending mechanism, ‘Mechanismo de Apoio a Sociedade Civil’ (MASC) which has so far provided three grants to the wider natural resources sector.

**Gap between expectations and reality**: The beginnings of a local content strategy are expected to be developed as part of the MAGTAP project and Canadian International Development Agency (CIDA) are also assisting in the development of a broad corporate social responsibly (CSR) strategy. Other donor initiatives include the establishment of a decentralisation working group with support from DANIDA and Italy (through the budget support working groups), including various sub-groups (e.g. judicial reform) and training activities.

The coordination of donors around extractive industries issues is at present managed through the Extractive Industries Donor Task Force (in which Norway participates), however there is some scope for the OfD programme to play a bigger role in formalising this process. This will also include OfD programme cooperating closely with other development partners in engaging with government in updating existing development strategies to incorporate a greater focus on the petroleum section. By pursuing a broad agenda through this broader donor coalition, the OfD programme will also have greater legitimacy in engaging on a wider range of issues, including those likely to be more vulnerable to corruption and therefore more sensitive (see Box 2–1). This could include building on OfD programme experience in working with MICOA to help plan for public infrastructure needs in coastal areas of Mozambique (where over two thirds of the population lives), through a Strategic Environmental Assessment. There is also strong interest from MICOA for support in the implementation of a similar planning exercise to prepare a ‘Special Plan’ (master plan) for the region around the gas discoveries.

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39 This might include the sensitive area around ENH. Although OfD have made the decision to disengage dialogue and cooperation with ENH, the latter is and will be an important organisation in relation to corruption vulnerabilities the potential for conflicts of interest for Norway’s development actors (as raised by a number of stakeholders).

40 The precedent for such a plan is the Council of Ministers’ recent decree instructing MICOA’s Department for Territorial Planning to prepare Special Plan (master plan) for Tete to regularise urban expansion (addressing environmental, health and social issues).
3 Country case study: Uganda

3.1 Context

Uganda’s institutions of governance have not strengthened over recent years, but the country has sustained economic growth. Uganda is a patrimonial society with strong relationships between senior public officials and private actors obscuring authority structures and accountability mechanisms. For example, resources are often directed to prominent groups based on their regional affiliation, ethnicity or loyalty to the President (Transparency International, 2009, Booth and Golooba-Mutebi, 2009). Although there are exceptions, policies and organisations pursue objectives that generate resources to permit these relationships to flourish. The President has increasingly centralised power over the last twenty five years, through a personalised form of leadership. As one stakeholder stated, “If he (President Museveni) says it should happen, it will happen.”

The formal institutional system for providing accountability is comprehensive but in practice some accountability checks on the executive are not fully robust. The police and the judiciary are widely perceived to be corrupt. Accountability institutions, such as the Inspector-General of Government (IGG) and Office of the Auditor General (OAG), are subject to political interference and lack influence (de Vibe, 2012).

The multiparty system is not yet fully integrated in the political culture. However there are signs that the recent parliament intake has taken a more vocal approach to oversight. For example, the Parliament voted to prevent new petroleum deals being concluded until new legislation was in place (although this was ignored on a technicality). Donors have found it difficult to leverage governance reforms, despite having contributed large amounts of budget support. CSOs are vocal but lack capacity – being short of staff, funding, and sector knowledge, and short of influence in policymaker circles. This also partly reflects the limited transparency of government and the lack of coordination between different CSOs. The media is in part independent and also quite vocal on governance and corruption issues, but there have been cases of press restriction in recent years (de Vibe, 2012).

Corruption in Uganda includes cases of large-scale misappropriation of funds as well as petty corruption involving public officials at all levels, and widespread political patronage networks reaching into the private sector (Anti-Corruption Business Portal, 2012). The World Bank has previously estimated that the Uganda government budget loses around USD 300 million each year due to corruption and procurement malpractice.

Uganda ranks amongst the bottom third of countries worldwide in terms of the perception of corruption (Transparency International, 2011b). Although there have been some improvements, perceived corruption remains high. Uganda’s governance indicators have been stagnant since 2006, according to both WGI and the Ibrahim Index – both in relative and absolute terms. In fact, indicators related to corruption have either stagnated or declined (see Annex D for details). Two-thirds of Ugandans believe that corruption has increased from 2007-10 and one quarter perceive the current government’s efforts in fighting corruption as ‘ineffective’ (Transparency International, 2011a).

41 For example, the recent purchase of fighter jets were purported to have been paid for by central bank reserves without parliamentary approval and in violation of established procedures (RWI, 2012)
42 The IGG has been more active in recent years and undertaking more visible and high profile anti-corruption cases (de Vibe, 2012, Stakeholder interviews).
43 Government passed an Access to Information Act in 2005, which strengthened press freedom and reinforced existing anti-corruption legislation. However a culture of secrecy remains with transparency limited
3.2 Hydrocarbon overview and OfD programme activities

Oil in place in Uganda is presently estimated at over 2.5 billion barrels and exploration continues. Oil production at commercial scale will need to overcome a number of challenges including: the waxy quality of the oil which makes it hard to store and transport; regional geopolitics; competition from neighbours; and questions on how best to build a refinery. Expectations of the timing and magnitude of revenue flows are unclear. One recent study suggests these may be relatively modest, with “not much oil revenue...for at least a decade” (Henstridge and Page, 2012). Tullow Oil has farmed out two-thirds of its licence to Total and China National Offshore Oil Corporation (CNOOC). This consortium controls the currently commercial oil reserves, with each company acting as operator in three different blocks.

Norway has been providing petroleum-related assistance to Uganda since the 1980s, but the OfD programme, specifically, began giving support to Uganda upon discovery of commercial quantities of oil in 2006. Funding for the programme has increased in recent years. The OfD programme supported the development of the 2008 National Oil and Gas Policy – overall, Ugandan officials were strongly supportive of the programme, and the approach of the OfD programme in sustaining relationships: CSOs were less certain of what the OfD programme involved and how it contributes to the broader Ugandan community.

In addition to providing assistance to the drafting of the new upstream and midstream petroleum bills published earlier in 2012, the OfD programme has hosted regular trips by Ugandan parliamentarians and other government officials to Norway for legislation-specific capacity building. In the past six months, there have been 10-12 visits by a range of Ugandan delegations. The programme’s activities in Uganda have supported, among others:

- Draft oil bills for the upstream (exploration and production), and midstream (refining, storage and transport);
- The finalisation of an Oil Revenue Management Policy that was submitted to Cabinet; The policy then became the impetus for a draft Public Finance and Accountability Bill submitted to Cabinet in December 2011, which caters for oil revenue management through a number of petroleum funds.
- Capacity building in areas of taxation, transfer pricing legal systems, fundamentals of oil and gas, project finance, taxation treaties, petroleum economics, oil and gas key standards, and petroleum policy.

In the early years of Uganda’s OfD programme, assistance was channelled through the Petroleum Exploration and Production Department (PEPD) of the Ministry of Energy and Mineral Development (MEMD), which played a key role as coordinator – and to some extent gatekeeper; more recently the Ugandan Ministry of Finance has begun work with the OfD programme under the revenue pillar.44

The OfD programme assistance under the environmental pillar has been a mixed effort between their focus on the Uganda chapter of World Wildlife Fund (WWF) and on National Environmental Management Agency (NEMA). This assistance is of importance due to the delicate nature of the reserves sitting in protected areas in and around Lake Albert – both potentially threatening local ecosystems and the tourism industry. Reportedly, the OfD programme engagement under the environmental pillar has been restrained due to authorities lacking the capacity to handle both the

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44 For example, this support has included technical assistance for the development of a revenue management policy, including advice that all receipts should be collected in one account or fund, rather than being ear-marked, which is consistent with Norwegian experience (Stakeholder interview; Heglund, S.).
technical nature of oil and gas related requests and the sheer volume of requests to assess Environmental Impact Assessments (EIAs) and monitor on-going projects.\textsuperscript{45}

Some observers argued that the government in Uganda seems focused on keeping costs to companies as low as possible in order to promote further investment into the sector. This is in part fuelled by the current monopoly of exploitation in the country by Tullow Oil and its partners, and the institutional memory of initially not having enough offers on previous bidding rounds. When the MEMD was asked about its views on bidding and conducting due diligence on bidders, it was implied that the highest bidder would likely remain the most attractive, regardless of their capacity and environmental track record. This can become a challenge for well-intentioned companies when trying to competitively bid. The Norwegian Ministry of Environment emphasises that the government will “have to make decisions on the use of technology which may reduce the footprint in the national parks. Environmentally friendly technology is often more expensive, and the costs of the companies (independent of Production Sharing Agreements (PSAs) or taxation) are probably deductible.”

The OfD programme in Uganda provides support to WWF Uganda, and other local NGOs\textsuperscript{46} through international partners, such as Revenue Watch Institute (RWI) and Publish What You Pay (PWYP). These organizations receive support for capacity building, including trips to meet with their counterparts in Norway, as well as resources to conduct research and disseminate information to their constituents.

\textbf{Box 3-1 Uganda: a note on other donors}

The OfD programme is uniquely placed in the Ugandan context. Given their technical expertise and long-standing productive relationship with the Ugandan government, they are close to becoming the sole providers of advice to the Uganda government on all oil and gas matters. This could become a risk for the programme. Some other donors working in the petroleum sector argued that Ugandan officials show limited appetite to engage, based on a perception that Norway’s expertise in petroleum development was as all that was needed. The risk is that the OfD programme ends up uniquely associated with the outcome of legislation and policy, without having full control over these outputs.

\section{3.3 Vulnerabilities}

This section sets out the vulnerabilities to corruption identified in the Ugandan petroleum sector, including the specific challenges and opportunities along the parts of the sector value chain where the OfD programme operates. As in Mozambique, the combination of a technically sophisticated sector, strategic importance, and the weak public sector capacity of a developing country make some of the vulnerabilities in the sector particularly stark.

\subsection*{3.3.1 Legislative and regulatory}

Due to the current and on-going developments in key legislation it remains to be seen as to what the sector’s vulnerabilities may look like even a year from now. There is tension between formal legislation and implementation, but these pieces of legislation will become the first port of call for understanding formalized institutions and procedures for accountability.

\textsuperscript{45} According to a recent evaluation, confirmed by interviews with WWF in Kampala.

\textsuperscript{46} One local NGO, AFIEGO, is a member of PWYP and has benefitted from such trips. The organization’s director reported that though he feels the Norwegian experience is very different to Uganda’s own development, he learned a lot from the trip. He has since been working to engage with parliament to run information sessions about new provisions in the legislation so that they can have an informed debate on what he perceives to be weak areas on transparency and accountability.
3.3.1.1 Unclear roles and responsibilities in the legal framework

There are a number of vulnerabilities in the legal framework for the sector in Uganda: (i) the underlying policy is comprehensive, but in some areas vague; (ii) the draft Bills have not fully clarified institutional roles and responsibilities; (iii) there is no progress towards greater transparency in the sector beyond the statement of an aspiration for world-class standards of transparency in the 2008 policy.

The OfD programme has supported the development of the government policy for petroleum and the drafting of the new Bills. There are two draft petroleum sector Bills: one upstream, covering exploration and production of crude oil; the other mid-stream covering refining, transport, storage of crude oil and petroleum products.

The process for drafting new legislation has been protracted. The policy on which the draft is based was approved by cabinet in 2008, the draft laws were published in February this year. The time it has taken has allowed for more consultation than would otherwise have been the case.

However, CSOs complained that public consultation in relation to these Bills was not “genuine”. Moreover, the strength of the technical expertise concentrated in the Ministry of Energy, but covering a broad span of the public policy impacting on the sector, meant that inter-ministerial consultation and coordination was not always sustained (more on capacity below). As a result, despite the time taken, the draft Bills have not provided clarity on institutional roles and responsibilities. Box 3-1 provides a brief overview of the draft legislation.

Box 3-2 Uganda: vulnerability - draft upstream legislation

The 2009 draft Petroleum Bill encompassed too much to be effectively managed in one piece of legislation and was split into three bills covering upstream and midstream oil and a new public finance bill. The drafting has been closely supported by the OfD programme. The draft petroleum bills were published in February 2012, and reviewed by a range of analysts. Some of their concerns include:

- An insignificant role for Parliamentary oversight.
- Broad and far-reaching discretionary powers for the Minister, including the ability to override almost every other clause within the bill.
- A lack of clarity on the role of the National Oil Company and its relationship with government institutions.
- Broad exemptions permissible by the Minister that allow accepting direct bids for rights to access, thereby undermining the competitive bidding process.
- Lacking any mention of pre-qualification for companies on environmental and/or social grounds.
- There are only weak and easily avoidable channels for public objection to new oil licenses and no public objection mechanisms before renewal of standing licence applications.
- The fines to be imposed on companies for violating environmental and social provisions of the Bill, which are already quite weak, are insufficient to incentivize compliance.

The close association of the OfD programme with the drafting process when the draft bill does not match international best practice presents a risk to the OfD programme. Though this may be an unfair risk, given the OfD programmes role to simply provide demand-driven advice in a spirit of cooperation, those criticising the bill associate it with the assistance provided by 'the Norwegians.'

The roles and responsibilities, in particular for regulation and audit, set out in the draft oil laws are not always fully consistent with other legislation or institutional mandates. One example is the responsibility for monitoring regulation of performance against environmental regulations. Another example is the authority to audit amounts for cost recovery, which has not been settled by the draft Bill, which has it sitting with a committee chaired by the Minister. But the administration of government revenue collection is the responsibility of the Uganda Revenue Authority (URA) which is to receive technical assistance on the audit of cost recovery amounts. At the same time, the OAG firmly considers that audit of cost recovery is sufficiently part of the public finances, in that...
given a level of production, cost oil determines profit oil and therefore the state share, and is therefore under their authority. In addition, one MP argued that by being in effect the repayment by government of a loan from the contractor, it constitutes a public debt operation and should therefore be approved directly by parliament.

3.3.1.2 Regulatory and administrative capacity

The petroleum sector is technically sophisticated: the geology, engineering, legal framework, contracting and accounting are never simple. The public sector capacity for regulation and administration is often weak in a developing country. This is particularly the case when dealing with a complex sector such as petroleum.

The OfD programme in Uganda has worked hard to build capacity over a sustained period – the long-term nature of the relationship with the Ministry of Energy in particular is one of the strengths of the programme, and greatly appreciated by the Ugandan counterparts.

However, the initial concentration of comprehensive capacity building in the Ministry of Energy across many facets of the sector initially concentrated the capacity of the government in one Ministry at the expense of the comprehensive capability of the government as a whole. It is still the case that the environmental agency does not have the capacity to administer environmental regulations, with the Ministry of Energy holding a stronger capacity. At one point, now a few years ago, the Ministry of Energy sought to lead activities on revenue management, somewhat to the surprise of the Ministry of Finance. It appears the Ministry of Finance has caught up over the last two years, in terms of drafting a revenue management policy and re-drafting the Public Finance Bill – both with support from the OfD programme. A technical-level inter-ministerial committee, chaired by the Ministry of Finance, was also established to broaden sector capacity of the government as whole, but it has not met recently.

The drawn out process of developing the draft legislation has not served to make time and space for institutions to build their own capacity to administer policy and regulations because the roles and responsibilities of each institution have remained unclear. One exception is the Office of the Auditor-General, which has reviewed the draft legislation and assigned staff to specific responsibilities; another is the Ministry of Finance which has done much the same. Other ministries and agencies may be able to make up for a lack of capacity by sub-contracting to the broad capabilities of the Ministry of Energy. This blurs accountability, and is a vulnerability to corruption in the sector.

3.3.2 Accountability institutions

Formal vs. informal, and weak Civil Society Organisations

Formal accountability relationships – both horizontal and vertical – exist, but in practice formal accountability is weak. The current parliament has been more vocal than previous ones, some members are influential, and the Natural Resources Committee has been active, but the perception is that they are controlled by the Executive (Africa Institute for Energy Governance interview). The media are in part under government control or influence, but other parts are independent and have been vocal, if not always well-informed.

Accountability is weakened by a lack of transparency, in particular by the government refusal thus far to make the PSA transparent. The argument from the Ministry of Energy is that this is conventional – around the world, very few oil contracts are in the public domain. Nevertheless, a lack of information compounds relatively weak capacity outside the Ministry of Energy for understanding the complexities of the oil sector. In turn, this reflects a broader weakness in CSOs which are thinly staffed and funded.

47 “This 9th parliament has the most commitment to change and to disturb the status quo.” (WWF interview)
3.3.3 Expectations and tension

The tension between the expectations related to petroleum and likely reality

A consistent theme of meetings in Uganda was that there is a role for the OfD programme in managing expectations. The excitement of prospective oil wealth has infiltrated debate, side-lining the fact that the oil discovered is technically very complex to extract, refine, and transport, and that there just is not that much of it to begin with. There is a broad popular expectation that oil will mean prosperity – and that the issue is who gets how much – and from a political perspective an expectation that oil means more resources for patronage.

As in Mozambique, this gap in expectations poses a significant vulnerability for the integrity of policymaking and for advancing a realistic debate on how to best develop the sector and on how to spend the revenues that will enter the budget. Meanwhile, it is clear that expectations of how petroleum resources might transform the country are inflated.

Tensions between central and local

There are particular local impacts of Uganda’s expected petroleum production, given that it is onshore and in an environmentally sensitive location. There is a corresponding role for district-level government, which is to some extent still undefined and ad hoc. There is a constitutional provision for revenue-sharing with local level government, but it is not clear what actual sharing arrangements will look like (in light of an ambiguous revenue policy and the lack of any sort of concrete numbers for calculating local government take), nor whether there will be the capacity, or accountability, of local government necessary to handle significantly increased receipts.

According to CSOs, local community consultation and communication is weak. This is in part exacerbated by that – at least for now – compensation and resettlement are sensitive issues handled on an ad hoc basis, leaving them open to discretion for those benefitting from power and information asymmetry. The reported increase in people from other parts of the country speculating on land values, in the hope of benefiting from some capital gain in land values, has also exacerbated this situation.

3.4 Stakeholder mapping

Figure 3-1 plots selected accountability actors in the Ugandan petroleum sector according to their interest and influence in supporting more transparent and rule-based sector governance (more detailed analyses could be undertaken using more narrow policy questions). Importantly, the figure is intended to demonstrate the relative positions – as interpreted by the consultants, through literature review and triangulation through stakeholder interviews – at the time of fieldwork. That the sector is relatively new to Uganda, as compared to Bolivia and Mozambique, is reflected in the more positive assessment that most institutions are interested in the same overall goal as the OfD programme, even if not all the stakeholders carry the same influence.

The below figure captures the current state of play, but it should be noted that the policy landscape of the Ugandan oil and gas sector is changing very rapidly. Some of the key accountability actors are discussed in more detail below, with respect to where and why they are placed where they are now, and where we project they may move should legislation be passed and/or current political trends continue.

For the petroleum sector, there may be an elite interest in maintaining the status quo of limited transparency and accountability. Despite quite clear ‘conflict of interest’ provisions in both actual and proposed legislation, there is anecdotal evidence of elite purchases of land in areas thought to be oil rich in order to leverage land titles for later resale at a mark-up.
Compared to other accountability actors, such as the media, parliament’s potential influence is promising. A significant turnover at the last elections has brought in to the House a more vocal generation of parliamentarians. From our interviews with parliament, non-governmental organisations (international and indigenous), and various ministries, we are optimistic that Parliamentarians as a stakeholder group may increase both interest and influence. They have the potential to be important, as their recent increase in voice (as of 2011) and the new blood that has been injected since recent election indicates an interest in reform in the sector. At the moment, those dissenting voices that are calling for transparency and accountability within this group are being marginalized, however, as they increase in number, this is likely to change.

Another group that we believe has a high interest in good governance reform is the OAG. Their interest is high and their influence could also increase, as their capacity – in terms of organisational capabilities and knowledge – grows. Members of the OAG seem to be proactively preparing for the incoming revenues and have taken their own ‘value chain’ approach to identifying the types of audits they may be able to conduct as oil comes on line. Their interest can be seen in regular reporting that is easily accessible and adheres to their mandate. However, the same reports and interviewees claim that their findings are often ignored. As accountability actors, the OAG cannot work alone to achieve good governance reform, but the office provides a useful tool for those other actors to hold one another to account.

The broad range of civil society actors – international domestic and the media – share a broad interest in the same overall goal as the OfD programme, but, as elsewhere, lack both the data (owing to the lack of transparency) and the capability to process the data necessary to be an effective actors of greater accountability.

### 3.5 Uganda conclusions

The OfD programme has made a number of significant contributions to new legislation in Uganda, and is greatly appreciated by Ugandan civil servants; however, the non-governmental organisations remain unclear as to what the OfD programme is doing to contribute to fair and
responsible exploitation of the country’s resources, in large part due to a lack of communication between the programme as a whole and non-state actors.

The original set-up had the Petroleum Exploration and Production Department (PEPD) in the Ministry of Energy as a coordinator for the activities of the OfD programme. A few years ago, the coordinator was close to being a gatekeeper, and in this sense increased the risk that the OfD programme would be captured, with the capacity-building benefits not as broadly shared by the Ministry of Energy as they could have been. This is a vulnerability which arises from the much appreciated respectful, quite non-judgmental, approach taken by the OfD programme in their key relationship with government. Other government institutions (Ministry of Finance in particular) have since started more proactively engaging with OfD programme technical assistance. The ‘Norwegians’, mainly through the OfD programme, are closely associated with the draft legislation, and so also with the perceived flaws in the draft, even though as advisors, the OfD programme cannot take responsibility (or blame) for the outcome. Nonetheless, this represents a risk to the programme if it is held up as the reason why the government are not interested in advice or technical support available elsewhere (— “we don’t need it, we have the Norwegians”…).

Despite the substantial contribution to legislative drafting, continued complexity – perhaps an inevitable feature of this sector – combined with unclear roles and responsibilities, a lack of transparency, in particular on the part of government, and weak civil society, combine to make for weak accountability for decisions.

There is a vulnerability, as in the case of Mozambique, in the gap between expectations and likely reality, both in terms of the money and jobs expected, and because they are expected soon.
4 Country case study: Bolivia

4.1 The context

Bolivia’s economy has grown by an average of 4.4% per year since 2008, and is on track to become an upper middle-income country by 2015, yet remains one of the poorest countries in South America, with high levels of inequality.

However, since 2006 Bolivia has gone from a market economy to one where the state exerts control over key sectors – mainly through so-called “strategic companies”48, through a policy similar to that of Venezuela. Strategic companies include, among others, telecoms, utilities, mining companies, and the oil company Yacimientos Petrolíferos Fiscales de Bolivia (YPFB), which was nationalized in 2006. These companies are seen by the government as a means to reduce poverty and inequality. As such, strategic companies enjoy privileges, such as a favourable tax regime, with YPFB being by far the most powerful company in the country, mainly owing to a lack of accountability for management relative to the scale of the company.

The economic transformation process is sanctioned by the new political constitution of Bolivia (NCPE), which was approved in a referendum in 2009 with 61% of the vote. The NCPE has created a new organ of power: 'social control', which is exerted through direction from political leaders and is in addition to the traditional legislative, executive and judicial organs. In theory, this means moving from a liberal representative model to a participatory democracy, where people and communities exert direct control over all the organs of the state.49 This development is important for understanding events along the horizontal axis of accountability in the petroleum sector.

Despite the efforts of the government, some observers note that high levels of corruption among the elite, and within the state administration, sustain social inequality and undermine the fight against poverty. Bolivia ranks amongst the bottom half of countries in Transparency International’s CPI 2011.

A key measure in the fight against corruption is the Law Marcelo Quiroga Santa Cruz, enacted in March 2010. The aim of this law is to strengthen accountability for past human rights abuses and corruption by government officials. Yet critics argue that it contravenes international standards of due process and fair trial, including the prohibition of retroactive application of criminal law and the right to be present during trial.

In practice, this law has created perverse incentives. As penalties for acts of corruption are so severe, public officials are often reluctant to make decisions that could be construed as being in breach of anti-corruption legislation. This, together with weak skills and capacity, reduces interest in reform and decision-making, thus undermining checks and balances within public institutions.

48 NCPE (2009) The state has the task of “administering the ownership rights of natural resources and exercising strategic control in the productive chains and industrialisation processes of said resources in the name of the Bolivian people” (Art. 310). The communitarian economy and the state economy are fundamental axes of the plural economy; they are promoted without damaging other axes, such as the private and cooperative economies. The private economy is part of an inescapable economic reality; it drives and manages a significant part of economic spaces. In this sense, “the state recognises, respects and protects private initiative, so that it may contribute to economic and social development and strengthen the economic independence of the country” (Art. 309).

49 Art. 241-242 NCPE.
4.2 Hydrocarbon overview and OfD programme activities

Bolivia has a wealth of natural resources, holding the second largest natural gas reserves in South America and the fifth largest oil reserves. The country is classified as a mature petroleum economy with high dependency on hydrocarbons revenues – with mineral fuel exports accounting for 43.3% of exports in 2010. The income received by the government in 2011\(^{50}\) was six times bigger than in 2004, as illustrated in Figure 4-1.

![Figure 4-1 Bolivia: public revenues from oil](image)

However, production has been stable or decreasing since 2007 (YPFB, 2012), and the abovementioned growth in public revenues from the sector are mainly due to increases in the international price of oil since 2005. According to some stakeholders interviewed in Bolivia, the stagnation of oil production reflects YPBF’s lack of institutional capacity. That YPBF may be operating beyond capacity is a key factor in understanding the institutional architecture of the oil sector, and the balance of power between the different organs that form it.

To date, the main activities carried out by the OfD programme are in the resource pillar and include:

- supporting changes in the regulatory framework, mainly in relation to the new Petroleum Law;
- supporting the institutional development of Agencia Nacional de Hidrocarburos (ANH) and Ministerio de Hidrocarburos y Energía (MHE); OfD programme’s twinning arrangement of the Norwegian Petroleum Directorate (NPD) with Bolivia’s ANH also reportedly played an instrumental role in the restructuring of the country’s regulator and the state oil company;
- capacity building, provided by Petrad and the NPD. For example, Petrad has run several courses in La Paz, focusing on upstream regulation. The most extensive capacity building takes place towards YPFB and covers, among other activities, assistance in data management, a training program in geology and petroleum geology and courses in drilling.

As part of the environment pillar (not included in the programme until 2009), the OfD programme has included capacity-building activities. Little to no activity has taken place within the finance pillar.

Though the OfD programme does support stronger diagonal accountability mechanisms in Bolivia through its support for civil society capacity building, funding to civil society does not flow directly into the country from OfD programme funds. It is instead channeled through Norwegian and

\(^{50}\) 50% of total income produced in oil sector goes to the state – 18% to the Tesoro General de la Nación (TGN) – the national Bolivian Treasury, and 32% as part of the Impuesto de Hidrocarburos (lIdH) – Tax on Oil Production.
international civil society organizations, such as Norwegian Students' and Academics' International Assistance (SAIH), PWYP and the ILO.

4.3 Vulnerabilities

4.3.1 Legal and regulatory

The three main institutions in the petroleum sector are YPFB, the regulatory agency the National Agency of Hydrocarbon or Agencia Nacional de Hidrocarburos (ANH), and the Ministry of Hydrocarbon or Ministerio de Hidrocarburos y Energía (MHE). In principle, the MHE should set policies for the sector with YPFB executing them. However, the NCPE states that YPFB is the only company in Bolivia authorized to develop all the activities of the hydrocarbon chain (NCPE, Art. 361). Before the NCPE was passed, the ANH was in charge of the regulation and supervision of the sector. However, the NCPE does not clearly specify which institution is now responsible for carrying out regulatory functions. This legal vacuum helps explain the relative lack of transparency in the petroleum sector, as well as the institutional tension between YPFB and ANH.

Although the NCPE is pivotal to understanding Bolivian reforms, the implementation of the NCPE is low – only around 20% of the legal stipulations contained in the Constitution have been transformed into laws and other regulations. By the end of 2011 Bolivia was expected to have passed a new petroleum law, drafted by the MHE and the ANH, with the advice of OfD programme; however, the law has not yet been passed. The more optimistic expectations are that the law should be passed before the end of 2012, but most stakeholders consulted agreed that it will take longer. When the new law will be passed is not the only uncertainty surrounding this piece of legislation – according to conservative estimates, there are as many as 8-10 different drafts of the law circulating among the relevant stakeholders.

In addition, while the NCPE defines the role of the petroleum sector within a state-directed market economy, the existing Hydrocarbon Law 1600 (28/10/94) – which pre-dates the new constitution – and the corresponding regulation, or Decreto Supremo, belongs to a period when state intervention was minimal. The co-existence of incompatible, inconsistent, regulatory legal frameworks reduces policy coherence and increases vulnerability to corruption.

The Law 1600 sets the mandate for ANH to be the regulator of both upstream and downstream oil activities. In practice, YPFB does not accept that ANH has the mandate to regulate upstream activities. According to YPFB, Article 365 in the new Constitution does not name the ANH as the regulatory body. The MHE has not intervened to resolve this dispute.

Another important regulatory factor is the lack of a law developing the mechanisms and structures of social control, following the Art. 241-242 of the NCPE.

YPFB was created in 1936 as a state-owned and run petroleum company. In the early 90s, privately-owned companies were formed from YPFB assets. The companies were 50% owned by direct private investors and 50% by the state. YPFB remained as a state-owned service company for the hydrocarbon sector. One of the early acts of President Morales was the nationalisation of the oil and gas industry. The Decreto Supremo 28701, 1st May 2006, states that all oil resources will be controlled by the state-owned YPFB. The NCPE (Art 359) says that all hydrocarbon deposits, whatever their state or form, belong to the government of Bolivia. It adds that no concessions or contracts may transfer ownership of hydrocarbon deposits to private or other interests.

The NCPE in its article 365 says literally “una institución autárquica de derecho público, con autonomía de gestión administrativa, técnica y económica, bajo la tuición del Ministerio del ramo, será responsable de regular, controlar, supervisar y fiscalizar las actividades de toda la cadena productiva hasta la industrialización, en el marco de la política estatal de hidrocarburos conforme con la ley. 84”. That is, a public institution with autonomy and administrative, economic and technical capacity under the supervision of the MHE will control and supervise etc., etc., etc. but it does not say which institution it refers to.

The third layer of regulation in Bolivia, just below the NCPE and the laws if formed by the Decreto Supremo or Supreme Decree.
Despite the creation of a Ministry of Institutional Transparency and Fight Against Corruption, stakeholders consulted agreed that they lack both the capacity and the technical skills to carry out their mission. In addition, they do not have the mandate to work with YPFB, the ANH or the MHE to improve transparency in the petroleum sector. In addition, ‘strategic companies’ are not forced by law to have transparency units. The fact that YPFB has a transparency unit is therefore something of an institutional anomaly – the order to create such an entity came directly from senior management (Carlos Villegas, president of YPFB) and was linked to some public cases of corruption within the institution.

In Bolivia, there is no law regulating access to public information. As with many other regulatory developments in the country, it is still on the government’s to-do list.

Bolivia’s hydrocarbon sector is still a legal and regulatory work-in-progress, as evidenced by the array of alternative drafts in circulation for new legislation. Changing an economic, political and social model does not happen overnight. From that perspective, it is possible to understand some of the gaps and overlaps that exist in the regulatory framework. What is more difficult to comprehend is the passivity of the MHE to act as an arbitrator in the case of disputes between the ANH and YPFB.

4.3.2 Accountability

The result of the abovementioned tensions between YPFB and the ANH is that horizontal accountability in Bolivia is minimal. In practice, nobody controls YPFB, which acts both as regulator and implementation agent. As a result, its upstream activities (awarding of contracts, tendering processes and acquisition of goods and services) are highly vulnerable to corruption. In fact, YPFB has been repeatedly accused of partiality, and breaking their own rules to favour the interests of particular companies.

YPFB produces relevant and adequate information in terms of oil production,\(^\text{54}\) as well as oil taxes (totalling 50% of oil revenues) and their distribution among different public actors. However, there is no information on how the other 50% is distributed between YPFB and its private partners (YPFB Andina, BG, Canadian Energy, YPFB Chaco, Dong Won, Repsol, Petrobras, Pluspetrol, Total and Vintage).

The latter 50% is the most controversial area within the petroleum sector, with YPFB resisting calls to make contracts public. None of the criteria followed in establishing contractual terms with partners were made public. The key criteria related to returns on sunk investment, levels of production, the ‘Factor B’ which determines the share of production paid to YPFB, and any other taxes paid. YPFB has the power to classify some information as ‘confidential’. Even when information about contracts is disclosed, it is not done in a way that is accessible to the general public.\(^\text{55}\)

This issue makes vertical accountability particularly difficult as none of the actors that could exert the social control stipulated under the constitution on petroleum activities, such as indigenous groups, local communities and authorities, or CSOs, have the capacity to decipher technically-heavy information provided by the YPFB. Further, the fact that there are few NGOs or media actors\(^\text{56}\) involved in the petroleum sector makes the generation, diffusion and management of information to support vertical accountability more difficult.\(^\text{57}\)

\(^{\text{54}}\) On a (close to) daily basis, the public can access information on the quantity of oil produced, the price of oil sold, the buyers, and the income generated by YPFB.

\(^{\text{55}}\) According to an oil and gas expert in Bolivia, if the contracts were written in Chinese, they would be easier to understand.

\(^{\text{56}}\) Energy Press is the only publication that deals with issues related to oil and gas. There other publications, such as Energía & Negocios, but this has a local character and very limited circulation. PetroleoGas is a magazine published by the Cámara Boliviana de Hidrocarburos (CBH) and therefore cannot be considered
Lack of accountability in the sector also has a lot to do with YPFB’s own weaknesses, such as:

- The deficiencies in internal communications make information flows within YPFB slow. There are few routine processes for the exchange of information between different departments, and YPFB analysts appear to spend more time putting data together than analysing it.
- There is a lack of technical capacity to check the cost reports submitted by partners. This is particularly worrisome as this information is vital to determine the distribution of the other 50% of the total incomes generated by the sector. The term “reported costs” is widely used to keep YPFB working, but the truth is that nobody is certain whether these are accurate.58

### 4.4 Stakeholder mapping

**Figure 4-2 Bolivia: reform interest and influence**

Figure 4-2 plots selected accountability actors in the Bolivian petroleum sector according to their interest and influence in supporting the overall goal and key objectives of the OfD programme, including more transparent and rule-based sector governance.

Figure 4-2 is intended to demonstrate the relative positions – as interpreted by the consultants, through literature review and triangulation through stakeholder interviews – at the time of fieldwork.

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57 Fundacion Jubileo (http://www.jubileobolivia.org.bo), a NGO with close links with the Catholic Church being almost the only reliable, independent source of information in the sector.

58 There is a strong link between this and the negative incentives created by the anti-corruption Law Marcelo Quiroga Santa Cruz - without capacity to check whether reported costs are correct, nobody is willing to take responsibility for the approval of the reports. Therefore, the approval is not final but conditional. The last resort is the Audit department, who also lack the technical capacity to make proper checks. As a result, millions of USD are likely to be wrongly attributed to private companies.
4.4.1 High influence

Among the groups with high levels of influence we find indigenous groups, local authorities and communities. Given Bolivia’s recent political history, these are the groups more likely to be heard by the current government. They have the potential to increase accountability in the sector – Petroleum has the capacity to improve or ruin the livelihoods of local communities. However, they lack both the information and the formal channels to exchange information, and so to have their voices heard. In the case of local authorities, their interest lies in the fact that they are the main beneficiaries of petroleum revenues. However their situation is similar to that of local communities and indigenous groups in the sense that they lack information or formal channels of communication with YPBF or the MHE.

The MHE has an interest in improved accountability and, at least in principle, the means to do it. However, instability in the staffing of the MHE during the four-five last years – five different ministers during that period and a very high rotation of staff – has eroded the capacity of the MHE to play a more active role in the process. In practice, the MHE has acted as a kind of satellite of YPBF, as illustrated by the non-involvement of the MHE in the dispute between YPFB and the ANH.

The main group with the strong influence needed to achieve OfD programme objective is YPBF itself, referred to by some as ‘a state within the state’. YPBF has grown beyond the control of any other public agent in Bolivia, and its president responds to nobody except the President and Vice-president of the country. Critics argue that YPBF’s ambition is to become a new Petroleos de Venezuela (PDVSA), the Venezuelan public oil company closely linked to the current Government of Venezuela. According to them, YPBF is the main economic instrument to guarantee the perpetuation of Evo Morales’ party (Movimiento al Socialismo – MAS) in power. There have been rumours of YPBF funds being used to fund the political campaigns of MAS.

Perhaps the main factor of YPBF’s strength derives from the fact that they are the main provider of state revenues in Bolivia, which are indispensable to fund the economic changes taking place in the country. The President of YPBF illustrates the current situation succinctly: “The last thing that we need at YPBF is more controls”. YPBF’s main purpose is to help make political reforms economically sustainable. As long as they achieve this goal, no public institution will dare to question how they do it. YPBF perceives the ANH as a heavy, bureaucratic institution that will only obstruct YPBF’s development, even if unintentionally. YPBF is already operating beyond the limits of its own capacity (in terms of human resources and mandate) and more checks and controls will certainly create barriers in its operational capacity. For them, more transparency and accountability is a luxury that they cannot afford at this stage.

The other institutions with potentially high influence, but low interest in changing the current status quo, are the Ministry of Finance and YPBF’s partners. The former is merely a channel to distribute the resources generated by YPBF, without any capacity to supervise how these resources are generated and whether the methods used to calculate them are correct. YPBF’s partners are even less interested in increasing transparency and accountability, as it may compromise their close working relationship with YPBF who, as has been stated above, do not have an interest in promoting a transparency agenda. A couple of foreign companies had dared to question the methods used by YPBF to award contracts and they were ostracised as a result.59

4.4.2 Low Influence

The main institutions with low influence despite high interest are the ANH and the donor community. ANH has been embroiled in an institutional battle with YPBF over the control and

59 Recently, Matpetrol y Bolipetro complained publicly about the methods followed by YPBF to award some exploration contracts – they were awarded directly to some companies rather than using an international public bid.
supervision of the petroleum sector, which the multiple drafts of the new law implies that they seem to have lost. The ANH is, within the sector, the main victim of the economic, political and social processes of change in Bolivia – the figure of a public supervisor is more in line with the neo-liberal division of public powers than with a model of 'social control'. In addition, as with MHE, instability and high staff turnover has weakened the ANH.

Donors are interested in improving accountability and transparency. Their capacity for influence has been weakened for two reasons:

(i) The two international agencies working in this field (CIDA and Norad) could work together in a more coordinated manner, to strengthen their joint political influence. In addition, there is an opportunity for these donors to seek the collaboration of other donors, such as Deutsche Gesellschaft für Internationale Zusammenarbeit (German Technical Cooperation – GIZ) or the Agencia Española de Cooperación Internacional y Desarrollo (Spanish Agency for International Cooperation and Development - AECID), who are actively working on cross-cutting issues such as governance and decentralization.

(ii) Over the last decade, the capacity of the donors to influence public policies has declined proportionally to economic growth and accumulated petroleum revenues.

A minor group in this section is the CSOs. With the only exception of Fundacion Jubileo, mentioned above, most of the CSOs and NGOs are not involved in the petroleum sector. There is a strong link between this and the lack of funds provided by donors in the sector.

Those with weak influence and little interest are mainly public actors that have some limited interaction with the petroleum sector, but lack the means, a clear mandate (Ministry of Environment and Ministry of Transparency) or political will (Parliament) to improve transparency and accountability.

The media has slightly more interest in improving governance of the sector, but is very opportunistic and usually biased by political interests. It is quite telling that there is not a single media outlet specialized in hydrocarbons in Bolivia.

4.5 Bolivia conclusions

Regarding the impact of the OfD programme, most of the stakeholders consulted agreed that the programme, while being technically strong, did not take into account the realities of the political and economic environment of the petroleum sector in Bolivia in order to plan and implement its activities. Stakeholders suggest that the approach used is too focused on technical excellence to the exclusion of an awareness of political realities. A good example is that the OfD programme has made an important investment in capacity building to train staff at the ANH and the MHE. However, the high level of personnel rotation within these institutions rendered this approach less effective than originally planned. Two more points were raised during the interviews: (i) the fact that the role of the Norwegian Embassy in Bolivia has been very small was perceived as negative for the programme as they are a in a good position to provide strategic guidelines to the programme; and (ii) there is at present virtually no relationship between the OfD programme and the social movements with high influence, and high interest, who may have enjoy better access to influential policy makers in Bolivia.

60 International institutions like Publish What You Pay (PWYP) or Revenue Watch Institute has no offices in Bolivia. Other local organizations, formerly involved in oil sector, like Observatorio, are not doing it any more.
5 Conclusions and Recommendations

5.1 Main conclusions

The OfD programme operates in developing countries with persistently weak governance, weak accountability, and high corruption. All but three OfD programme countries are in the bottom half of Transparency International’s CPI global ranking table.

All three case-study countries examined in this report have complex political economies with entrenched interest groups and incentive structures that are unlikely to change in the short-to-medium term owing to powerful vested interests. Accordingly, incremental reforms that do not challenge vested interests directly will be the most pragmatic approach and is likely to yield longer-term gains that leverage the successes to date.

There are some common conclusions from the case studies, as well as country-specific features of the sector and the OfD programme. For each country, the following were common vulnerabilities:

1. Legislative complexity:
   - Incomplete or overlapping assignment of institutional roles and responsibilities combined with sometimes poorly drafted regulations, and thin formal provisions for strengthened accountability in freshly drafted legislation. For example, in Mozambique, there is confusion in how the new PPP law will impact on large scale natural gas projects, with some degree of overlapping responsibilities amongst institutions. In Uganda, there are unresolved questions around which government agency will conduct audit and approval of amounts for cost recovery. In Bolivia, there is a fundamental dispute over the constitutional legitimacy of the petroleum sector regulator.
   - Complexity obscures any clarity on what is happening in an already technically complex sector, which dilutes the desired effect on accountability of transparency initiatives. For example in Mozambique, there are ambiguities in the tax legislation and the EPC model contract creating room for its discretionary application. In Uganda the stringency of environmental regulations differs between petroleum sector draft legislation and existing environmental regulations.

2. Weak regulatory and administrative capacity:
   - This vulnerability arises not just from weak public sector administrative capacity per se, which is part of the rationale for the OfD programme in the first place, rather it is the interaction of weak capacity with the technical complexity of the sector combined with overlapping institutional responsibilities which gives rise to a vulnerability. As well as administrative capacity being stretched, intra-government relationships can end up being more complicated. Different government agencies are affected to varying extents. In addition, focused technical support to one agency can weaken others and accentuate a lack of coordination across government.

   For example in Mozambique, weaknesses in technical capacity at the licencing and monitoring stages create a dependence on the accuracy and integrity of company forecasts and date. This weakness is reinforced by limitations in the formal institutional framework creating discretionary elements in the system for policymakers’ interactions with these companies. In Uganda an initial concentration on building a range of capabilities in the Ministry of Energy was at the expense of other agencies building capacity later.

3. Accountability: institutions and informality
• A consequence of complexity and insufficient transparency is weak formal mechanisms of accountability – for example, the legislature may struggle to be an informed and effective check on sometimes arbitrary executive decision-making

In Mozambique Parliament has three characteristics that increase vulnerabilities: first, it is a limited check on executive power, given loyalty to the Party and President. Second, it lacks knowledge and expertise on petroleum related matters. Third, it can prove quite interventionist in amending legislation (even on matters where is lacks expertise). In Uganda, however, significant turnover of MPs at the last elections has led to increased scrutiny, even if average levels of expertise have gone down. The role of ‘social control’ in Bolivia under the new constitution appears to have weakened more conventional formal accountability mechanisms.

• Equally, civil society – whether the population at large informed by the media, or CSOs – frequently lacks information, and some technical understanding, and so lacks credibility in holding the executive to account.

In both Mozambique and Uganda, CSOs tend not to be fully consulted in the formulation of new legislation or policy. Even if they are, they are unable to fully hold government to account as they lack official information (and capacity) from which to pursue evidenced-based advocacy, or their comments are ignored by policy makers.

The general quality of transparency in the hydrocarbons sector is low. While Mozambique and Uganda are engaged with EITI, both are new to significant hydrocarbon finds. Of some concern is that the fact that the Production Sharing Contracts in Uganda remain unpublished – representing a failure of the government, not the main firm concerned.

5.2 Recommendations

This section first presents what we suggest should follow from our analysis (what to do); second, how to consider putting those recommendations into action (how to do it).

What to do

First, sustain the programme with its strengths in technical capacity-building. There are significant successes in capacity-building as a result of the OfD programme. While we were not conducting a performance appraisal, it was striking that there was consistent appreciation, particularly in technical agencies, both for support received from counter-part Norwegian institutions, and the way in which professional relationships have been productively sustained, often over long periods. This is a significant achievement.

Second, technical strength needs to be complemented by a more explicit emphasis on accountability. This is to take explicit account of the political context into which technical capacity-building is delivered – both national and local politics, as well as bureaucratic politics. This entails conducting focused and problem-driven political economy analysis to allow, among other things, a better understanding of the incentives and motivations of different actors involved in the petroleum sector.

For example, in Bolivia: providing support to the embryonic Transparency Unit within YPFB creates a myriad of opportunities not only to strengthen transparency in the sector but also to have insider knowledge of the challenges and opportunities within the company. The realpolitik of oil in Bolivia is that YPFB is the only entity with the ability to shift the governance of the sector. Unfortunately, MHE remains relatively ineffectual. In addition there is significant scope to improve vertical accountability by finding ways to working directly or indirectly (perhaps via CSOs such as
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

*Fundación Jubileo* with indigenous groups, and local authorities, who are influential, as well as on the implementation of the Law of Social Control (*Ley de Control Social*).

**Third, broaden the OfD programme engagement, with a more inclusive set of relationships in-country.** A key conclusion of the three case-studies is that accountability is not merely the responsibility of one or two high-ranked actors. On the contrary, accountability is a result of actions by a wide range of actors.

In the case of Bolivia, this extended definition of accountability should include social groups, local authorities and where possible, NGOs and the media. In the case of Mozambique, this is likely to continue to include working with core institutions of MIREM and INP as the main actors in the sector, but also moving beyond government – e.g. by supporting the establishment of a civil society platform aimed at the petroleum or natural resources sector. Further consultations need to take place in the country to establish if the WWF supported ‘natural resource platform’ can play this role given concerns of legitimacy. For it to be an effective platform it would require on-going support to deliver a range of secretariat services including:

- Fostering small local CSOs. This will also provide a wider range of views and alliances in the currently concentrated civil society sector;
- Provide a one-stop-shop for government consultations around extractive industry policies and legislation;
- Help CSOs share experiences, data and resources, thereby building capacity of less-experienced actors and disseminating information that can build accountability in the sector; and
- Act as repository for information about the sector.

A similarly broadening of engagement would be appropriate in both Uganda and Bolivia. For example, supporting institutions like the *Unidad de Análisis de Políticas Sociales y Económicas* (Unit of Analysis of Social and Economic Policies - UDAPE), a government think-tank, may be more useful to promote certain regulatory reforms than supporting some of the actors directly (such as the MHE or ANH). The logic is that these institutions are likely to be heard by the Government, and therefore have some capacity to influence the development of new policies and practices.

**Fourth, there is potential scope for engagement with international companies in support of greater accountability.** Such companies are under particular scrutiny. While few companies are at the leading edge on transparency, inertia should not be mistaken for a lack of willingness. In Uganda, Tullow Oil has been ready to publish their Production Sharing Agreements and it is the government that is reluctant.

While working with international corporations would be ideal from a pragmatic perspective in order to promote and push for greater accountability, any engagement from the OfD programme would have to be carefully engineered with full government and civil society collaboration. This would best be achieved through open and public dialogue among players – the OfD programme can safely play the role of facilitator without being seen as partisan. Though we recommend engagement with relevant international oil companies (IOCs), we do not advocate the OfD programme working one-on-one with them given the reputational risks that may impose.

Large companies in the petroleum sector give rise to direct and indirect socio-economic impacts through their ‘footprint’ at the local level, yet local government capacity to manage these impacts is close to non-existent. Investors into the petroleum sectors of case study countries have a long-

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61 This is an important consideration when Statoil is operating in countries which are part of the OfD programme – as is the case in Mozambique.
term interest in building capacity to manage these impacts. For example, the stakeholder analysis for Mozambique identified (foreign-owned) operating companies as having significant potential influence over the degree of transparency and accountability of the petroleum sector, given the often limited official reporting.

There are two opportunities in Mozambique for engaging with international companies while seeking to maintain OfD programme's mandate of supporting public interest. First, OfD should continue to support multi-stakeholder partnerships such as the EITI that enhance dialogue between companies and other actors (including government). Second, OfD should support institutional capacity building at the national and local level. At a national level, there is scope for constructive engagement when IOCs obligations on local content and increased employment of nationals dovetails with national policy priorities on job creation. At a local level, this could include local officials or civil society or community organisations that are likely to increasingly engage with companies at this level.

**Fifth, a broadening of the sources of high quality credible technical advice.** We find that a vulnerability to the integrity of the OfD programme is the close identification of Norwegian-sourced advice with outcomes that are not up to Norwegian standards. Ensuring that counter-party institutions are presented with a range of world-class advice, such as is already offered by the Fiscal Affairs Department of the IMF, clarifies the point that the responsibility for decisions – and accountability for them – lies with the national authorities. Norwegian credibility in the legislation and regulation of the oil and gas sector also provides strong convening power to bring such sources of expertise together.

In Mozambique this to some extent is already occurring with the World Bank and IMF playing a more pro-active role in the sector. A key short term role for the OfD programme, given its strong position in the sector, is to help promote the delivery of advice appropriate to the circumstances of the host government amongst such agencies (and other interested development partners such as DFID). For example, through supporting the donor Extractive Industries task force. This can then act as a base to have broader discussions with the Government on developing a broad national vision for the sector.

5.2.1 How to do it

To put these recommendations into action – how to do what we suggest – could be considered as follows:

**First, put the operations of the OfD programme into the context of a political economy analysis (PEA),** which would be a more substantial, yet focussed, version of the work undertaken for this study. The purpose would be to sharpen the identification of those institutions that share the overall goal of the OfD programme. This would enable the OfD programme to support the capacity and influence of these institutions in pursuit of that goal, and provide a sharper focus to the capacity-building to complement the current approach. DFID’s FOSTER programme, for instance, conducts quarterly PEA reports for internal distribution in order to continually re-evaluate and appropriately adjust their programming to respond to new developments. This would be an appropriate area for embassies to offer support, given their deeper contextual knowledge of both the sector and relevant actors.

**Second, shift the relationship with counter-party governments** in three ways:

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62 This does not have to be identified with ‘northern’ advice so long as the Norwegian sourced advice is not the ‘Norwegian model’, but international best practice fit for the local purpose – analysis which PEA can support – and which we suggest would be complemented by south-south engagement among newly hydrocarbon-rich countries in Africa.
1. **Open up a discussion on making transparency a condition of sustained OfD programme support** – transparency both of revenues (whether through EITI or not), and of contracts. The onus should be on governments to provide a convincing rationale for preventing reasonable transparency; the rationale for transparency supporting reasonable accountability is self-evident;

2. **Broaden technical engagement**, as discussed above, both to avoid being the monopoly authority for technical support, and to avoid the OfD programme support running the risk of being captured by one part of government as the expense of coherence across government;

3. **Ensure that the OfD programme relationships are more inclusive**, by looking to open up a broader engagement with legislatures and civil society – through the media, business associations, and CSOs. The purpose being to raise the reach and quality of accountability for the quality of decisions the current OfD programme supports. Various stakeholders in government (e.g. including the Minister of Mineral Resources in Mozambique) have recognised the importance for civil society to help build awareness of the operations of the sector as part of strengthening accountability. Enhancing the breadth of CSOs is also in the long-term interest of the OfD programme and other donors, since the current support to civil society on extractive industries issues (e.g. through training abroad) remains at risk of capture.

**Third, establish a regional forum.** This could facilitate newly resource-rich economies to pick up the benefits of the experience of neighbours who have already faced comparable challenges. This could work in East Africa across South Sudan, Kenya, Uganda, Tanzania, Mozambique and Zambia, and more broadly across Africa with Ghana, Liberia (and Sierra Leone) included as well. A starting point to assess such countries’ willingness to engage would be for the OfD Secretariat to invite the people who are the key counterparts for OfD support to a conference with an agenda designed both for the formal sharing of experience, and with time for peer groups from different countries to meet more informally. The evaluation of such an event would need to be confident that it had achieved more in regional interaction than existing international meetings.

**In addition, the OfD programme could support regional learning mechanisms** in the petroleum sector, extending beyond government actors to include civil society actors in the respective countries. In Africa, existing regional mechanisms for sharing experiences in the sector that could be explored further include the Southern African Development Community (SADC) consultative platforms, the Southern African Mineral Centre (based in Tanzania), the African Tax Agreement Forum (a recent creation that presently lacks a specific focus on extractives/petroleum) and the African Union Decentralisation working group.

**Finally, a stronger role is needed for Norwegian Embassies on the ground,** who together with the OfD Secretariat would then be able to complement the presently strong bilateral technically-focussed relationships with specific institutions in-country to deliver broader engagement and relationships in country, in a mode of operation supported by a PEA.

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63 In the case of Mozambique, several stakeholders highlighted the sense that as a Lusophone country, Mozambique has been somewhat isolated from the tradition of regional sharing of best practices (in particular at the ministerial level).
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#### 5.3 Mozambique

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<th>ORGANISATION</th>
<th>NAME, TITLE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key sector institutions</strong></td>
<td></td>
</tr>
</tbody>
</table>
| INP | Mr Carlos Zacarias, Exploration Manager  
| | Ms Isabel Chuvambe Chileshe, Project and Development Manager  
| | Ms Inocência Maculuve, Petroleum Geologist |
| Empresa Nacional de Hidrocarbonetos (ENH) | Mr Tavares Martinho, Executive Director Exploration Department |
| Ministry of Mineral Resources (MIREM) | HE Esperança Bias, Minister  
| | Mr Luis Jossene, Advisor  
| | Mr Benjamin Chilenge, National Director of Planning and Development & EITI Secretariat |
| Ministry of Environment (MICOA) | Mr Erasmo Nhachungue – national Director of Planning and Studies, and Coordinator of OfD programme in MICOA  
| | Ms Rosa Cesaltina Benedito, National Director for Environmental Impact Assessment |
| **Other Moz government actors** | |
| Ministry of State Administration (MAE) | Mr Placido Pereira, National Director of Local Government |
| Ministry of Finance | Ms Isabel Sumar, National Director of Studies Department  
| | Mr Luis Matsinhe, Head of Department, PPP Unit |
| Revenue Authority (Autoridade Tributária) | Mr Herminio Sueia, Director General, Planning, Studies and International Cooperation Department |
| Attorney General | Mr Angelo Matosse, Deputy Attorney General  
| | Ms Tania Nogueira, International Department |
| Banco de Moçambique (Central Bank) | Ms Elsa Chambal, Advisor  
| | Ms Telma Gonçalves, Head of Foreign Exchange Licensing and External Debt |
| Central Office for Combating Corruption | Ms Tassia Martins, Magistrate |
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

### Mozambique civil society

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Name, Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Integrity Centre (CIP)</td>
<td>Mr Dionisio Nombora, Programme Officer</td>
</tr>
</tbody>
</table>
| Institute of Social and Economic Studies (IESE) | Mr Rogério Ossemane, Researcher  
Mr Carlos Muianga, Assistant Researcher |

### Donors

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Name, Title</th>
</tr>
</thead>
</table>
| Norwegian Embassy | Ms Marit Strand, Economist  
Knut Laksa, Economist |
| Norwegian Petroleum Tax Authority | Havard Holterud, Department Director, Fiscal Affairs |
| Norwegian Petroleum Directorate | Oystein Kristiansen, NPD Mozambique Programme Manager  
Dag Helliksen, NPD technical advisor to INP exploration division |
| World Bank | Ekatarina Mikhaylova (emikhaylova@worldbank.org) – managing new Mozambique mining, oil and gas TA project; based in Washington |
| IMF | Mr Victor Lledo, Resident Representative |
| DFID | Ms Kobi Bentley, Economic Advisor  
Ms Leigh Stubblefield, Team leader: Growth, Resilience and Rural Development |

### Industry

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Name, Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenmare</td>
<td>Mr Gareth Clifton, Mozambique Manager</td>
</tr>
<tr>
<td>Anadarko</td>
<td>Anadarko Moçambique – John Peffer, Country Manager for Mozambique</td>
</tr>
</tbody>
</table>

### 5.4 Uganda

#### Key sector institutions

<table>
<thead>
<tr>
<th>Organisation</th>
<th>Name, Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Energy and Mineral Resources, PEPD</td>
<td>Mr Ernest Rubondo, Commissioner</td>
</tr>
</tbody>
</table>
5.5 Bolivia

<table>
<thead>
<tr>
<th>ORGANISATION</th>
<th>NAME, TITLE</th>
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<tr>
<td>Key sector institutions</td>
<td></td>
</tr>
<tr>
<td>Ministry of Hydrocarbons and Energy (MHE)</td>
<td>Mr Gustavo Zárate Taborga, Director of Planning</td>
</tr>
<tr>
<td>Yacimientos Petrolíferos Fiscales Bolivianos (YPFB)</td>
<td>Mr Carlos Cadena, Director of the Transparency Unit</td>
</tr>
<tr>
<td></td>
<td>Dr Marcelo Conseco, Legal Director</td>
</tr>
<tr>
<td></td>
<td>Mr Edwin Alvarez, National Manager</td>
</tr>
<tr>
<td></td>
<td>Contract Supervision Dpt.</td>
</tr>
<tr>
<td></td>
<td>Zulema Wendy Espejo, Director</td>
</tr>
<tr>
<td></td>
<td>International Relations</td>
</tr>
<tr>
<td>Agencia Nacional de Hidrocarburos</td>
<td>Mr Alejandro Aspiazu, Executive Director</td>
</tr>
<tr>
<td></td>
<td>Assistant</td>
</tr>
</tbody>
</table>
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

<table>
<thead>
<tr>
<th>Other Bolivian public actors</th>
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</thead>
<tbody>
<tr>
<td>Federación Asociaciones Municipales (FAM)</td>
</tr>
<tr>
<td>Revenue Authority (Servicio Impuestos Nacionales)</td>
</tr>
<tr>
<td>Unit of Analysis of Social and Economic Policies (UDAPE)</td>
</tr>
<tr>
<td>Central Bank of Bolivia</td>
</tr>
<tr>
<td>Ministry of Environment</td>
</tr>
<tr>
<td>Ministry of Economy and Finance</td>
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<tr>
<th>Bolivia civil society</th>
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</thead>
<tbody>
<tr>
<td>Fundación Jubileo</td>
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<td>Bolivia Transaprente</td>
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<td>Idea Internacional</td>
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<tbody>
<tr>
<td>Norwegian Embassy</td>
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<tr>
<td>USAID</td>
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<tr>
<td>Norwegian Petroleum Directorate</td>
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<tr>
<td>NORAD</td>
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<table>
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<tr>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Camara Boliviana de Hidrocarburos</td>
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</tbody>
</table>
Annex A  Terms of reference

Background

The Oil for Development (OfD) programme, launched by the Norwegian government in 2005, offers transfer of knowledge to developing countries asking for advice on how to manage their petroleum resources. The overall goal of the programme is to promote “Economically, environmentally and socially responsible management of petroleum resources which safeguards the needs of future generations”. This goal is further specified through three objectives. First, that sound policy and legal framework are developed. Second, that the relevant institutions are able to implement and enforce the policy and legal framework. Third and finally, that the relevant institutions are held accountable by civil society such as non-governmental organizations and media.

The OfD programme takes a holistic approach in its assistance to partner countries. Resource management, revenue management and environmental management constitute three pillars addressed in a coordinated manner. In addition, principles of good governance, such as anti-corruption, transparency and accountability, as well as gender equality, are cross-cutting. In 2011, the OfD programme encompassed activities in a total of 22 countries located in Africa, Latin-America, the Middle-East and Asia. Total programme expenditures in 2011 were 290 million NOK.

Success is measured in sound resource management and clear development effects in some of the poorest countries in the world. As such, the countries and the regulatory framework face the risk of rent seeking, corrupt practices, and ultimately a resource course. As a high-risk high-reward programme, the OfD programme focuses on the development effects of petroleum related activities.

The suggested study shall create the foundation for more effective action in the OfD programme against corruption in selected countries. The study must be practitioner oriented by nature and the recommendations must be framed in such a way that they resonate with plans, capacities and interest of the parties.

Rationale for the study

The actors in the OfD programme need to have an overarching understanding of corruption in a country context and the detailed knowledge of sector specificities. Identifying these factors in a prior assessment will provide awareness of the social norms and values that motivate the actors to action, or non-action. Effective measures to address corruption need to be based on an accurate diagnosis of corruption risks, including corrupt practices, drivers of corruption, and corruption’s impact.

Understanding the actual rules of the game and the position of individual actors is then essential to developing a strategic position or set of interventions. In winner takes all systems, the lure associated with petroleum is greater than for any other possible rent, and we often see grand and petty corruption interact taking on systemic characters.

Sector based corruption analysis detail various forms of abuse, all of which have serious adverse implications; leakage and misallocation of public resources, deterioration of public service delivery, and loss of confidence on the part of the public. Given the risk associated with the petroleum sector non-extraction might then be a rational choice, but is seldom an option, and at the same time aid managers must adopt the “do no harm” principle as the minimum standard.

Essentially “do no harm” means not aggravating existing instability with an intervention, or set of interventions. Practitioners can do harm by undermining trust building mechanisms, undermining state and local accountability and legitimacy and, most concerning, exacerbating country/sector/institutional tensions in a way that precipitates the outbreak of conflict. This stage
checks our contextual analysis to see if we have adequately identified and considered the role of excluded groups. This encourages practitioners to evaluate how to include as many groups as possible in all phases of the project: planning, implementation, monitoring and evaluation – to ensure openness and effective communication to partners and beneficiaries.

“Do no harm” also refers to the non-encouragement of rent seeking behaviour. The incentives created by an environment that is open to rent-seeking impede growth. Efforts to obtain slices of the social pie rather than expanding the size of the pie can become endemic. If OfD programme supported Government interventions is not well designed and carefully implemented rent-seeking in revenue collection is just one social ill that will follow. Furthermore, as rent-seeking redistributes income, it can change political equilibrium, e.g., making rent-seekers more influential as they become richer.

The OfD programme main contribution to the fight against corruption is tied to the technical assistance provided in the establishment of policy guidelines, legislation and standard contracts, and to capacity and training within areas relevant for the management of petroleum activities. This includes an emphasis on ensuring provisions which require openness in resource management, such as open bidding rounds, block allocations, procurement procedures and procedures for public hearings of draft laws and impact assessments. It also provides assistance concerning the establishment of the organizational structure in the petroleum sector, and subsequently the division of responsibilities in the supervision of the activities. More detailed information about the OfD programme can be found on www.norad.no

**Purpose of the study**

In effect the study will:

1. *Improve project design, both by enhancing understanding of the prospects for reform in a sector or project and by indicating approaches and options that would work more effectively in the specific political and economic context.*
2. *Lessen project risk and improve the likelihood that funds can be disbursed and planned objectives achieved.*
3. *Provide an understanding of why an apparently committed reform champion has only delivered partly on reforms, or why approved reforms, laws and regulations are not implemented and enforced.*
4. *Explain the likely distributional aspects of reform efforts considering all stakeholders, and improve the sustainability and equity of OfD programme operations.*
5. *Promote more strategic and effective multi-stakeholder engagement with government and stakeholders.*

Such an analysis shall assist personnel working with the OfD programme in Norad and in partner countries/Embassies in their understanding of the political economy context, thus provide a tool in managing the risks involved.

The selection of the three case studies of Bolivia, Mozambique and Uganda are based on the significant size of the OfD programme engagements, the duration of OfD programme support as well as relevant timing given the current status in the OfD programmes.

**The scope of work**

With this study we aim to develop concrete insights regarding forms of corruption, sources, implications, extent, and vulnerabilities to corruption in the petroleum sector, the agencies involved, and functions in order to develop practical prevention measures.

The study will be divided into four main parts:
1. *Brief overview over corruption levels in the OfD programme portfolio* (based on existing analysis, aggregate indicators such as Transparency International etc), and based on the existing literature identify specific areas in the petroleum sector prone to corruption.

2. *Analyze the vulnerabilities to corruption in the petroleum sector in Uganda, Mozambique and Bolivia.*

3. *Map the current OfD programme activities addressing such vulnerabilities in Uganda, Mozambique and Bolivia. Further investigate to what degree other donor partners, government entities, non state actors or others work to address the vulnerabilities identified and the gaps left by the OfD programme.*

4. *Suggest in concrete terms how the Government of Norway through the OfD programme and the Embassies can work strategically with partners to fill gaps and compliment core activities with broader measures that promote integrity.*

**Implementation of the study**

The assignment is to be conducted in the period June-September 2012. The deadline for submitting the final report is September 10th.

The assignment must be conducted through studies of available documentation, both general documents and project specific documents, and through interviews with representatives of relevant stakeholders in Norway and the three case countries. Norad, the Norwegian Embassies and other implementing partners will assist in the provision of relevant project specific documents.

Furthermore, it is expected that the consultant team will conduct field visits to the three case countries. The Consultant will be provided with a list of suggested institutions and contact persons to be interviewed. The selected interviewees shall receive a written request outlining the purpose of the study and the main issues to be discussed in due time before the interview is conducted.

A start-up meeting (preferably by videoconference) with Norad is to be conducted when the contract is signed. Furthermore, the assignment will start with an inception phase, resulting in a detailed methodology and time schedule to be presented in writing to Norad, and approved, no later than 2 weeks after signing the contract. The assignment is to be completed no later than September 10th 2012. It will be important for the Consultant to keep a close dialogue with Norad during the assignment.

**Reporting**

A report of maximum 35 pages is to be submitted in English to Norad. A draft report for comments and feedback must be submitted to the Norad and the respective Embassies, with minimum 10 days deadline for feedback. The final report integrating comments shall be submitted no later than two weeks after having received the comments to the draft report. The consultant team may be asked to present the report at Norad at a date to be determined.

The report will contain an executive summary of no more than 5 pages that can be presented as a separate document, containing an overview of vulnerabilities and risks, gaps, current efforts and strategic options in the OfD programme.
Annex B  Natural Resource Charter

B.1  Overview of the Natural Resource Charter

The overarching framework for this analysis of vulnerabilities to corruption is the oil sector decision-chain established by the Natural Resource Charter. The NRC interpretation of the oil sector decision-chain includes five main parts: decision to extract, getting a good deal, collecting revenues, managing volatile resources, and investing in sustainable development, as well as the important roles of company and international standards and government accountability to a well-informed public. The main focus of the Natural Resource Charter is that decisions in all these areas need to be in place for the domestic population to gain a fair share of the host country’s oil production. As one can easily discern, these core areas have many overlapping components, some of which fall outside of the remit of the OfD programme’s mandate. However, as the institutions that OfD programme engages with are involved along the entire oil sector decision-chain, it is important to acknowledge the full course of decision-making.

Decision to extract (precept 1) addresses the exploration stage of the oil sector value-chain. This area focuses on the decisions around laws, contracts and fiscal terms in the award of exploration licenses, and the establishment of a legal and regulatory framework that promotes a longer-term vision of the country’s development.

Getting a good deal (precept 3 and 4) or from a value-chain perspective: development and production. This is the part of the decision-chain where procurement takes place, requiring that fiscal and other policies, instruments and administration are effective and transparent at monitoring the on-going direct and direct impacts of the sector. Decisions to competitively award contracts will enhance the ability to maximise benefits for the country.

Collecting revenues (precept 5 and 6) or from a value-chain perspective trading, refining, and consumption. In the decision-chain this relates to collection of taxes, fees and other payments, and the transparent and effective management of these. It also covers decisions (made by companies and government) to promote effective reporting of volumes and prices.

Managing volatile resources (precepts 7 and 8) or the establishment of sector organisations and institutions. This area of the decision-chain involves revenue management and distribution enabled by a focus on key government bodies and agencies, institutional issues, and efforts towards institutional reform. In the NRC terminology managing volatile resources reflects the urgent need for oil revenues to be directed into inclusive economic activities and the expenditure and investment is smoothed over time (such as through a resource fund) to, for example, avoid the negative macroeconomic impacts of Dutch disease.

Investing for sustainable development (precept 9 and 10) is related to the investment of oil revenues, as the NRC points to the need for diversification of economic activities and exploring the opportunities for domestic value-added into the sector (local content) as well as seizing the opportunity that large oil revenues provide in achieving a structural change in the economy.

Lastly, the NRC emphasises two over-arching issues. The first is strong accountability of government to its well-informed citizens (precept 2), or in other words, attention to inaccurate reporting, tax evasion, diversion of funds, and money laundering supported by a free media and access to information for the public. The second is the role of other actors (precept 11 and 12), meaning extractive companies and international capital centres, should require and enforce best practice in contracting, operations, and payments. Such efforts are essential for governments to succeed in their objective to create improved standards of living for the host country.
## B.2 Overview of the NRC’s 12 Precepts along the decision-chain

<table>
<thead>
<tr>
<th>NRC</th>
<th>Precepts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decision to extract</td>
<td>1 The development of a country’s natural resources should be designed to secure the greatest social and economic benefit for its people. This requires a comprehensive approach in which every stage of the decision chain is understood and addressed.</td>
</tr>
</tbody>
</table>
| Getting a good deal       | 3 Fiscal policies and contractual terms should ensure that the country gets full benefit from the resource, subject to attracting the investment necessary to realize that value. The long term nature of resource extraction requires policies and contracts that are robust to changing and uncertain circumstances.  
4 Competition in the award of contracts and development rights can be an effective mechanism to secure value and integrity  
6 Nationally owned resource companies should operate transparently with the objective of being commercially viable in a competitive environment. |
| Collecting revenues       | 5 Resource projects can have significant positive or negative local economic, environmental and social effects which should be identified, explored, accounted for, mitigated or compensated for at all stages of the project cycle. The decision to extract should be considered carefully. |
| Managing volatile resources | 7 Resource revenues should be used primarily to promote sustained, inclusive economic development through enabling and maintaining high levels of investment in the country.  
8 Effective utilization of resource revenues requires that domestic expenditure and investment be built up gradually and be smoothed to take account of revenue volatility. |
| Investing for sustainable development | 9 Government should use resource wealth as an opportunity to increase the efficiency and equity of public spending and enable the private sector to respond to structural changes in the economy.  
10 Government policy should facilitate private sector investments at the national and local level for the purposes of diversification, as well as for exploiting the opportunities for domestic value added. |
| Roles of other actors     | 11 The home governments of extractive companies and international capital centers should require and enforce best practice.  
12 All extraction companies should follow best practice in contracting, operations and payments. |
| Overarching issues        | 2 Successful natural resource management requires government accountability to a well informed public.                                                                                                                                 |

Source: Natural Resource Charter, 2012
Annex C  Methodology and approach to work

This summary of the methodology is taken from our inception report: The proposal for our work on this assignment summarised the methodology and approach to work as placing the activities of the OfD programme in each of the countries under study into the broad context of the chain of public policy decisions that run from exploration through to the challenge of ensuring public investment financed by oil rents goes into well-chosen and efficiently executed public investment projects. OPM will do this by using a problem-driven PEA of the oil sector, using the value chain of the Natural Resources Charter as a conceptual framework.

This has two distinct methodological advantages.

- First, it allows for a sufficiently broad ‘PEA’ of stakeholders, institutions and power which condition the vulnerabilities to corruption. Such an assessment of the political environment highlights the drivers of corruption, specific corrupt practices and the impact of corruption.

- Second it allows the activities of the OfD programme to be put into the broader context of public policy in each country, including the vulnerabilities to corruption that exist in institutions that have indirect bearing on the Oil and Gas sector (e.g. environmental and public finance policies). This means the gaps will be clearer, and the suggestions for actions to fill such gaps and better promote integrity will be correspondingly more concrete and well-founded.

With the clarification that the OfD programme does not engage with the spending of resources from oil in the government budget – it is not part of the OfD programme mandate to look at how the money is invested/spent (only getting the money into government coffers) this broader economic context will not be included in our work. We should note, however, that the single biggest impact of natural resources in most countries comes from the quality of public investment of the revenue from their exploitation, and this is therefore part of the broader context of the Natural Resource Charter, and part of the context in which the OfD programme operates.

In the rest of this section, we lay out in greater detail than in our proposal the key elements of the PEA, starting with operational definitions of corruption, and vulnerability to corruption. We then set out an analysis of accountability, which is a key component of assessing vulnerability to corruption, before using the problem-driven PEA of stakeholders, institutions and power that condition accountability and the vulnerability to corruption in the oil sector. By mapping where the OfD programme is operating, and where it is not, relative to the decision-chain set out in the Natural Resource Charter, we will put our analysis into a broader context of public policy in each country.

C.1 Definition of corruption

The term ‘corruption’ is a broad one, and the use varies considerably in the literature. In our proposal we defined corruption broadly as the use of public office for private gain64. However in operationalizing corruption, we defined it in line with Section 276a of the Norwegian penal code which reads that any person who “For himself, or other persons, requests or receives an improper advantage or accepts an offer thereof in connection with a position, office or assignment, or gives or offers any person an improper advantage in connection with a position, office or assignment” is liable for corruption.65,66 We also retain the focus on the concept of corruption as it relates to abuse

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65 This is consistent with the shorter definition: “The abuse of entrusted authority for illicit gain” that was used in the Norad (2009, p. 50)
of office for personal gain in a broad sense (e.g. seeking political favours for associated private companies). Due to the limited time available for the study, we will not look explicitly at vulnerabilities to corruption between strictly private companies (e.g. kick-backs).

C.2 Operationalizing vulnerabilities to corruption

In this study, we seek to identify vulnerabilities to corruption rather than specific instances of corruption. We take the view that a sector, institution or relationship is more vulnerable to corruption where actors are not seen as accountable for their actions. We will therefore focus our study on providing a systematic assessment of the characteristics of accountability relationships within the sector, and among the actors involved.

Accountability will be lower, and thus vulnerabilities to corruption higher, under the following conditions.

- **Low transparency.** This includes transparency with respect to the mandate of actors, i.e. what their roles and responsibilities should be, as well as transparency on their performance (e.g. reporting/disclosure of licenses granted and to whom)
- **Low responsiveness.** E.g. no protection for whistle blowers, ministers who stay whilst being prosecuted. This includes the strength/independence of the judiciary.
- **Low capacity** of actors to assess and act on the information available. This applies to civil society, who needs to have the analytical skills and resources to make informed statements and be taken seriously. It also applies to regulators, who are charged with ensuring that government mandated procedures are followed.

C.3 Conceptual approach to accountability

DFID’s White Paper 2006 describes accountability as “the ability of citizens, civil society and the private sector to scrutinise public institutions and governments and hold them to account”. It also defines accountability mechanisms, making a distinction between the traditional forms of accountability (vertical and horizontal accountability) and the most innovative ones characterised as diagonal accountability.

- **Vertical accountability** mechanisms include elections, but also informal processes through which citizens organize themselves into associations capable of lobbying governments and private service providers (e.g. by demanding explanations and threatening less formal sanctions).
- **Horizontal accountability** consists of formal relationships within the state itself, whereby one state actor has the formal authority to demand explanations or impose penalties on another (e.g. oil sector regulatory bodies).
- **Diagonal accountability** combines elements of vertical and horizontal accountability, and refers to the direct engagement of civil society with government service providers. This includes involvement and oversight of state budgeting, auditing and other oversight processes which have traditionally been the arena of state actors alone. Diagonal

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66 Norad (2009, p. 50): This study chose to structure its analysis around six categories that encompass the prevailing anti-corruption literature: systemic corruption, control and prosecution of corruption, corruption prevention, sector corruption, transparency and accountability, and the ability to address corruption. This will be useful in considering our own conceptions of the dimensions of anti-corruption analysis in our own work.

67 Accountability is, together with capability and responsiveness (the so called “CAR Framework”), one of the three elements contributing to improve governance. They are overlapping and reinforcing concepts, in the sense that each is necessary but none is sufficient for sustained improvements in governance (DFID, 2006)
accountability processes enable citizens to engage directly in the workings of horizontal accountability institutions, while it also affects the way vertical accountability takes place.

**Figure C.1  Horizontal, vertical and diagonal accountability**

A key feature of diagonal accountability is that civil society actors should have the opportunity to access information about government activities that have conventionally been restricted to the horizontal axis – oil revenue flows being one example. In addition, an important feature of diagonal accountability is that it brings a new perspective where accountability becomes a more collective activity.

**C.4 The steps in the political economy analysis**

1. Based on the literature review, we will map our understanding of the operations of the OfD programme in the three case study countries on to the decision-chain of the Natural Resource Charter – which also tracks the value-chain of activities in the oil business.

2. When combined with an analysis of the focus of the OfD programme in each country, initially by the balance of spending, we will be able to both review vulnerabilities to corruption in OfD programme activities, and the vulnerability of the programme to corruption in other parts of the decision chain where the OfD programme does not presently operate.
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

Example: Uganda

For Uganda, the breakdown by pillar is shown in the table below. This assessment indicates that the resource management pillar was the most significant in terms of budget, followed by the environmental management pillar. It also shows that the programme faced greater difficulties in executing its budget in the environmental pillar, with only 40.8% of the budget utilised – which will need further investigation during fieldwork.

Mapping this activity onto the institutions along the decision-chain of the Natural Resource Charter, and the issues in public policy and reform indicates shows that there is a focus on the Ministry of Energy and Mineral Development as the key institution for managing oil resources, and regulating the activities of oil companies through the drafting of fresh legislation governing licensing and oil sector regulations.

Activity under the revenue management pillar has been more recent, and centred on the Ministry of Finance, with the complexities of dealing with a large number of government agencies hampering the pace of engagement on environmental regulation activities. It is also clear from our preliminary findings that the OfD programme has only recently broadened engagement on these issues outside the Ministry of Energy and Mineral Development.

An initial assessment of the OfD programme activities in Uganda would therefore highlight the initially narrow focus on one Ministry with, until recently, gaps along the decision-chain of the Natural Resource Charter. The broadening of engagement to encompass environmental regulation and the administration of revenue collection and management fills previous gaps. Further engagement with matters of national content – which are the purview of the Ministries of Finance and Trade and Industry – and skills – the purview of the Ministry of Education – would entail a further broadening of engagement.

Summary of OfD Uganda budget and actual spend in 2011

<table>
<thead>
<tr>
<th>Summary Uganda OfD 2011 (USD)</th>
<th>Budget 2011</th>
<th>Util'n 2011</th>
<th>% util'n</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource management</td>
<td>2,564,263</td>
<td>2,422,023</td>
<td>94.5%</td>
</tr>
<tr>
<td>Revenue management</td>
<td>1,056,053</td>
<td>837,373</td>
<td>79.3%</td>
</tr>
<tr>
<td>Environmental management</td>
<td>2,112,150</td>
<td>861,788</td>
<td>40.8%</td>
</tr>
<tr>
<td>Programme management</td>
<td>509,476</td>
<td>210,855</td>
<td>41.4%</td>
</tr>
<tr>
<td>Total</td>
<td>6,241,942</td>
<td>4,332,039</td>
<td>69.4%</td>
</tr>
</tbody>
</table>


3. Given the focus of the OfD programme where it is operating – and where it is not – along the Natural Resource Charter decision train, step 3 is then to identify the institutions, structural factors and stakeholders as the key elements of the PEA.

From a petroleum perspective in Bolivia, Mozambique and Uganda, the institutional variables are those related to ‘the rules of the game’ governing the industry (laws and regulations, as well as informal rules, such as social obligations). Structural factors can be understood as deeper features that affect the political economy in each of the countries. Structural factors tend to change only slowly over time and are beyond the direct control of stakeholders. Finally, stakeholders comprise local public and private actors that have influence over the development of the mining sector.

We will use stakeholder analysis methods to construct an initial picture of the roles and relationships between actors with ability to influence the efficiency, transparency and accountability of the OfD programme interventions. It will assess the interests and influence of the stakeholders involved in the policy and implementation of OfD programme initiatives (see Table 3.1).
Table C.1 Stakeholder analysis template

<table>
<thead>
<tr>
<th>Stakeholder categories</th>
<th>Relevant stakeholders</th>
<th>Characteristics (social, geographical, organisational etc.)</th>
<th>Influence (power to facilitate or impede policy implement'n)</th>
<th>Motivations and interests (key objectives and aims)</th>
<th>Response to changes in the incentives structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Direct Investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local investors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government policy makers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government regulators</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Holland (2007)

The PEA will be a major part of the field visits to each country, which will supplement the findings of the literature review and Norwegian and international stakeholder interviews.

4. The analysis conducted during the fieldwork will allow us to map sector stakeholders according to their level of influence, interest and importance in relation to policies or reforms. As the work is corruption-focused interviews will focus on ‘commission’ weaknesses but they may also highlight relevant ‘omission’ weaknesses in each country context. An assessment of the political environment in each country will aim to highlight the drivers of corruption, specific corrupt practices and the impact of corruption. It also allows the activities of the OfD programme to be put into the broader context of public policy in each country, including the vulnerabilities to corruption.

C.5 Strengthening accountability

In the remainder of this section, we highlight some of the ways for the OfD programme to approach the challenges for improving accountability, and lowering the vulnerability to corruption.

Transparency: accountability can be strengthened by improving transparency and reducing asymmetries of information and knowledge between those actors demanding accountability (mainly CSOs but also other institutions) and those supplying it (mainly government organisations).

Chains of accountability: in many instances, there are diverse actors with fragmented interests. For example, the interests of the Union Federation of Petroleum Workers of Bolivia (FSTPB) – to defend their associates’ rights, are completely different to those of some CSOs defending local communities and environment in the departments of Santa Cruz and Chuquisaca. However, specific elements of accountability can together form a “chain of accountability”. A chain of accountability in the petroleum sector in Bolivia, Mozambique and Uganda can be thought of as being formed by three different although closely interconnected clusters of actors, as shown in Figure 3.1:

- Actors demanding accountability (Cluster A). These actors contribute to reinforce accountability in three different ways:
  - First, direct monitoring and pressure on particular issues or policies related to petroleum sector can complement elections as additional elements of vertical accountability (Course of Action 1 or CA1). The role of media at this stage is critical to transform public climate in which political and economic debate affecting oil sector takes place.
In addition to the direct effects of external pressure “from below,” the actors demanding accountability should strengthen the effectiveness of existing horizontal accountability mechanisms within the state, or pressure to create new ones in what could be called “society-driven horizontal accountability” (CA2). A culture of collaboration between actors demanding accountability and those stakeholders facilitating diagonal accountability is critical.

Direct participation in institutions of horizontal accountability (CA3).

- Actors facilitating diagonal accountability (Cluster B), which the role usually adopted by EITI. The review of literature carried out suggests that the lack of linkages is the main problem at this level. In addition to support both CA2 and CA3, the role of actors in this cluster is also to provide support (CA4) to those state entities with the capacity and authority to demand information or impose penalties on other public agents.

- Actors in the horizontal accountability axis, which includes all public agents involved directly and indirectly in the oil sector, as well as the agency of accountability. Their role is facilitating the flow of information at the horizontal level (CA5) in an accurate, pertinent way from an accountability perspective. In this cluster we also include private companies involved in extractive activities, both national and international, as in theory they should provide the national governments of Bolivia, Mozambique and Uganda with accurate and reliable information on their activities.

**Figure C.2 The chain of accountability in oil and gas sector in Bolivia**

Returning to the methodology set out above, the stakeholder analysis can be used to identify which actors demand accountability (Cluster A in Figure 3.1), from those facilitating diagonal...
accountability (Cluster B in Figure 3.1) and those in the horizontal axis of accountability (Cluster C, in Figure 3.1).

In principle, this analysis can be used to map different actors on two dimensions: their impact and their influence, and, in turn, that can help focus future activities of the OfD programme.

The overall purpose of the analysis will be to create the foundation for more effective action in the OfD programme against corruption and will provide the information needed to:

- Improve project design and reduce project implementation risk
- Understand why reform champions are only partly delivering on reforms
- Outline distributional aspects of reform efforts, and
- Promote more strategic and effective multi-stakeholder engagement.
Annex D  Overview of corruption

This annex aims to present an overview of corruption in the three case countries since the OfD programme started in 2006. This is captured for each country by major governance indices: the Worldwide Bank’s World Governance Indicators (WGI) and the Ibrahim Index of Governance68, supplemented by the Transparency International's Corruption Perception Index (CPI), selected public opinion surveys and economic development statistics.

D.1  Corruption in Mozambique

In 2011, Transparency International’s Corruption Perception Index reported a score of 2.7 on a scale from 0 (highly corrupt) 10 (highly clean) for Mozambique; within Sub-Saharan Africa this ranked the country as 24 out of 48 countries and globally as number 120 out of 182 countries in 2011 (TI, 2011b).

In a global context captured by the WGI, Mozambique has in particular improved in areas of governance strongly related to corruption (i.e. ‘control of corruption’) however in parallel there has been a slight decline in the country’s relative level of ‘voice and accountability’. In absolute terms, the WGI shows little improvement in any of the six indicators; especially ‘control of corruption’ has remained largely stagnant even in recent years and other indicators linked to vulnerabilities to corruption (i.e. ‘voice and accountability’ and ‘rule of law’) has declined since 2006 (see Table D.1 and Figure D.1).

In an African context captured by the Ibrahim Index of overall governance69, Mozambique ranks mid-table, in 2010, with a particular weak performance in areas of human development. Both in relative and absolute terms, the country performs best in the area of governance related to ‘safety and rule of law’ and ‘participation and human rights’ – although there has been negative trend since 2006 (see Table D.1, Mo Ibrahim Foundation, 2011).

Public opinion surveys confirm the picture of a highly corrupt country; in fact 77% of Mozambicans believe that corruption has remained unchanged from 2007-10, with two thirds of citizens having paid a bribe within the last year (TI, 2011a), and 17% of companies considers corruption as the most severe problem affecting the business environment (with inefficient government bureaucracy as the worst) (World Economic Forum, 2011). Although the number of companies expected to make informal payments or give gifts to public officials is lower than the world average and Sub-Saharan African average (Bertelsmann Foundation, 2010).

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68 The Ibrahim Index capture governance in Africa, thus is not available for Bolivia.

69 Published by the Mo Ibrahim Foundation, the Ibrahim Index of African Governance is the most comprehensive collection of quantitative data that provides an annual assessment of governance performance in every African country.
In contrast to a stagnated high level of corruption, the economic development of Mozambique has been positive. Looking at the development since the OfD programme started in 2006; GDP per capita has increased by 4.5% p.a. and the poverty headcount has improved. Despite positive trends, poverty is still widespread and inequality very high, encapsulated by Mozambique status as a 'low human development' country according to the UNDP’s Human Development Index (HDI) (see Table D.1).  

In summary, Mozambique has improved significantly over the last few years, with economic growth rates among the highest in Africa, political stability and government promotion of foreign direct investment, but corruption remains a serious problem. (Anti-corruption Business Portal, 2012)
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

Figure D.1  Mozambique World Governance Indicators (1996-2010)

Source: Kaufmann, Kraay, and Mastruzzi (2010)

D.2  Corruption in Uganda

In 2011, Transparency International’s Corruption Perception Index reported a score of 2.4 on a scale from 0 (highly corrupt) 10 (highly clean) for Uganda; globally the country ranks as number 143 out of 183 countries. Although there has been improvements corruption is still rampant and systemic (TI, 2009, 2011b).

In a global context captured by the WGI Uganda ranks in the bottom third (see Table D.2) and shows a mixed picture as areas of governance strongly related to corruption shows a varied performance, For example, ‘control of corruption’ has declined rapidly whereas ‘voice and accountability’ has stagnated in recent years. In absolute terms, this assessment shows little improvement in any of the six WGI; especially control of corruption has remained largely stagnant (with a few fluctuations) and other indicators linked to vulnerabilities to corruption (i.e. ‘voice and accountability’ and ‘rule of law’) have declined (either slowly or more rapidly) since 2006. In fact, only one indicator has shown continuous improvement since 2006 ‘political stability and no violence’ – this being a very slow improvement (see Figure D.2).
In an African context captured by the Ibrahim Index overall governance in Uganda is ranked mid-table with a relatively similar performance across each of the four sub-categories in 2010 (see Table D.2). The trend has been particularly positive in ‘safety and rule of law’ whereas ‘sustainable economic development’ has seen a negative recent development. A positive trend in ‘safety and rule of law’ can be linked to improvements in areas such as accountability indicating improved institutional structures. Looking at absolute scores the country receives its highest scores in ‘human development’ and ‘safety and rule of law’ with minimal improvement in all four sub-categories during recent years (Mo Ibrahim Foundation, 2011).

Public opinion surveys confirm the picture of a country with a high level of corruption; in fact the Global Corruption Barometer reports that 67% of Uganda believes corruption has increased from 2007-10 and 24% perceive the current government’s efforts in fighting corruption as ‘ineffective’ (TI, 2011a). Surveyed businesses confirm that corruption is a problematic factor for Uganda, as Enterprise Survey 2006 finds 23.6% of companies to identify corruption as a major constraint and 51.7% of companies expect to make an informal payment in order to ‘get things done’ (World Bank/IFC, 2006).

In contrast to an increased, or at best stagnated, level of corruption, Uganda continues to maintain its standing as one of East Africa’s relatively successful economies and has experienced high economic growth over the last few years. Since the OfD programme started in 2006; GDP per capita has increased by 4.0% p.a. and since 2002 poverty headcounts have improved dramatically. Although poverty is still wide-spread and inequality very high, encapsulated by Uganda’s status as a ‘low human development’ country according to the UNDP’s Human Development Index (HDI) (see Table D.2).
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

D.3 Corruption in Bolivia

In 2011, Transparency International’s Corruption Perception Index reported a score of 2.8 on a scale from 0 (highly corrupt) 10 (highly clean) for Bolivia; globally the country ranks as number 118 out of 182 countries. There has been a minor improvements since 2006, thus corruption is still rampant and systemic (TI, 2011b).

In a global context captured by the WGI, Bolivia ranks in the lower bottom half of countries (see Table D.3). Looking at the development in relative terms, the country has shown a decrease in areas of governance strongly related to corruption, such as ‘control of corruption’ and ‘voice and accountability’ – although some indicators have shown large relative improvements. In absolute terms, there is no real improvement in any of the six indicators; in fact ‘control of corruption’ has remained largely stagnant (with some small fluctuations), while other indicators linked to vulnerabilities to corruption has improved (i.e. ‘voice and accountability’) and others declined (i.e. ‘rule of law’) – although only slightly since 2006. In fact, only one indicator has shown continuous improvement since 2006 ‘political stability and no violence’, and it is still at a level below that of 1996 (see Figure D.3).
Public opinion surveys confirm the picture of a country with a high level of corruption, as 46% perceived corruption to have increased in the years 2007-10 and 34% perceived it to be unchanged. To underline fact that the level of corruption is high, according to LatinoBarometro (2011) that 46% of the surveyed citizens believe that in order to improve the democracy in Bolivia, corruption needs to be reduced, while 29% of the respondents pointed to a need for an increase in transparency of the government. Furthermore, it is also a country with varying public opinions on the effectiveness of the government's fight against corruption, as 35% of the respondents perceive the government's efforts to be ‘inefficient’, while 33% perceive them as ‘efficient’ (TI, 2011a).

Despite controversial socialist policies by the government, Bolivia has experienced relatively strong and stable economic growth since President Morales assumed office in January 2006, for example recording the highest growth rate in Latin America during 2009 despite the global recession. However, growth has not been rapid and the country remains one of the poorest and least developed countries in Latin America. Since the OfD programme started in 2006; GDP per capita has increased by 2.5% p.a. per capita. Looking at poverty reduction, there have been improvements in the last decade but with the relatively low level of extreme poverty (compared to for example African countries) improvements have not been rapid, as would be expected. This is also reflected in Bolivia’s status as ‘medium human development’ country according to the UNDP’s Human Development Index (HDI). One very noticeable socio-economic characteristic for Bolivia is the extreme level of inequality despite the rather low level of extreme poverty (see Table D.3).

Table D.3 Bolivia: economic and governance performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2006</th>
<th>2010 or latest figure</th>
<th>Trend since 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Development Index</td>
<td>0.650</td>
<td>0.663</td>
<td>9%</td>
</tr>
<tr>
<td>GDP (constant 2005, $PPP)</td>
<td>10.2bn</td>
<td>12.2bn</td>
<td>4.5%</td>
</tr>
<tr>
<td>GDP per capita (constant 2005, $PPP)</td>
<td>1101.0</td>
<td>1232.8</td>
<td>2.9%</td>
</tr>
<tr>
<td>GINI coefficient</td>
<td>59.9 (2002)</td>
<td>56.3 (2008)</td>
<td>3.65</td>
</tr>
<tr>
<td>Poverty headcount (1.25$PPP a day)</td>
<td>22.0 (2002)</td>
<td>15.6 (2008)</td>
<td>6.4 pp.</td>
</tr>
</tbody>
</table>

**Governance indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2006</th>
<th>2010 or latest figure</th>
<th>Trend since 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and accountability</td>
<td>105</td>
<td>112</td>
<td>-7</td>
</tr>
<tr>
<td>Political stability and absence of violence</td>
<td>172</td>
<td>144</td>
<td>28</td>
</tr>
<tr>
<td>Government effectiveness</td>
<td>150</td>
<td>128</td>
<td>22</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>169</td>
<td>164</td>
<td>5</td>
</tr>
<tr>
<td>Rule of law</td>
<td>171</td>
<td>184</td>
<td>-13</td>
</tr>
<tr>
<td>Control of corruption</td>
<td>126</td>
<td>130</td>
<td>-4</td>
</tr>
</tbody>
</table>

Note: The Ibrahim Index does not exist for Bolivia.


Note: Transparency Internaitonal's Corruption Perception Index is not included in the table as ranks cannot be compared over time due to a changing number of total countries.
Enhancing the integrity of the Oil for Development Programme: Assessing vulnerabilities to corruption and identifying prevention measures. Case studies of Bolivia, Mozambique and Uganda.

Figure D.3  Bolivia World Governance Indicators (1996-2010)

Source Kaufmann, Kraay, and Mastruzzi (2010)

D.4  World Bank’s Worldwide Governance Indicators

The Worldwide Governance Indicators (WGI) (produced since available since 1996) combine a variety of different data sources to monitor the perceptions of citizens, business men, NGOs and others dimensions of governance. The interpretation of the WGI is the following:

- ‘Voice and Accountability’ measures the perceptions held by a country’s citizens regarding their ability to actively participate in the government’s selection process, as well as freedom of expression, freedom of association and a free media. The indicator provides a good indicator of the political openness of a country.

- ‘Political Stability’ aims to capture the perceptions of the likelihood that a government will become destabilised or overthrown via unconstitutional or violent means.

- ‘Control of Corruption’ captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as the “capture” of the state by elites and private interests.

- ‘Rule of Law’ captures the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police and the courts, as well as the likelihood of crime and violence.

- ‘Regulatory Quality’ captures perceptions of the ability of the government to formulate and implement sound policies and regulations that enable private sector development.
## Table D.4 Overview of corruption levels in OfD programme countries (all six WGI indicators)

<table>
<thead>
<tr>
<th>Transparency International's Corruption Perception Index</th>
<th>Control of Corruption</th>
<th>Voice and Accountability</th>
<th>Rule of Law</th>
<th>Political Stability and Violance</th>
<th>Government Effectiveness</th>
<th>Regulatory Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/11 Rank (out of 183)</td>
<td>2010 Rank (out of 213) and trend since 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cuba</td>
<td>61</td>
<td>60 (↑)</td>
<td>199 (↑)</td>
<td>140 (↓)</td>
<td>96 (↑)</td>
<td>114 (↑)</td>
</tr>
<tr>
<td>Ghana**</td>
<td>69</td>
<td>84 (↑)</td>
<td>79 (↑)</td>
<td>98 (↑)</td>
<td>112 (↓)</td>
<td>94 (↓)</td>
</tr>
<tr>
<td>Liberia</td>
<td>91</td>
<td>134 (↑)</td>
<td>127 (↑)</td>
<td>176 (↓)</td>
<td>150 (↑)</td>
<td>193 (↓)</td>
</tr>
<tr>
<td>Sao Tome (and Principe)</td>
<td>100</td>
<td>119 (↑)</td>
<td>97 (↑)</td>
<td>149 (↓)</td>
<td>102 (↑)</td>
<td>150 (↑)</td>
</tr>
<tr>
<td>Tanzania**</td>
<td>100</td>
<td>130 (↓)</td>
<td>114 (↑)</td>
<td>135 (↓)</td>
<td>116 (↑)</td>
<td>131 (↓)</td>
</tr>
<tr>
<td>Bolivia**</td>
<td>118</td>
<td>130 (↓)</td>
<td>112 (↓)</td>
<td>184 (↓)</td>
<td>144 (↑)</td>
<td>128 (↑)</td>
</tr>
<tr>
<td>Mozambique**</td>
<td>120</td>
<td>121 (↑)</td>
<td>117 (↓)</td>
<td>134 (↑)</td>
<td>92 (↓)</td>
<td>129 (↓)</td>
</tr>
<tr>
<td>Lebanon</td>
<td>134</td>
<td>165 (↑)</td>
<td>137 (↑)</td>
<td>148 (↑)</td>
<td>195 (↑)</td>
<td>120 (↑)</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>134</td>
<td>161 (↓)</td>
<td>142 (↑)</td>
<td>161 (↓)</td>
<td>157 (↓)</td>
<td>177 (↓)</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>134</td>
<td>157 (↑)</td>
<td>124 (↑)</td>
<td>174 (↓)</td>
<td>134 (↑)</td>
<td>187 (↑)</td>
</tr>
<tr>
<td>Nigeria</td>
<td>143</td>
<td>177 (↑)</td>
<td>155 (↑)</td>
<td>189 (↓)</td>
<td>205 (↑)</td>
<td>188 (↑)</td>
</tr>
<tr>
<td>Uganda**</td>
<td>143</td>
<td>167 (↑)</td>
<td>141 (↑)</td>
<td>123 (↑)</td>
<td>180 (↑)</td>
<td>138 (↑)</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>154</td>
<td>190 (↑)</td>
<td>179 (↑)</td>
<td>192 (↑)</td>
<td>198 (↑)</td>
<td>195 (↑)</td>
</tr>
<tr>
<td>Angola**</td>
<td>168</td>
<td>202 (↓)</td>
<td>181 (↑)</td>
<td>193 (↑)</td>
<td>135 (↑)</td>
<td>184 (↑)</td>
</tr>
<tr>
<td>Iraq</td>
<td>175</td>
<td>200 (↓)</td>
<td>176 (↑)</td>
<td>208 (↓)</td>
<td>109 (↓)</td>
<td>191 (↑)</td>
</tr>
<tr>
<td>Sudan**</td>
<td>177</td>
<td>201 (↓)</td>
<td>203 (↓)</td>
<td>199 (↓)</td>
<td>211 (↑)</td>
<td>196 (↓)</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>180</td>
<td>208 (↓)</td>
<td>195 (↓)</td>
<td>211 (↑)</td>
<td>210 (↑)</td>
<td>200 (↑)</td>
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<tr>
<td>East-Timor**</td>
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<td>-</td>
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<td>-</td>
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<tr>
<td>South Sudan**</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

** Countries with larger OfD programme engagement
