

# CMI REPORT

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## Afghan Hydrocarbons: A Source for Development or for Conflict?

A Risk Assessment of Norwegian Involvement in  
Development of the Afghan Oil and Gas Industry

Arne Strand, Mohammad Hakim, Sediqa Newrozi,  
Akbar Sarwari and Aled Williams



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Front page: Oil and gas installations in need of renewal, Chakchi, northern Afghanistan  
Photo: Geir Ytreland

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## Abbreviations

ADB	Asia Development Bank
DOWA	Department of Women Affairs
EITI	Extractive Industries Transparency Initiative
ENA	Norad Energy Department
GoA	Government of Afghanistan
HVDC	High-Voltage Direct Current Technology
IDLG	Independent Directorate of Local Governance
ICE	Inter-Ministerial Commission on Energy
IPI	Iran- Pakistan- India Pipeline
MMC	China Metallurgical Group Corp
MoE	Ministry of Economy
MoF	Ministry of Finance
MoM	Ministry of Mines
MoWA	Ministry of Women Affairs
MW	Megawatt
NEPA	Afghanistan's National Environment Protection Agency
Norad	Norwegian Agency for Development Cooperation
SCO	Shanghai Cooperation Organisation
TAPI	Turkmenistan-Afghanistan-Pakistan - India Pipeline
USAID	United States Agency for International Development
USGS	United States Geological Survey
WB	The World Bank

## Executive summary

The Norwegian Agency for Development Cooperation (Norad) has been engaged in capacity building and provision of technical support to the Afghan Ministry of Mines since 2007. A part of this engagement relates to the development of the Afghan Hydrocarbons Law, and commercialization of gas and oil reserves of the northern Jowzjan province through an international bidding process.

The Terms of Reference request a conflict study in relation to oil and gas exploration in northern Afghanistan, including an assessment of the relations between the northern areas and the central administration, internal relations between northern based ethnic and military organisations and the role of regional actors. Income division between central and province authorities is to be examined, as is the view of local authorities on oil and gas extraction and ways to attract local interest; ways to secure greater focus on the gender dimension; the security situation and potential consequences for industrial development;

This report is based on three primary sources of information. One is a literature review on issues relating to governance and income division of natural resources and potential for corruption in such management. The second is information on the security situation in Afghanistan in general and north Afghanistan in particular, and the process that is underway for exploring and utilizing Afghan and regional oil and gas resources. The third source is a series of semi structured interviews with a wide range of informant conducted in Kabul, Maymane, Saripul and Mazar-e Sharif.

The literature review cover five main topics that were drawn upon in analysing the findings from Afghanistan: Structuring the management of natural resource revenues after conflict; how external interventions might positively influence existing post-conflict governance arrangements; should local solutions be prioritised over outside remedies; how availability of natural resources does affect corruption; and particular effects of natural resources on corruption in post-conflict settings.

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

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

The first Hydrocarbons Bidding Round in 2009, assisted by Norway, was for three blocks. The Jangalikalán Block: Jangalikalán (gas), the Juma-Bashikurd Block: Juma (gas), Bashikurd (gas), and the Kashkari Block: Kashkari (oil), Angoat (oil), Aqdarya (oil). Eleven companies registered interest but only one company submitted a bid that was rejected by the Government of Afghanistan (GoA) in April 2010.



There are a number of other energy transfer projects planned in the wider region where Afghanistan could act as a hub. An electrical transmission line has been constructed from Uzbekistan to Kabul, and there are plans for a new transmission line for electricity, termed CASA REM, from Central Asia through Kabul to Peshawar in Pakistan. Routing of electricity from Turkmenistan through Afghanistan to Tajikistan is in an early phase of exploration. The Trans-Afghanistan Pipeline (TAPI), aimed to bring natural gas from Turkmenistan to Pakistan and eventually India, has been under discussion since the mid 1990s. Pakistan and India pursued negotiations with Iran for the Iran-Pakistan-India Pipeline (IPI), resulting in Pakistan signing an agreement with Iran in March 2010. The Shanghai Cooperation Organisation (SCO) has moreover announced an intention to develop regional energy projects.

Afghanistan has a highly centralised governance structure: elected bodies such as the Parliament and the Provincial councils have limited authority and budget influence. The Parliament has, however, attempted to impose more control over President Karzai during the last year, especially on appointments to key government positions. The composition of the new Parliament to be elected in autumn 2010 will influence the direction and willingness to intervene. The local Governors have likewise limited influence on provincial development budgets, with these primarily handled by the provincial offices of the line ministries. There is increased international and Afghan concern about the ability of the Afghan government to take charge of development and improve governance institutions. Concerns about corruption are frequently mentioned as a factor that reduces support for the Afghan government, though a welcome development in this regard is that the Extractive Industries Transparency Initiative (EITI) has accepted Afghanistan as a candidate country.

The peace that has benefitted developments in northern Afghanistan since 2001 is fragile. Relations within and towards Kabul form part of a constantly negotiated balance where what appear to be minor changes might alter the entire power balance in the north. The main contenders for power are two former warlords. One is General Ahmed Rashid Dostum who heads the primarily *Uzbek* party *Junbesh-i Milli* and who was recently reinstated by President Karzai as Chief of Staff of the Afghan Army. Opposing him is Governor of Balqh province Atta Mohammad Noor who holds a central role in the primarily *Tajik* party *Jamiate-e Islami*. Another potential source of conflict relates to ethnicity, particularly the longstanding conflict between the largest ethnic group the *Pashtuns* and minorities such as the *Turkmens*, the *Uzbeks*, the *Tajiks* and the *Hazaras*. Within the region, Dostum has oriented himself towards Uzbekistan and Turkey, while Atta draws on relations with Russia and Iran and more recently the US. Both of them regard Pakistan as a major enemy due to their support for the predominantly *Pashtun* Taliban.

The review has identified a range of risks and challenges to the further process that Norad and Norway is advised to reflect on in their further planning.

The security situation is stable in northern Afghanistan, but there is an increased risk for instability if the internal political balance is changed or/and the relationship between local power-holders and the GoA is altered. The potential withdrawal of US and international forces from Afghanistan from 2011 onwards might increase security unpredictability.

There is notable risk emerging from the high degree of mistrust that exists between the central and local governance levels, not least relating to the utilization of natural resources and securing/distributing income from these. Suspicions of corruption and fear that information might be withheld for purposes of personal gain are widespread.

A distrust of intentions is not only limited to other Afghan actors: most Afghans express a high level of suspicion about the motives and intentions of neighbouring countries and, increasingly, also of the international community.

The lack of an updated Afghan Energy Masterplan constitutes a high risk in that the internal/external coordination of projects and efforts might be driven by the interests of single actors, Afghan and international, rather than towards a clearly defined common goal. The urgency for progress in this sector might come to override sound longer term planning.

That stated, Afghans are of the opinion that oil and gas reserves are national property, to be used for the benefit of all Afghans and not groups in particular areas or individuals holding key positions. What remains a concern is that many Afghans point out the risk of a lack of political willingness to ensure that such benefits will have a fair distribution and that a framework will come in place to monitor the process and income distribution. Afghan women are particularly concerned that they risk being kept outside processes and decisions that will influence their ability to make use of the potential hydrocarbon resources have for job creation, education and the household environment.

It is noteworthy that the Afghan oil and gas industry has existed and been in production since the mid 1980s. The risk is that knowledge and skills do not necessary match the upcoming requirements for further developments within the sector.

Balancing the notable achievements that have come into place through Norwegian facilitation and support for the Government of Afghanistan with the range of risks identified, Norad is advised to consider the following:

Await further engagement on policy matters relating to implementation of the Hydrocarbons Law and a new (if materializing) Hydrocarbon bidding round until there is further clarity as to how the Government of Afghanistan aims to develop and utilize these resources and to what extent major external donors support such policies.

Consider to provide, upon request from the GoA, the following assistance that at the moment entails fewer risks while also addressing major challenges and needs in the wider energy sector:

- Advice on the political/diplomatic process of negotiating agreements for utilization and division of underground natural resources (and water) with neighbouring countries.
- Assist in training and development of Afghan technical expertise in oil and gas exploration, production and management, aiming at ensuring that both the Technical Faculty in Jowzjan and Afghan Gas Company has the required skills and capacity to meet present and future needs in this sector.
- Assist in the further development of the hydro power and alternative energy sector, where smaller investments throughout Afghanistan might be of larger benefits and smaller risks (including on security) than the involvements in the oil and gas sector might include.
- Be active in providing information about past and present Norwegian involvement in the energy sector, including in local languages and in multiple media channels.

## Introduction

The Norwegian Agency for Development Cooperation (Norad) has through Oil for Development been engaged in capacity building and provision of technical support to the Afghan Ministry of Mines (MoM) since 2007. A part of this engagement relates to the commercialization of gas and oil reserves in the Sheberghan area of the northern Jowzjan province through an international bidding process. This follows Norwegian support for the development of the Afghan Hydrocarbons Law, that entered into force on 1 February 2009.

Norad, through its Energy department (ENA), holds responsibility for continuous follow-up of the collaboration, in dialogue with the Norwegian Ministry of Foreign Affairs as well as the Norwegian Embassy in Kabul. The activities are implemented by Econ Pöyry (project management and technical issues), Arntzen de Besche (legal issues) and Gaffney Cline Associates (commercial utilization). Capacity development is headed by PETRAD. A timeline presenting the various engagements with the Afghan Ministry of Mines (MoM) is presented in Annex III.

Norad's position is that utilization of Afghan petroleum reserves will have considerable spinoff effects locally, nationally and regionally. A local conversion of gas into electricity plus supply of electricity to Kabul is one of the alternatives considered. Estimates of available gas resources indicate a potential generation of 1000 megawatt (MW) over 25 years, or 500 MW over 50 years. This could make possible extensive electrification in northern Afghanistan, and allow electric supply to the mining industry in Aynak (copper, Logal Province) and Hajigak (iron ore, Bamyan Province). A 100 – 150 MW gas plant, to be based in Shegerghan in Jowzjan province, is under consideration by the United States Agency for International Development (USAID), while the Asia Development Bank (ADB) is considering an upgrading of the gas fields. The development of the Aynak copper mine, contracted to the Chinese company China Metallurgical Group Corp (MCC), includes a coal fired power plant.

Gas export is another possibility considered, possibly in combination with other alternatives. The chosen solution will, among a range of concerns, depend on the size of the gas reserves and production capacity. The development of this sector will involve both central and regional actors within Afghanistan.

## The scope of the study

The Terms of Reference (ToR) for this study, available in Annex I, outline that developments in north Afghanistan and relations between the northern areas and the central administration should be an important element of this study. In addition to the roles of General Dostum, Governor Atta and President Karzai, the study should include an analysis of relations between *Uzbek* and other ethnic based political and military organizations such as Junbesh-i Milli and the Northern Alliance, as well as the Afghan Central Government.

More generally the ToR request a better and more comprehensive assessment of actors and development scenarios in light of the conflicting interests between the central government and regional actors. It is desirable to set Sheberghan in a national energy perspective, and clarify the division of roles between different actors within energy development in Afghanistan. The need for strengthened coordination is considered important.

The study shall moreover address income division between regional (district and province) and central authorities, including what influence provincial councils and the parliament hold

on decisions of income distribution. It should also address plans that exist in the *Independent Directorate of Local Governance (IDLG)* in this regard, and clarify IDLGs opinion on income division.

Other issues to be addressed include:

- Views of local authorities on oil and gas extraction, possibly including what initiatives might be important to attract local interest. Local authorities to be consulted should include both elected and appointed representatives, and provincial representation of some ministries.
- An assessment of potential initiatives that can be implemented to secure a larger focus on the gender dimension, including women rights and involvement.
- The security situation in northern Afghanistan, and potential consequences for development of an oil and gas based industry particularly in Jowzjan and Sar-e-Pol.
- Relevant regional factors of importance for the assessment of possibilities and the conflict potentials, as the initiatives for energy transmission through Afghanistan from Central to South Asia through Afghanistan.
- Potential for regional utilization of electricity production based on the gas deposits and a mapping of relevant challenges in this connection.

## Methodology

This report is based on three primary sources of information. One is the literature review undertaken by Aled Williams on issues relating to governance and income division of natural resources and potential for corruption in such management. The second is information on the security situation in Afghanistan in general and north Afghanistan in particular, and the process that is underway for exploring and utilizing Afghan and regional oil and gas resources. This information was drawn from a range of written sources, but complemented by interviews of international and Afghan actors in Kabul and north Afghanistan conducted by Eng. Mohammed Hakim, Sidiqa Newrozi, Akbar Sarwari and Arne Strand. The third source was a series of semi structured interviews with a wide range of informant (see annex II) conducted by the team in Kabul, Maymane, Saripul and Mazar-e Sharif, plus follow-up interviews through phone and email communication conducted by Arne Strand.

In an acknowledgement of the sensitivity of the issues and the recognition of very limited knowledge in northern Afghanistan about the Afghan government's plans for exploration of oil and gas resources, the ongoing bidding process and the Norwegian support provided the team to adapt a conflict sensitive research approach. When undertaking interviews in north Afghanistan the Afghan team-members started the interviews by informing (using a set text based on the ToR) about the background and extent of the Norwegian support to the Ministry of Mines, including for development of the Hydrocarbons Law and the bidding process. Thereafter, the aims of the research and the independence of the research team from both NORAD and the Government of Afghanistan was explained. Thereby the team ensured that information about the Norwegian involvement and the absence of Norwegian commercial actors in the ongoing bidding process was known to governors and members of PCs in the Faryab, Jowzjan and Balqh provinces. This was done to counter the lack of information noted in the provinces, frequently cited distrust in the Karzai government and expressed suspicion that foreign actors intend to exploit Afghan national resources to their own advantage.

# Literature review: Natural resources, conflict and corruption

A review of literature relating to the use, risks and opportunities of natural resources in conflict or post conflict contexts, and the potential for development of corrupt practices is presented below.

## 1.1 Structuring the management of natural resource revenues after conflict

Re-opening or developing new natural resource industries in post-conflict settings presents a double set of challenges when it comes to structuring the management of resource revenues. Governance of revenues should be structured in such a way that a return to violence is avoided and peaceful relations promoted. But revenue management arrangements should also mitigate the negative effects of the resource curse<sup>1</sup>, including the pursuit of socially costly activities like corruption. Given the potential for natural resources to affect corruption, for natural resources to affect conflict motivation, type and duration, and for corruption to affect conflict, there are no straightforward responses to these two main challenges. Some policy considerations may be drawn, however, from case-studies of re-opened and newly developed extractive industries in post-conflict settings, and from more general country experiences in sharing revenues from natural resources.

Boege and Franks (2009) note that re-opening or developing new mining projects in post-conflict settings may contribute simultaneously to peacebuilding and to an increase in social tensions. The revenues, jobs and infrastructure accompanying such projects are double-edged, providing hope for the future but also stirring historical resentments or causing new problems (such as corruption or violence). Using case-studies from Papua New Guinea (Bougainville) and Guatemala, they argue that the hybrid political orders present in post-conflict settings, where non-state traditional actors and institutions function alongside the state, mean that constructing a “social license” for governing resources is at least as important as establishing formal structures and institutions. Deriving mutual benefits from resource rents will not always be possible and the challenges may be compounded by problems associated with determining whose consent is required for a particular resource to be accessed. There are distinctions too to be made between new extractive resource projects untainted by violent conflict, and re-opened projects that may be burdened by a connection to war. From their perspective, the prospects for a project’s success may primarily be enhanced via improved community relations practices. These include informal and formal opportunities for consultation, engagement and participation (such as community reference panels and boards, and community monitoring programmes), activities that foster community understanding (such as stakeholder analysis and cultural mapping), and processes for responding to complaints and disputes (such as dispute resolution and grievance handling mechanisms).

Decentralisation of control over natural resource revenues has been widely promoted as a means to enhance welfare benefits and promote equity in their use. Theoretically, decentralisation of the management of resource revenues could have positive effects both for peacebuilding and for mitigating corruption, since they aim to increase the scope for popular participation in decisions surrounding the benefits derived from natural resource endowments. Ribot (2003) argues, however, that decentralisation of natural resources in Africa – which saw a large number of resource-related decentralisation reforms in the 1990’s - has largely not succeeded in establishing conditions for more efficient or equitable use or management of resources, including resource revenues. The argument here is that decentralisation requires a

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<sup>1</sup> See section 1.4.

combination of locally accountable representation and discretionary power transfers in order to be successful. Ribot notes this combination is rarely achieved in Africa, with alternative local institutions chosen even when democratic local bodies exist. In circumstances where systematic means for public participation in local decisions are limited, it is likely that transfers of power over resource revenues to the local arena will result in deconcentration rather than more accountable decentralisation. It may be envisaged that decentralisation reforms for resource revenues in post-conflict settings can become a new battleground with potential negative effects both on the prevalence of corruption and on social violence.

An innovative alternative approach to managing oil and gas revenues has been suggested by Sala-i-Martin and Subramanian (2003) with reference to Nigeria. Their approach entails establishing a system (distinct from an oil revenue fund) whereby resource revenues are transferred directly to citizens rather than managed by public officials (either at local or central level). The approach implies that resource revenues would not directly enter state budgets, but would rather be collected via taxation. It is argued that this would simultaneously shield the economy from volatile injections of oil and gas revenues, reduce incentives and opportunities for public officials to engage in rent-seeking and patronage related to these revenues, and create positive incentives for improved governance and taxation capacities. It is acknowledged that significant practical difficulties in implementing such a system would need to be overcome and that corruption and mismanagement could also plague the new approach. However, by treating capital generated through the production of oil and gas in the same way as other forms of capital, an avenue to deflate likely suspicions and tension arising from more conventional revenue sharing arrangements may perhaps be opened up, creating space for discussion of improved methods of taxation which may have wider benefits beyond the natural resource sector.

## 1.2. How might external interventions positively influence existing post-conflict governance arrangements?

Scharbatke-Church and Reiling (2009) note that when local populations perceive external interventions as ethically compromised, for instance where internationally brokered agreements appear to overtly favour a particular group, there is a risk to the overall legitimacy of external engagement. Both the actual and *perceived* manner in which outside forces interact with existing institutions and respond to on-the-ground governance arrangements are of concern therefore. Working with the grain of existing local patterns of governance implies reaching an acute understanding of the actors, nature and dynamics of these existing patterns. Much recent anti-corruption literature stresses that understanding the formal institutions and roles of key actors is insufficient for determining the political economy of localised power relations. Real effort should also be made to appreciate the de facto framework and informal means by which decisions are reached and enforced. This implies continual engagement with advanced political economy assessment methodologies and power or stakeholder analyses so that changes to power relations over time and local responses to particular events or interventions may be appreciated. This is in keeping with the Organisation for Economic Cooperation and Development's (OECD) principles for good international engagement in fragile state settings, which stress that sound political analysis should be used by international actors to mix and sequence support according to specific contextual factors (OECD: 2007).

Intense effort is also required to understand the system of incentives that underpins corruption at a local level. The overtly negative connotations that corrupt activity holds for many external observers can undermine a clear appreciation of the welfare implications of informal relations. Patronage networks, in particular, are rational survival techniques in post-conflict settings (Uvin: 2009). Disrupting these relations by, for instance, pursuing punitive anti-corruption measures can present a direct threat to livelihoods, which may in turn give rise to further conflicts. Local resentment towards such approaches are likely to be reinforced if they

result in a targeting of rank-and-file members of the population, but leave the elite ‘big fish’ unaffected.<sup>2</sup>

Participation and empowerment of local populations are repeatedly cited in the literature as central both to successful anti-corruption interventions and to peace-building efforts, and may serve to enhance the positive aspects of existing local governance arrangements. But what does “real” participation look like, and what might local empowerment imply in practice? Among the many possible answers to these questions, ensuring sound information provision to local communities about external assistance decisions and projects appears to be an important element. Some external actors may, however, fail to connect information delivery to actual processing by local individuals. NATO’s International Security and Assistance Force (ISAF) database of reconstruction and development projects in Afghanistan, for instance, provides details of more than 70,000 separate activities including road and school building. It is, however, provided in English and may be viewed only via a restricted access website (Galtung and Tisné: 2009).<sup>3</sup> This is in contrast to the United Nations Development Programme (UNDP) supported Development Assistance Database for Afghanistan which provides public information in Dari on funds committed and disbursed by government agencies, NGOs and international donors.<sup>4</sup>

### 1.3 Should local solutions be prioritised over outside remedies?

Reinforcing locally driven governance processes is noted in much recent anti-corruption literature as essential to the legitimacy of measures intended to counter corrupt activity. Gaining trust and “buy-in” from local populations in post-conflict governance arrangements is also considered a key element in preventing a slide back to war. There are risks, however, in over-inflating the moral primacy of local solutions. Uvin (2009) argues that post-independence Burundi experienced disruption to its largely accepted patronage system through the emergence of national and local leaders unconnected to traditional claims to power. Coupled with severe economic decline from the mid-1980s, Uvin argues this disruption contributed in large part to the country’s civil war from 1993 to 2005. Where the perversion of local governance arrangements is a contributing factor in conflict, there would seem little reason to uphold these arrangements over other solutions. Indeed, the descent to conflict may be taken as an indication that a shift in power arrangements was required at a fundamental level.

Negotiations intended to end hostilities may also involve agreements that are not conducive to long term peace (Adwan: 2005). From this perspective, deals struck with local power brokers prior to the cessation of hostilities should be viewed as transitional and subject to revisiting once a process of stabilisation begins. Kibranian (2009) argues that the 1989 Taef Agreement in Lebanon, though reached through consensus among all local factions, enshrined power-sharing as an end in itself, with warlords, elites and wealthy businessmen dividing power among each other but leaving little room for representation of non-traditional interest groups. The promotion by outside actors of concepts and mechanisms of good governance, accountability, transparency and the rule of law, can perhaps offer welcome relief where post-conflict governance becomes mired in corruption. Dininio (2009) argues that the introduction of stringent international oversight mechanisms, as done under the Governance and Economic Management Assistance Programme (GEMAP) in Liberia, succeeded in stemming large scale looting of state resources.<sup>5</sup> The programme, which asserted intrusive oversight over revenue collection, consolidated all deposits in a single account at the central bank and required co-signature from internationally recruited staff placed in key ministries.

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<sup>2</sup> For an interesting discussion of varying notions of legitimacy in post-conflict settings see OECD: 2010.

<sup>3</sup> See: [www.nato.int/isaf/docu/pressreleases/2008/02-february/pr080210-065.html](http://www.nato.int/isaf/docu/pressreleases/2008/02-february/pr080210-065.html)

<sup>4</sup> See: [dadafghanistan.gov.af/rc?sessionid=1273234462596621](http://dadafghanistan.gov.af/rc?sessionid=1273234462596621).

<sup>5</sup> See: [www.gemapliberia.org](http://www.gemapliberia.org)

## 1.4 How does the availability of natural resources affect corruption?

Countries dependent on revenue from natural resource exports tend to experience low or negative growth, low levels of development, and high levels of inequality and poverty.<sup>6</sup> Corruption is often considered to be both a by-product of and a contributing factor to this resource curse. The presence of resource endowments may result in a high level of rent-seeking behaviour, while corruption may occur within systems of resource management themselves, reinforcing their suboptimal use and degrading their possible effects on welfare (Kolstad and Søreide: 2009). Whatever the causality involved Gylafson (2008) shows that corruption is generally more pervasive in mineral-rich countries than in upper middle-income countries.<sup>7</sup>

A distinction is sometimes made between negative resource effects on economies where resources are abundant and in economies that are dependent upon them. To the extent that resource dependence involves public allocation of access to *scarce* common-property resources to private parties, it should be expected that some resource-rich countries may be more susceptible to corruption than others (Gylafson: 2008). Likewise, the presence of corruption may vary according to natural resource type. It is argued that Sierra Leone's alluvial diamonds, for instance, are more readily lootable than Botswana's kimberlite diamonds, which are located deeper underground and require considerable investments to recover to the surface (Gylafson: 2008).

When explaining the possible negative effects of resource rents (including corruption) emphasis is commonly placed on rent-seeking and on patronage.<sup>8</sup> Rent-seeking explanations focus on institutional quality as a key factor: put simply, countries with bad institutions will suffer a resource curse, while those with good institutions will not. Some rent-seeking models also suggest that the effect of resources may depend on variables such as the initial level of rent-seeking and ethnic fractionalisation (Kolstad and Søreide 2009). Patronage perspectives, on the other hand, place greater emphasis on the opportunities and incentives that resource rents provide political leaders to pay off supporters to stay in power. A politician may, for example, choose to spend resource rents on providing public sector employment to his or her supporters in order to increase the probability of their political support. From this point of view, the institutions that require critical support are those that govern the allocation of public resources, and thereby hold politicians to account for their use of resource-derived public funds (Kolstad and Søreide 2009).

## 1.5 Particular effects of natural resources on corruption in post-conflict settings

The links between natural resources and conflict have been explored extensively. Two recurring themes from the literature are (i) that armed conflicts are motivated by control of natural resources, and (ii) that natural resources may be integrated into the financing of conflict. Ross (2004) provides a useful investigation of these and related hypotheses from 14 cross-national studies focusing on natural resources and civil war, noting some important variations in terms of the type of resource at stake and their conflict effects.<sup>9</sup> This echoes, to

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<sup>6</sup> For overviews of the extensive literature on the resource curse, see: Humphreys, Sachs and Stiglitz (2007); Collier and Goderis (2007); Rosser (2006); Kolstad and Søreide (2009).

<sup>7</sup> This is based on Gylafson's computations using data gathered from the World Bank, UNESCO, Transparency International, and the University of Maryland.

<sup>8</sup> See, for example: Robinson et al (2006), Mehlum et al 2006, and Robbins (2000).

<sup>9</sup> Ross (2004) finds four main trends: i) oil dependence appears linked to the initiation of conflicts, but not their duration, ii) gemstones, opium, cocoa and cannabis do not seem linked to conflict initiation, but do seem to



some extent, Le Billon's (2001) analysis of the relation between the nature and geography of a resource and types of conflict, which underlines that the physical availability and spatial distribution of resources are crucial with regard to the opportunities for looting presented to belligerent actors. Lujala (2010) finds that the location of resources is crucial to conflict duration, with oil and gas reserves effecting duration regardless of whether production has already begun. It is of note, however, that Le Billon (2001) also stresses the role played by human desires, needs and practices in whether a resource in its natural state will be appropriated, for purposes peaceful or otherwise.

Less well-examined are the particular effects of natural resources on corruption in post-conflict settings, though several studies have attempted to link the resource-conflict debate to other elements of the resource curse discussion, including corruption.<sup>10</sup> What appears relatively uncontested is that the shift between war and peace may, in itself, present rich opportunities for corruption since new economic activities are likely to emerge in a context of continued violence and weak governance (Le Billon: 2003). Where natural resources have been an important element in the political economy of war, the incentives and opportunities for engaging in corrupt activity in order to secure benefits from resource rents are likely to be quite significant. Precisely how significant could depend on a wide range of factors, but among them are likely to be the fragility of post-conflict governance arrangements and the nature of the resources in question. Le Billon (2003) notes that, even when committed to peace agreements, leaders may not be able to secure enforcement among followers if these individuals are more strongly influenced by personal economic gains. This implies that the lootability of resources in terms of their geographic location and distribution could be important on two counts: resource lootability may influence the type and duration of conflict, but it may also influence the opportunities for engaging in resource-related rent-seeking behaviour during peacetime. Along this line of argument, the presence of resources that do not require significant investment for their appropriation are more likely to present obstacles to lasting peace, just as they create incentives for the prolongation of war. It should be noted, however, that this argument does not account for Lujala's (2010) finding that the location of oil and gas reserves influence conflict duration regardless of whether production has already begun.

Natural resources may present opportunities and incentives to engage in corruption, and resources may be linked to conflict type, motivation and duration. But corruption and conflict may also be directly linked. Rose-Ackerman (2008) suggests that, in the absence of what might be termed "good governance", corruption may be a short-term mechanism for retaining a semblance of social organisation that may prevent violent disintegration. This echoes Le Billon's (2003) earlier hypothesis that conflict may be engendered more by changes in the pattern of corruption than by its existence per se. In policy terms, this implies that extreme caution is required when providing international assistance to avoid exacerbating underlying governance challenges. Where the presence or prospect of natural resource rents has played an important role in a conflict's political economy, arrangements for the management of natural resource endowments should be given special attention. Two central issues here are (i) to what extent can interventions on the part of external actors improve on existing governance arrangements to promote greater stability and levels of welfare; and (ii) how might this be done in a manner that does not disrupt governance arrangements to an extent that a return to violence becomes an attractive option.

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lengthen pre-existing wars, iii) there is no statistical evidence linking agricultural commodities to either initiation or duration of conflict, iv) primary commodities do not appear associated with the onset of civil war.

<sup>10</sup> See, for instance: Marshall (2001); Sachs and Warner (1999); Schloss (2002).

## Afghan hydrocarbon reserves

Afghan hydrocarbon resources are primarily located in northern Afghanistan, but there is still uncertainty as to how large these resources are. The first oil field was located in 1959 and the Soviet Union undertook a geological survey and made extensive use of oil and gas resources during the period of their military invasion from 1979 to 1989. They identified then more than 150 million barrels of oil (mmbbl) reserves and more than 4,500 billion cubic feet of gas (bcfg) reserves in 29 fields in the Afghan portion of the Amu Darya and Afghan-Tajik basins. In addition to extensive exportation via pipelines to the Soviet Union, gas was distributed locally and transferred via a pipeline to a fertilizer factory in Mazar-e- Sharif. The extent and income of these exports was not made public, but Afghans are of the view that the income provided a sizable part of their development budget transferred from the USSR at that time.

The resources were managed by the Afghan Gas Company, and a technical college in Sherberghan was established to educate and train technicians and staff for the oil and gas industry. The college still provides education in this field (see below box) and the Afghan Gas Company maintains a staff of almost 2300. The Minister of Mines emphasized in our discussion a need to reform the company.

### *Jowzjan Technical College*

*The Engineering Faculty has presently three departments: mines and geology, technology, and construction. There are 2000 students, of which 600 are girls (more would apply if dormitories were available), and seven female lecturers.*

*The Technical Gas and Oil High school has 240 students (boys and girls) and nine female teachers. The main subjects taught are: car mechanics, electricity and drilling of oil and gas wells, and high voltage electricity.*

Cross-border exports were terminated following the withdrawal of the Soviet Union, but gas continued to be used locally. When the then *Uzbek* militia leader Abdul Rashid Dostum captured the largest northern city of Mazar-e Sharif in the neighbouring Balqh province, he started to provide the city with piped gas from resources at the Sherberghan plant. Dostum moreover controlled an oil refinery in Sar-e-Pul built during the 1990s (still effectively under his control), which might be important if and when oil production can be restarted. Gas is also still provided to the fertilizer factory in Mazar-e Sharif, where there is a recognised potential to increase the production of urea if further investments can be made and gas continue to be supplied.

After the fall of the Taliban in late 2001 initiatives were taken to obtain a better assessment of the existing oil and gas resources. Funded by the U.S. Trade and Development Agency (TDA) a nationwide oil and gas resources assessment, using a geology-based assessment methodology, was initiated by the United States Geological Survey in spring 2003. The estimates for northern Afghanistan were released in 2006, and were of 1,596 million barrels of crude oil, 15,687 billion cubic feet of natural gas, and 562 million barrels of natural gas liquids. There are currently new studies underway to obtain a more precise overview of these resources. However, most of the undiscovered crude oil is expected to be located in the Afghan-Tajik Basin, while most of the undiscovered natural gas is in the Amu Darya Basin where the present exploration is taking place. These resources are to a certain extent shared with Afghanistan's northern neighbours Tajikistan, Uzbekistan and Turkmenistan, who are either making extensive use of and exporting their own resources, or plan to do so. There is

presently no agreement between Afghanistan and its neighbours on the utilization of natural resources as oil and gas.

The first Hydrocarbons Bidding Round, assisted by Norway, was for three blocks; Jangalikal Block: Jangalikal (gas), Juma-Bashikurd Block: Juma (gas), Bashikurd (gas), Kashkari Block: Kashkari (oil), Angoat (oil), Aqdarya (oil). The Ministry of Mines notes that only two of these fields have been in production. Angoat was in sustained production, while Kashkari produced only modest amounts of oil for 6 months in the late 1980s. With reference to US based consultancy firm Gustavson, the ministry provide the following estimates for the size of the blocks and the remaining recoverable reserves, though assuming that the reserves will be larger: Jangalikal Block (1,999 km<sup>2</sup>): 19 Bm<sup>3</sup>, Juma-Bashikurd Block (1,861 km<sup>2</sup>): 33 Bm<sup>3</sup>, Kashkari Block (1,723 km<sup>2</sup>): 64.4 MM Bbl (plus 143.8 MM Bbl of possible reserves).<sup>11</sup>

Following the preparation of the Afghanistan Power Sector Master Plan by Norconsult in October 2004, USAID initiated a feasibility study of a Sherbergan-based gas powered plant. Then, in April 2009, USAID funded the instalment of a drilling rig to test existing gas levels to determine if the wells contained enough gas to fuel such a power plant.<sup>12</sup> The Turkish company contracted for the testing did not, however, complete that task following a series of delays that, according to USAID, led them to terminate the contract. The Special Inspector General for Afghanistan Reconstruction provides a more nuanced picture on this termination (see below box), but does point out the potential importance of the project in securing Afghanistan's demand for low cost power.<sup>13</sup> The project risk referred to is expected to be an incident where General Dostum sent 200 armed men to protect the well. The team was not able to clarify why this incident took place, what the armed men intended to protect, why they then chose to withdraw, and following whose intervention.



Map 1: Amu Darya and Afghan Tajik Basins

Map available at: [http://www.aapg.org/explorer/2006/07jul/afghanistan\\_map.jpg](http://www.aapg.org/explorer/2006/07jul/afghanistan_map.jpg)

<sup>11</sup> For further information about these three fields and the hydrocarbon bidding process please see this dedicated webpage: <http://www.afghanistanpetroleum.com/index.php>

<sup>12</sup> For details see <http://afghanistan.usaid.gov/fa/Article.606.aspx>

<sup>13</sup> Office of the Special Inspector General for Afghanistan Reconstruction (2010) *Afghanistan Energy Supply Has Increased but An Updated Master Plan is Needed and Delays and Sustainability Concerns Remain*. January 15, 2010. SIGAR AUDIT- 10-4 Energy Sector

### **SIGAR Audit regarding Sherbergan Gas Fields**

*The Sheberghan gas fields development project represents a particularly interesting case. At the point of the termination for convenience, the United States had spent \$7.1 million on the project. According to USAID, the termination for convenience was due to subcontractor nonperformance. However, Louis Berger /Black & Veatch Joint Venture officials stated that the termination was at the convenience of the U.S. Government and that there were project delays caused by Afghan customs issues, security issues, and the need to negotiate assumption of certain project risks by the Afghan government. This cancellation has significant implications for Afghanistan's future energy independence since natural gas represents an indigenous energy resource which experts estimate could, in theory, meet the country's demand for low cost power for decades to come if properly developed. USAID officials stated that they felt the funds would be better spent by setting up a public-private partnership to build a power plant (page 10).*

Despite these challenges, USAID informed the interview team in mid-March 2010 that they remained committed to establish a 100 – 150 MW gas driven power plant, and confirmed that the Asia Development Bank (ADB) had agreed to upgrade the gas fields.<sup>14</sup> A TOR is under development between ADB and the company Gustavson Associates for the testing of wells. USGS is about to undertake further and more precise studies on the size of available oil and gas resources, though it may take several years before the data can be made available. USAID had hired Advanced Energy Associates International to develop a road map for the use of energy in Sherbergan, and to work on the possibilities to market the natural resources there as a viable product.

The recently elected Mayor of Kabul proposed in his election campaign to supply pipelined gas from northern Afghanistan for the Kabul population. His suggestion is to upgrade the existing pipeline from Jowzjan to Mazar-e Sharif, and then build a new pipeline along the highway to Kabul that could provide gas to the population close to the road and easily be guarded against attack. This was also mentioned by USAID, but they moreover noted plans for a new north–south highway through Bamyan in central Afghanistan that might be a future alternative pipeline route.

The Mayor argued in our interview that energy transfers from the north to Kabul could allow for hydropower generated in plants close to Kabul and Jalalabad to be utilized in eastern and southeastern Afghanistan. It was his opinion that this could help reduce a potential conflict between a “developed” capital and an “underdeveloped” rural population south of Kabul, while the same benefit could be achieved for the population along the pipeline from the north to Kabul by allowing them to make use of the gas transferred.

There are a number of other energy transfer projects planned in the wider region where Afghanistan could act as a hub. An electrical transmission line has already been constructed from Uzbekistan to Kabul which, according to some sources, has a dimension that will allow for transmission of the additional electricity that might be generated from a gas-powered plant in Sherbergan. There are moreover plans for building a new transmission line for electricity, termed CASA REM, based on high-voltage, direct current (HVDC) technology, from Central Asia through Kabul to Peshawar in Pakistan. This is a major investment involving the World Bank and there is uncertainty if the project will be implemented. In March 2010 the possibility of routing electricity from Turkmenistan through Afghanistan to Tajikistan was

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<sup>14</sup> An estimate made suggest that there are available gas resources in these fields for production of 1000 MW.

brought to the attention of the Inter-Ministerial Commission for Energy (ICE), and the project is in an early phase of exploration.

The Trans-Afghanistan Pipeline (TAPI), previously referred to as the Peace-pipeline, aimed to bring natural gas from Turkmenistan to Pakistan and eventually India, and has been under discussion since the mid 1990s. Companies such as Unocal and Bidas made their interest known and engaged with the Taliban and Pakistan to secure an agreement for the pipeline to cross west Afghanistan (Rashid: 2000). But increased concern over Taliban policies and the later UN sanctions on the regime put the development on hold. Plans were renewed in May 2002 after the fall of the Taliban, and the ADB commissioned a feasibility study that was presented in 2005.<sup>15</sup> The Afghan Minister of Mines informed the team that he had recently taken a new initiative to revive these plans, seeing the income potential for Afghanistan from such a project.

However, given insecurity in Afghanistan and pressing energy needs in Pakistan and India, these countries also pursued similar energy negotiations with Iran, the Iran-Pakistan-India Pipeline (IPI). The project has been strongly opposed by the United States due to their concerns over developments in Iran, and India withdrew their participation in 2009 following an agreement reached with the US on the development of their nuclear energy sector. Pakistan, on their part, continued the project and a project agreement were signed with Iran in March 2010.<sup>16</sup> China, on their side, has with Turkmenistan established the Central Asia–China gas pipeline, ending up in Xinjiang after having passed through Uzbekistan and Kazakhstan. This could, in the future, be a potential channel for export of Afghan gas if a connecting line is built from Afghanistan to Turkmenistan.

The Shanghai Cooperation Organisation (SCO) has announced an intention to develop regional energy projects. But according to sources in the Afghan Foreign Ministry there have so far been few initiatives taken of benefit to Afghanistan.

The above illustrates the wider political concerns in relation to energy development, transmission and utilization in the region, where Afghanistan is situated within a set of regional and international positions and ongoing negotiations. This might influence Afghanistan's ability to generate revenue from energy transmission from Central to South Asia, at least in the short term. Development of existing Afghan resources, if primarily for use within Afghanistan at this stage, is not likely to pose the same political controversy and thereby risks that other countries may try to intervene or influence decision making.

## Afghan governance structure and challenges

The northern Jowzjan province is where oil and gas extraction has taken place so far. Presently a limited amount of gas is transported through a pipeline to the town of Mazar-e Sharif, located to the east in the Balqh province. In all provinces there are Governors appointed by either President Karzai or the Independent Directorate for Local Governance (IDLG) that was established in 2007 to improve local governance. The Governors' influence seems to depend on their ability to draw on networks in the province and the region, their contact with and political and financial support provided by the President and/or the IDLG and their support from international donors and the military. The Governors hold only limited influence over funding channelled to each province, but are key actors in the development of the Provincial Development Plan (PDP). The present Jowzjan governor is connected to the political party Junbesh-i-e Milli, but is originally from the Faryab province. The Faryab

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<sup>15</sup> Details of the projects are presented in this ADB document:

[http://www.adb.org/Documents/TARs/REG/tar\\_oth\\_37018.pdf](http://www.adb.org/Documents/TARs/REG/tar_oth_37018.pdf)

<sup>16</sup> See <http://uk.reuters.com/article/idUSTRE62G12C20100317?sp=true>

governor is from the ethnic and religious *hazara* minority, without any formal links to the province or other northern provinces. In contrast, the governor of Balqh is a former warlord from the Jamiate-e Islami party that hold extensive political and military influence in northern Afghanistan. His support for the opposition candidate to President Karzai in the 2009 presidential elections set him up against the Kabul government and negotiations are ongoing on (the conditions for) his continued governorship.

The elected Provincial Councils (PC) have likewise limited influence on governance and on development planning and implementation in the provinces, beyond being consulted and tasked to maintain a check and balance on the other governmental actors. The recent elections for the PCs involved major changes to PC members in the Faryab, Jowzjan and Balqh provinces, only 3 or 4 members were reported re-elected though the political parties seems to have maintained their influence. The PC relates to the elected Parliament in Kabul only to a very limited degree, and are administrated through the IDLG, as are the Governors.

The bulk of development funding for each province is channelled through representations of line ministries in each province, as i.e. the Departments of Health, Education, Agriculture and Rural Rehabilitation and Development. These departments are involved in development of the PDP, but prefer to relate to their Ministry in Kabul than to governmental and elected actors in the province.

The present governance system does not function very well, and tensions remain between the different actors and between Kabul and the provinces over influence, access to funding and to the degree of information and consultation over issues relating to the provinces. Informal networks, party and personal affiliations remain an important element in obtaining and maintaining positions and for ensuring influence.

Another important aspect in this regard is a policy, developed by the then Minister of Finance Ashraf Ghani in 2002, to ensure that any income generated or collected through taxation (including from border trade) in the provinces is to be transferred to the Kabul government for redistribution. This followed the appointment of a number of former military commanders to key positions as Governors, District Administrators and Chiefs of police to “coopt” them into the government structures to secure their loyalty. One goal of Minister Ghani’s policy was thus to ensure a degree of centralized control over income distribution, another was to counter the “cooptation strategy” by ensuring that warlords appointed as Governors would not be in a position to use local income opportunities to strengthen their own independence from the central authorities. Governor Ismael Khan in Herat was a case in point. The policy was not equally applied; the income from gem mining in northeast Afghanistan did not become subject to the regulation.

There is, at present, increased international concern about the ability of the Afghan government to take charge of development and improve governance institutions. There is also concern about the notable lack of support for the government among broad segments of the Afghan population. A noted dilemma for the donor community is whether it should maintain a focus on development of the central government, and its ability to maintain a strong centralization of authority and power. Or should donors, rather, prioritise developments at province and district levels to ensure that capacity building and development activities can take place beyond Kabul.

Concern about corruption is frequently mentioned as a factor that reduces support for the Afghan government among both international donors and the Afghan population. Recent statistics from ISAF’s Nationwide Survey indicate that 83 % of Afghans believe that

government corruption affects their daily lives, 29 % believe the president to be corrupt, 33 % the provincial governors and 34 % the district governors.<sup>17</sup>

A welcome development in relation to the theme under study is that the Extractive Industries Transparency Initiative (EITI) has recently accepted Afghanistan as a candidate country. However, interviews indicate that more information is required in the various ministries about EITI, including what responsibilities rest on Afghanistan in the process towards implementing EITI requirements.<sup>18</sup>

## Northern Afghanistan

The northern Afghan provinces are presently regarded as the most peaceful areas of Afghanistan. This has not always been the case and the area was the scene of intra ethnic fighting and massacres during the 1980s and 90s. A large number of the *Pashtun* population have been internally displaced in southern Afghanistan since 2002. There is an ongoing political and personal rivalry that includes networking towards the Kabul government, regional and international actors and states. Faryab is the Afghan province with the highest representation of the ethnic *Uzbeks* group, followed by the neighbouring province of Jowzjan and Sar-e Pol while *Tajiks* make up the majority in Balqh province.

One major source of conflict relates to ethnicity, particularly the longstanding conflict between the largest ethnic group the *Pashtuns* that have held (with very short intervals) the position as kings and presidents in Afghanistan, and minorities such as the *Turkmens*, the *Uzbeks* (primarily living in the north), the *Tajiks* (strong influence in the north east, but with broad representation throughout northern Afghanistan) and the *Hazaras* (primarily in central Afghanistan, but strongly represented in cities such as Mazar-e Sharif).

There has historically been a strained relationship between the *Pashtuns* and Afghan minorities such as the *Uzbeks*, the *Tajiks* and the *Hazaras*. From 1880 onwards Afghan Kings deported *Pashtuns* in opposition to their reign to northern Afghanistan in an effort to establish pockets of *Pashtuns* within the *Uzbek*, *Turkmen* and *Tadjik* minority groups. These, regarded by the minorities as unwanted settlers, were provided with land, as were *Pashtun* teachers that later moved to northern Afghanistan to ensure the teaching of *Pashu* (in addition to Dari spoken in these areas) in the governmental schools. *Pashtun* nomads (*koochie*s) that shifted their grazing routes into the north similarly made use of the local pastures. This led to continuous conflicts over land ownership and access to and use of water resources. The latent opposition against *Pashtun* exploitation in the north and national rule from Kabul intensified and turned violent as the minorities formed ethnic based military groups following the Soviet invasion. These either aligned themselves with the Kabul government (as General Dostum) or the armed opposition (the mujahedeen), later to join their forces in the Northern Alliance in the fight against the (primarily) *Pashtun* Taliban from 1994 onwards.

The northern based *Pashtuns* gained influence during the Taliban period, though not everyone joined or supported the Taliban. Both the Taliban and the *Uzbeks* conducted massacres of war prisoners that increased the ethnic tension and demand for revenge. *Pashtuns*, as a group, were targeted for retaliation as the Northern Alliance came to power after joining forces with Operation Enduring Freedom in defeating the Taliban in late 2001. *Pashtun* farmers had then their land and herds confiscated, rape of both boys and girls were reported and many fled to stay in camps in Kandahar or Herat from 2002 onwards. One estimate is that as many as 10 000 families left from Faryab alone. Efforts by the United Nations High Commissioner

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<sup>17</sup> For further details see US Congress (2010) *Report on Progress Towards Security and Stability in Afghanistan*, April 2010, available at [http://www.defense.gov/pubs/pdfs/Report\\_Final\\_SecDef\\_04\\_26\\_10.pdf](http://www.defense.gov/pubs/pdfs/Report_Final_SecDef_04_26_10.pdf)

<sup>18</sup> See: <http://eitransparency.org/Afghanistan>

and the Afghan Independent Human Rights Commission (AIHRC) to help repatriate and restore property rights of the northern Pashtuns has only been a partial success and many still remain displaced in the south. The Pashtuns that have remained or returned to northern Afghanistan are in general suspected by the international military forces and the ethnic minorities of being potential supporters of the Taliban.

But there have been a range of other internal conflicts over the last years that have contributed to an increase in ethnic tension in northern Afghanistan. Giustozzi describes the Faryab province as “the warlords’ hotbed” due to extreme levels of violence that took place in the 1980s and 1990s and continued competition between militant leaders in northern Afghanistan, that gradually turned from an armed struggle to a political competition.<sup>19</sup>



Poster outside the main entrance of the office of North Hydrocarbons in Sheberghan  
Photo: Geir Ytreland

The two main contenders for power in the north are two former warlords. One is General Ahmed Rashid Dostum who heads the primarily *Uzbek* party *Junbesh-i Milli* and who was recently reinstated by President Karzai as Chief of Staff of the Afghan Army in a bid to ensure support for his re-election as president.<sup>20</sup> Opposing him is Governor of Balq province Atta Mohammad Noor who holds a central role in the primarily *Tajik* party *Jamiate-e Islami* that has expanded its influence throughout the north over the last years. An article by Mukhopadhyay from 2009 explains that “[H]e has embraced formal institution building to an extent but maintain[s] a degree of informal power that ensures his dominance in the region and his influence vis-a-vis Kabul.”<sup>21</sup> Atta, as he is referred to, however, fell out with President Karzai and key ministers as he supported the candidacy of Dr. Abdullah Abdullah

<sup>19</sup> Antonio Giustozzi (2009) *Empires of Mud: Wars and Warlords in Afghanistan*. London, Hurst & Company.

<sup>20</sup> See [http://www.nytimes.com/2009/06/25/world/asia/25karzai.html?\\_r=1](http://www.nytimes.com/2009/06/25/world/asia/25karzai.html?_r=1)

<sup>21</sup> Dipali Mukhopadhyay (2009) *Disguised Warlordism and Combathood in Balkh: The Persistence of Informal Power in the Formal Afghan State*, in *Conflict, Security & Development*, 9:4 December 2009, London.



as President, and is currently drawing on his “informal power” as he is negotiating to retain his position as governor.<sup>22</sup>

The two of them started out as bitter enemies, Dostum heading an *Uzbek* militia force in support of the communist government – initially protecting the gas pipeline from Shegergan to the Soviet Union - while Atta was a mujahedeen commander fighting the communist government. Dostum’s switching of his alliances in 1992 brought down President Najibullah and led Kabul to fall to the mujahedeen, but he had a troubled relation to his partners in Kabul and to opposition against his rule within the north. Gradually expanding his power and establishing Mazar-e Sharif as the regional capital, he was eventually forced out by the Taliban (as his sub-commander Rasoul Parlawan shifted sides) in 1997 and took refuge in Turkey.

Atta, growing in the Jamiat-e Islami ranks in the Balq province was in constant competition with Dostum over influence and their two forces was close to engaging in battle to secure power in Mazar-e Sharif after the fall of Taliban in 2001. Negotiations led to a compromise over division of customs and other revenue, and acceptance by the parties of a more decentralized governance model helped settle the conflict. Balancing his alliances with the Jamiat-e Islami party and with President Karzai, Atta accepted to have his soldiers demobilised, and thereby secured himself the appointment as Governor of Balkh in 2004 – a position he has since retained. The economic development in the north has increased his political and financial support base, a position he used to expand the influence of (his branch) of Jamiat -e Islami throughout the north, including in areas dominated by General Dostum.<sup>23</sup>

In a wider regional perspective, Dostum oriented himself towards and sought support from Uzbekistan and Turkey, while Atta initially drew on relations established with Russia and Iran and later the US. Both of them regard Pakistan as a major enemy to Afghanistan and to their position, and both are likely to resist a negotiated deal between the Government of Afghanistan and the Taliban as that could reduce the gain achieved by the Afghan minorities in the state administration and leave them with less influence (and fewer positions) in the government. It is therefore of some concern that Turkey, with whom Dostum has remained in close contact, is about to establish a Provincial Reconstruction Team in Jowzjan.

The peace that has benefitted developments in northern Afghanistan since 2001 is fragile. Relations within and towards Kabul form part of a constantly negotiated balance where what appear to be minor changes might alter the entire balance of power in the north, if the position or influence of General Dostum or Governor Atta is changed. That stated, there are organizational and political structures in place that might help mitigate differences and reduce the risk for such sudden escalations of violence as witnessed during the 1990s. Parties and individuals have benefitted from economic development in the region, and from having obtained political positions and influence in the parliament, in ministries and the broader state administration. Such factors are likely to add to the stabilization and willingness to reach compromise that won’t put economic and political capital at risk. However, no guarantees can be provided for a continued stable and conflict free north Afghanistan.

## Energy and environment

A further dimension of the importance of increased utilization of Afghan hydro-carbon based energy resources relates to the environmental challenges Afghanistan is increasingly faced with. Droughts, logging and extensive use of firewood and dried manure for cooking and

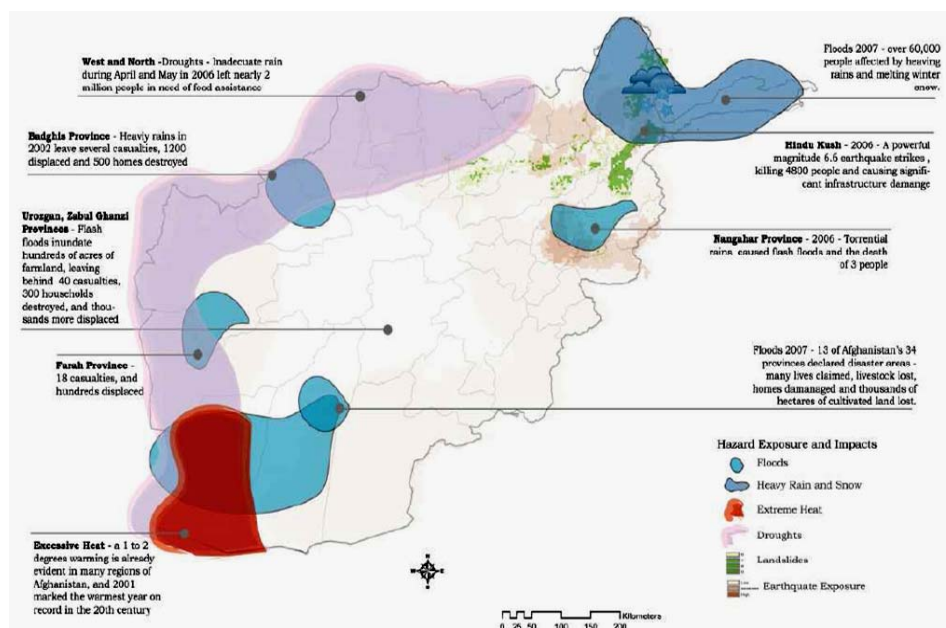
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<sup>22</sup> A meeting held between President Karzai, Governor Atta and Elders from Balq that was held in late April 2010 did reportedly not solve these differences.

<sup>23</sup> It is reported that Jamiat-e Islami has recently opened an office in Maymane, Faryab province.

heating purposes in rural areas pose extensive challenges to the Afghan environment. Such activities, moreover, pose threats to the health of a majority of Afghan women who have responsibility for cooking and heating of water within their homes, often without proper ventilation.

The below map indicates the environmental challenges in different parts of Afghanistan, including the drought that affects large parts of north and western Afghanistan. It was mentioned during interviews in Jowzjan that the lack of energy sources had forced farmers over the last winters to cut their fruit trees to have wood for heating. Despite the large energy resources in the province, the provincial capital only has electricity every second day. This has reduced the income potential of farmers and further increased environmental vulnerability.



Map 2: Climate challenges in Afghanistan

Source: DFID (2008) Socio-economic Impacts of Climate Change in Afghanistan. Executive Summary, London, Stockholm Environmental Institute, Oxford Office.

The available data provide a clear indication on the imbalance between utilization and import of energy resources, with the use of biomass as the main Afghan energy resource.

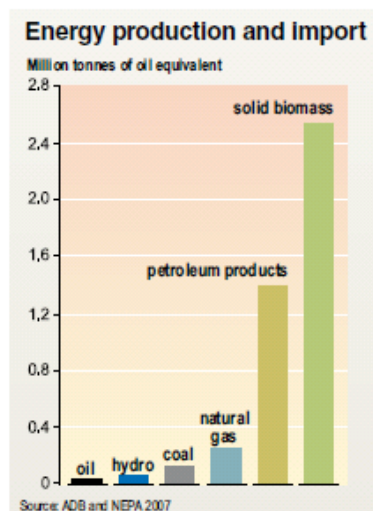


Illustration 1: Afghan Energy Production and Import (2007)

Sources: Asia Development Bank and NEPA.

This is not only of environmental concern, this development might increase the conflict potential in Afghanistan if not carefully handled. According to a study undertaken for Oxfam (2008) the major drivers of local conflicts relate to land, water and family issues. A scarcity of water leaves less land to be irrigated and available for agricultural production, with the potential for conflicts over both access to land and to water resources. Of regional concern is the lack of agreement between Afghanistan, Tajikistan and Uzbekistan over the division and utilisation of the water from the river

constituting their border, the Amu Darya. The attention of the international military forces and the Provincial Reconstruction Teams (PRTs) are primarily on military threats to the government and they have been reluctant to become involved in local conflicts such as those over water and land. There is, moreover, a likelihood of increased use of mechanical pumps in drought areas that might lower water tables and thus the potential outcome of the Afghan traditional underground irrigation systems, the *karezes*.<sup>24</sup>

A further utilization of Afghan oil and gas resources, if properly handled, could help reduce Afghanistan's environmental challenge, potentially helping to reduce local conflict levels and certainly reduce dependence and the high cost of present energy purchases from neighbouring countries.

## Overall findings

The interviews in Afghanistan brought about a set of general findings presented here to help understand the subsequent responses to the ToR questions. They relate to 1) information sharing and management; 2) income distribution; 3) assumptions on corruption and corrupt practices in tendering processes; 4) attitudes towards neighbouring countries and the international community; and 5) national utilization of natural resources.

### 1. Information sharing and management

One of the most striking findings from the study was how limited but also how varied was the knowledge members of Parliament, the Provincial Governors, the Provincial Councils, non-governmental organizations and members of the public had on the development and approval of the Hydrocarbons Law, the ongoing bidding process for oil and gas wells in Sherbergan, and the Norwegian role in providing technical and advisory support.

Members of Parliament interviewed were aware of the Hydrocarbons Law, and they highly appreciated the support Norway had provided for the development of the law. They had, however, much less knowledge about the bidding procedures administered by the Ministry of Mines, and several of them confused their influence and role in this process with the general provision made for parliamentary involvement in bidding processes outlined in the Procurement Law.

The two Provincial Governors interviewed and members of the Provincial Councils claimed that they had not received any formal information about the Hydrocarbon Law, the ongoing bidding process or the Norwegian support. Some high ranking officials noted that they had received "unofficial" information about the bidding process, which is understood to have been conveyed to them through their personal and political affiliations in Kabul.

The Norwegian involvement was only recognized by officials of the Ministry of Mines and Finance and employees of the Afghan Gas Company in Jowzjan that had visited Norway to learn about the Norwegian oil and gas industry. When this information was conveyed during the interview it brought about, with one exception discussed below, positive comments and a request for further Norwegian support for these processes. The Minister of Mines has the following request: "*scale up the Norwegian engagement in northern Afghanistan, get involved in the exploration of the Afghan Tadjik Basin and help build the capacity of our departments.*"

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<sup>24</sup> This concern is discussed in Bauck et.al. (2007) *Afghanistan: An Assessment of Conflict and Actors in Faryab Province to Establish a Basis for Increased Norwegian Civilian Involvement*. Bergen: CMI Report R 2007: 1.

Several commented upon what they regarded as a lack of willingness of the Government and Ministries in Kabul to share information about developments likely to hold influence in their province. One comment from a head of a Provincial Council was: *“The government does not seem to prioritize information to the elected councils or to the public. The process in the government is not clear to us, it seems that key actors just make their own decisions.”* Or as a Parliamentarian expressed it rather bitterly *“they don’t inform us, they don’t want us to be informed.”*

It could here be noted that the dedicated webpage for “The First Afghan Hydrocarbons Law”, <http://www.afghanistanpetroleum.com/index.php>, is only available in English which limits its broader usefulness for Afghan businesses and local officials and elected council members with limited command of English.

## 2. Assumptions on corruption and corrupt practices in tendering processes

A frequently suggested reason for why such information was not forthcoming was that they expected officials in Kabul to deliberately withhold information, creating an opportunity for themselves to extract personal income from such resources. With frequent references to alleged corrupt practices in the bidding and allocation process for the Aynak copper mine, many referred to key government officials as “the Kabul mafia”.

One parliamentarian summarized the Aynak process and the outcome with the following statement *“Nobody really knows what happened in that case, and therefore nobody trusts anyone.”*<sup>25</sup> The same parliamentarian then drew a comparison with the Hydrocarbons bidding process, stating that *“For a sustainable exploration of oil and gas we need a transparent government and press. We need to ensure that the laws that are approved (by the Parliament) are implemented, many are not at the moment.”*

While the corruption allegation has not been substantiated and no legal action has been taken against Minister Adel, there is a strong common belief (strengthened by recent international emphasis on the need to address corruption) that there is a very high degree of corruption among officials in the Afghan Government. That belief totally undermines the population’s trust in their authorities, as documented by concerns raised from members of the Parliament to the shopkeeper in the local bazaar.

## 3. Income distribution

The Government of Afghanistan has, since 2001, strongly emphasized that all revenue and tax income is to be channelled through the Ministry of Finance in Kabul, allowing them to keep track of income and to ensure a distribution of funding in compliance with their national strategies and priorities. Although that income is low, as most development funding is provided by external donors, the principle remains important to the Government of Afghanistan as it enables them to maintain a degree of authority and allows for prioritization of funding to areas untargeted by international donors.<sup>26</sup> A GoA official insisted that, at this stage of development of the Afghan state and governance system, it was premature to discuss any further utilization of income from natural resources in the provinces/districts where these were extracted. That would only, from his point of view, cause further conflicts and increase the tension between the central government and the provinces and between provinces.

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<sup>25</sup> The corruption allegation was referred to an unnamed US official in a Washington Post article in November 2009, available at <http://www.msnbc.msn.com/id/34116888>

<sup>26</sup> A 2009 report from the Afghan Ministry of Finance document that as much as 77 % of the international development funding is channelled outside of Afghan government control.

Interestingly, none of those interviewed argued that more locally generated income should only be utilized in their part of Afghanistan. Emphasis was rather placed on ensuring such income for the Government and people of Afghanistan. What was of concern locally and among Parliamentarians, however, was to ensure local job generation, development of infrastructure and possibilities for local businesses to be drawn on, and the potential for Afghan investment in profitable industry opportunities.

It might be re-stated at this stage that the literature review points out that, at least in Africa, decentralisation has largely “not succeeded in establishing conditions for more efficient or equitable use or management of resources, including resource revenue”, but rather, “can become a new battleground with potential negative effects both on the prevalence of corruption and on social justice.”

#### 4. Attitudes towards neighbouring countries and the international community

There is a very strong distrust expressed by all Afghan interviewees towards their neighbouring countries, but particularly towards Pakistan given their longstanding involvement with and military and financial support for Afghan political parties and groups.

One parliamentarian expressed frustration about developments in Afghanistan in the following way: “*We can’t trust our police, we can’t trust our army and if we neither can trust the international community, then what is the meaning of life here?*”

It became evident early in the interview process that the Parliamentarians were concerned about the Hydrocarbons bidding process. Several politely pointed out that the “*political situation is not ready to use this source (oil and gas)*”, and another that “*this has to be done at the right time, and until now the region is not secure enough, and there are other elements involved that makes our situation worse...*”.

One, however, expressed his concern more directly, and set the other more careful comments into perspective: “*This process is about management of our national resources. We have learned that it is a Pakistani company that has provided a bid – that is not acceptable to us from a national security prospect*”.<sup>27</sup>

This knowledge coupled with a perceived Norwegian influence on the bidding process was then probably what prompted the following remark from another MP from the north: “*I appreciated the Norwegian involvement in Afghanistan until for about 6 months ago when I realized they were interfering in the internal affairs of Afghanistan. Norway has to know the population, and has to understand the politics – now they are taking side in internal matters. He then went on to state that “But, we still acknowledge that Norway are professional in the practical handling of oil and gas.”*

The perception about the Norwegian role is important to take note of, as it appears to be based on a lack of knowledge of the actual involvement and function of Norwegian consultants and advisors in this process. That has left some with a perception, based on a general negative experience of foreign interference (and a lot of circulating rumours), that Norwegians have influenced the Afghan decision making process in this case.

#### 5. National utilization of natural resources

The above touches on another key finding: the unison opinion that Afghan oil and gas resources must be utilized within Afghanistan. Moreover, all interviewees argued that these

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<sup>27</sup> The company referred to is Orient Oil. It is an international company with main office in the United Arab Emirates, though perceived by Afghans interviewed to be influenced by Pakistani shareholders.

resources should be used for the benefit of all Afghans. They regarded it a common national resource, where the use and income generated was not to be limited to Afghans living in the provinces where these resources are extracted and/or refined. That argument was also made by the political party Junbush-e Milli that, in effect, could control most of the present oil and gas fields.

Many thought that the available Afghan resources were limited compared to what was already in production in neighbouring countries. Their opinion was therefore that there would not be any major demand for Afghan oil and gas resources in neighbouring countries should Afghanistan wish to market these for sale abroad.

A further argument made was that Afghanistan was at the moment spending far too much on purchasing energy from abroad, and far too little on developing and utilizing its own natural resources, such as water and gas for energy production. A frequently expressed concern was that they had become economically dependent upon their neighbours and their donors for their energy supply.

## Security

Turning to the questions posed in the ToR, the security aspect is discussed in detail above with the main finding being that the security situation in northern Afghanistan is stable but still unpredictable. The present tension between Governor Atta and the Kabul Government, internal unresolved differences between ethnic groups and Taliban's gradual reestablishment in the north are all contributing to short term unpredictability. The possibility that the US might start reducing their military presence and development support from 2011 onwards might add to the internal tensions.

A question that was pursued throughout the interviews was if uncertainty about the security situation could have been the reason why only one company had entered into the hydrocarbons bidding process. None of those interviewed believed that security concern was the main reason. They attributed it rather to the following:

- Uncertainty about how large the deposits were.
- The political crisis that had developed following the Presidential elections.
- Opening up of new fields in Iraq where resources were better documented.

One opinion presented in north Afghanistan related to financial security for potential interested companies “...one of the reasons that national and international companies are not interested to invest their money is lack of transparency in governmental policies and procedures, everybody asks for a share and percentages”

From a more technical perspective, USAID mentioned that the sequencing of the bidding process might have prevented some companies from entering. The present system does not provide the company that explores and finds the oil/gas resources any guarantee that they will be selected for the further extradition and utilisation of these resources.

The indications received by the Norwegian consultants engaged in the process was, however, that several companies did not submit a bid due to uncertainty over the local market for gas, and that consortiums were excluded from bidding. Many Afghan companies were interested in participating in the bidding round together with international companies, but were excluded as it was decided by the Ministry of Mines that consortiums were not allowed to bid.

## View of local authorities, potential for local involvement

There is strong support among appointed and elected local authorities for development of the Afghan gas and oil industry, and for national use of these resources for the benefit of all Afghans. Their strong scepticism towards neighbouring countries, their questioning of the intentions of the international community and their distrust in the Afghan government, strengthen their resolve to control the use of these resources and prevent its sharing beyond Afghanistan.

There is, however, an equally strong acknowledgement that Afghanistan lacks the skills, knowledge and financial means to develop these resources on its own. They see the need to bring in and make use of international companies, but as several interviewees mentioned: *“it has to be an honest company”*, and another that: *“we are not certain that companies from our neighbouring countries have sufficient knowledge, we will be more satisfied with a western company.”*

Local involvement would depend on being informed about plans and procedures, which seems lacking at the moment, and for initiatives from the Ministry of Mines and other government bodies to engage with local authorities. However, potential donors to such processes and projects would be advised to develop an information strategy together with Afghan authorities to ensure accurate information flow, including the use of media to reach broad segments of the public.

The possibility for local investments in the oil and gas industry was mentioned by many interviewed, summarized here in a suggestion from a provincial council member: *“...we have companies that can invest in projects. It would be very good with a conference with Afghan traders to see if they might be interested in investing here, either individually or as a consortium. It would moreover be beneficial with collaboration between the Ministry of Mines and the Ministry of Commerce.”*

Contacts made within the Afghan business community supported the idea of establishment of an investment consortium for Afghan oil and gas industry, provided that the process was transparent and handled in a professional manner.

## Gender dimensions, women rights and involvement

Many of the women interviewed emphasized the importance the use of gas and electricity would have for their health and how it could help improve how they organize their household duties. One reflected that *“gas would take less time to cook the food, but using the electricity help keeping the kitchen clean.”*

It was felt that decisions on oil and gas issues were made by men, and only to a limited degree were the concerns and interests of women taken into consideration. Several of those interviewed explained the challenges they faced in being heard within the council, or in just being allowed to the meetings in one province: *“... the head of the Provincial Council is saying that we women should not sit with the male members at the same table”*.<sup>28</sup> The Ministry of Women Affairs and female members of the Provincial Councils interviewed were

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<sup>28</sup> These female council members were told that they did not need to attend the meeting scheduled with the team as it was only “men’s business” to be discussed.

not informed about the Hydrocarbons bidding process or the potential for improvement of their livelihoods or establishment of jobs and business opportunities.

Women interviewed thought that if the project was implemented, it would be “*one of the most fundamental and beneficial initiatives for all Afghans.*” They were advocating the potential for job generation and opportunities for small business establishment in connection to the development of an Afghan oil and gas industry. Several mentioned that in northern Afghanistan there are a number of Afghan women that can contribute both in management, leadership and the more technical aspects of the oil and gas industry as they have obtained such education. They noted also that development of this sector “*will allow women to invest in small businesses as producing of jam, sauce, candies/cookies, industries that now lack energy.*”

When being informed about the process and the potential for utilization of these energy resources, their main concern was that they as women would not be allowed a voice or an influence on these processes. A female member of a provincial council phrased it as follows:

Unfortunately we have a centralized governance system, the laws, regulations, concepts and budgets are developed in Kabul then they arbitrate to how implement the decision. The central government decides for us without knowing the context here. All the key actors are nationalists and anti women, these actors are linked with economic mafia to dominate and monopolize the power, they do whatever benefits them the most.

This view was shared by a female parliamentarian, stating that “*To ensure the benefit of women we need a fair government that can distribute equally between Afghans and between men and women. Job employment is needed, and women need to be involved.*”

Bringing up the corruption issue, the Ministry of Women Affairs (MOWA) argued for women to be appointed to senior positions as they have not so far been involved in corrupt practices and are in general “*more honest and willing to struggle against corruption*”. While this argument has less support in the literature on gender and corruption it is worth noting as a potential avenue for developing anti-corruption attitudes within the Afghan population.<sup>29</sup> Acknowledging their limited knowledge about this specific field MOWA suggested that the Ministry of Finance should check and analyse energy projects from a gender perspective, to ensure the involvement of and benefit for women. Their concern was that “*Afghanistan is a male-dominated country; all projects are designed according to men’s ability. Giving the lack of transparent processes women don’t get into higher positions*”.

To counter corruption, women suggested that the Parliament and the Provincial Councils could act as monitors for the implementation of the Hydrocarbons Law, and for a steering committee, including women, to be established to supervise the bidding process, oil/gas exploration, income collection and distribution.

## Regional factors; potential for energy transfer

While there was a noted reluctance against exporting Afghan gas and oil resources due to the energy deficit in Afghanistan, there was a positive attitude towards Afghanistan becoming a hub for regional energy transfers. Many regarded this as either a possibility for revenue generation or a potential, as mentioned for the Turkmen-Pakistan gas pipeline, for Afghan use of gas from this pipeline.

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<sup>29</sup> The U4 Helpdesk Expert Answer, *The State of Research on Gender and Corruption*, offers further insight into this debate, available at: <http://www.u4.no/helpdesk/helpdesk/queri.cfm?id=206>



The potential for regional use of electricity production based on gas deposits was not considered high. The argument being that a) the priority should first be for use within Afghanistan, and b) except for Pakistan and India other states in the region would likely prioritize making use of their own gas-resources for electricity rather than import it from Afghanistan.

A noted concern was the international and regional politics involved in the “*international struggle for the control of the black gold*”, and Afghanistan’s lack of agreements with neighbouring states on natural resource management. Afghans feared that they would have only limited influence on these processes, and, again, that personal financial benefits might be prioritized over national interests.

## Coordination of energy initiatives

A general concern for the development of the energy sector was, as a major donor noted, that at the moment “*there are too many cooks in the kitchen*”. This is supported by a report from the Office of the Inspector General for Afghanistan Reconstruction which points out that Afghanistan lacks an updated masterplan for the energy sector. The report refers to statements from ADB and WB officials when they warn that “*...many current activities in the energy sector are ad hoc and not managed in a strategic manner*”.

That stated, the assumption recorded is that the donor coordination mechanism established for the energy sector is functional. 60 donors are meeting on a monthly basis at the Ministry of Economy (MoE), and a part of their task is to identify gaps in donor funding. USAID is providing the MoE with the secretariat for this coordination function.

The conclusion to draw from these observations is that further initiatives are needed to improve the coordination effort. This should include the development of a new overall master plan for the energy sector and more specific coordination efforts for the gas and oil sector, where it would be beneficial to involve all relevant Ministries, including the Ministry of Finance and also the IDLG. A further improvement would be if they ensured frequent communication with the Parliament and Provincial representatives. A Ministry of Finance official alluded to this in a statement on what they regarded as their limited involvement in the Hydrocarbons bidding process: “*There is the division of responsibilities between ministries, and a number of issues, where we could have been consulted to ensure the best possible outcome for Afghanistan, I can just mention taxation, revenue distribution...*”.

This would meet the concern noted in the literature review (section 1.1.) for “informal and formal opportunities for consultation, engagement and participation”, as a way to improve project success.

## Main conclusion

Major progress has been made in the development of the capacity and technical expertise of the Afghan Ministry of Mines to develop a Hydrocarbons Law, getting it approved by the Afghan Parliament, and in running the first Hydrocarbons bidding process. It was a setback that only one company submitted a bid, and that this bid then was rejected in April 2010 by the evaluation committee. However, Afghanistan now has legislation in place for the management of natural resources that might be of key importance for the further development of Afghanistan, and the Ministry of Mines holds expertise and experience from managing international bidding processes.

All documentation underlines the economic importance for Afghanistan of the development and national utilization of their oil and gas resources, and there is growing evidence that increased use of gas for domestic consumption and energy production (together with hydro-power) might contribute positively to reduce threats to the environment.

That stated, this research and the literature review have identified a range of risks and challenges to the further process that Norad is advised to reflect on in their further planning.

The security situation is stable in northern Afghanistan, but there is an increased risk for instability if the internal political balance is changed or/and the relationship between local power-holders and the GoA is altered. The potential withdrawal of US and international forces from Afghanistan from 2011 onwards might increase security unpredictability.

There is moreover a notable risk emerging from the high degree of mistrust that is documented between the central and local governance levels, not least relating to the utilization of natural resources and securing/distributing the income from these. Suspicions of corruption and fear that information might be withheld for the purpose of personal gain are widespread. The immediate “lootability” of the oil and gas resources might be less than for other natural resources, but accusations made with regard to the Aynak process indicate that if processes are not transparent and tightly guarded “looting” might take place in the preparation phase rather than after extraction has taken place.

Such a distrust of intentions is not only limited to other Afghan actors, since most Afghans express a high level of suspicion about the motives and intentions of neighbouring countries and, increasingly, also of the international community. Afghanistan has a rumour mill that frequently exploits such mistrust to further its own political positions by claiming undue intentions, interference and failures on the side of international actors. Coinciding with major economic, strategic and military interests among regional and international actors, the utilization and potential for distribution of income from Afghan hydrocarbon resources is likely to continue to be a politically contested theme.

With the lack of an updated masterplan for the energy sector there is a high risk that the internal/external coordination of projects and efforts in this sector might be driven by the interests of single actors, Afghan and international, rather than towards a clearly defined set of goals. The urgency for documenting progress might then come to override sound longer term planning.

That stated, it must be noted that there appears to be agreement among Afghans that oil and gas reserves are national property, to be used for the benefit of all Afghans and not groups in particular areas or individuals holding key positions.

What remains a concern is that many Afghans point out the risk of a lacking political willingness to ensure that such benefit will have a fair distribution and that a framework will come in place to monitor the process and income distribution. That includes women that are generally concerned that they risk being kept outside processes and decisions that might influence their development potential.

It is moreover of note that the Afghan oil and gas industry has existed and been in production since the mid 1980s. It has been able to maintain a degree of production and professional workforce within the Afghan Gas Company and within the Ministry of Mines, while continuing to educate new professionals to maintain the present technical installations. The risk here is that their knowledge and skills do not necessary match the upcoming requirements for further development within this sector, and that, as noted by Minister Sharani, there is a need for development of policy and organization, not only technical skills.

## Recommendation

Balancing the notable achievements that have come in place through Norwegian facilitation and support for the Government of Afghanistan with the range of risks identified in this report, and not least the two central conflict issues identified in the literature review, Norad is advised to consider the following:

Await further engagement on policy matters relating to implementation of the Hydrocarbons Law and a new (if materializing) Hydrocarbons bidding round until there is further clarity as to how the Government of Afghanistan aims to develop and utilize these resources and to what extent major external donors support such policies.

However, in the meantime consider to provide, upon request from the GoA, the following assistance that at the moment entails fewer risks while also addressing major challenges and needs in the wider energy sector:

- Advice on the political/diplomatic process of negotiating agreements for utilization and division of underground natural resources (and water) with neighbouring countries.
- Assist in training and development of Afghan technical expertise in oil and gas exploration, production and management, aiming at ensuring that both the Technical Faculty in Jowzjan and Afghan Gas Company has the required skills and capacity to meet present and future needs in this sector.
- The further development of the hydro power and alternative energy sector, where smaller investments throughout Afghanistan might be of larger benefits and smaller risks (including on security) that the involvements in the oil and gas sector might include.
- Be active in providing information about past and present Norwegian involvement in the energy sector, including in local languages and in multiple media channels.

## ANNEX I: Terms of reference

### **Conflict study Afghanistan in relation to oil and gas exploration in Northern Afghanistan**

#### **Background**

The Norwegian Agency for Development Cooperation (Norad) is engaged in capacity building and technical support to Ministry of Mines in Afghanistan. A part of the task relates to make commercial use of gas and oil reserves in Shebergan through an international bidding process. Norad, through the Energy-department (ENA) is responsible for the continued follow-up of this collaboration, in dialogue with the Norwegian Embassy in Kabul. The work is implemented by Econ Poyry (project management and technical support), Arntzen de Besche (judicial matters) and Gaffney Cline Associates (commercial support). The capacity building is led by Petrad.

A utilization of the petroleum resources in Afghanistan might have positive effects locally, nationally and regionally. A local conversion of the gas to electricity and power transfer to Kabul is one of the alternatives under consideration. Estimates of available gasreserves indicate a possible generation of 1000 MW for 25 years, or 500 MW for 50 years. This might make possible an extensive electrification of northern Afghanistan, and electrical supplies to the mining industry in Aynak and Hajigak. A 100-150 MW plant for gas power is under consideration by USAID, and ADB is considering an upgrading of the gasfields. The development of the coppersmine in Aynak includes a coalpower plant.

Gas-export is another possibility, possibly in combination with other alternatives. The solution to be selected will depend on the size of the reserves and production capacity. The development will affect both central and regional actors in Afghanistan.

CMI conducted for Norad in 2008 an assessment of potential conflicts related to extraction of hydro-carbons in Afghanistan. CMI recommended to follow closely the political development, and for a more detailed follow-up study at a later stage.

Since this report was presented we have seen a deteriorated security situation in northern Afghanistan, at the same time as the presidential elections and change of government has made the political situation in Afghanistan more unpredictable.

#### **Study outline**

The development in north Afghanistan, and relations between the northern areas and the central administration will be an important element of the study. In addition to the roles of General Dostum, Governor Atta and President Karzai the study should include an analysis of relations between uzbek and other ethnic based political and military organizations as Jumbesh-e Milli and the Northern Alliance, and the Central Government. More generally it is desirable to have a better and more comprehensive assessment of actors and development scenarios in light of the conflicting interests between the central government, regional actors. It is desirable to set Sherbergan in a national energy perspective, and clarify the division of roles between different actors within energy development in Afghanistan. (The need for strengthened coordination is considered as major).

The study should address division of income between regional (district and province) and central authorities, and what influence the Provincial Councils and the Parliament has on decisions of income division. And, what plans that are developed by the Independent Directorate of Local Governance – IDLG in this connection, or what reflections they might have on such an approach to such a challenge.

Other issues to be addressed:

- Views of local authorities on oil and gas extraction, possibly what initiatives might be important to attract local interest. Local authorities to be consulted should include both elected and appointed representatives, and provincial representation of some ministries.
- An assessment of what initiatives that can be implemented to secure a larger focus on the gender dimension, inclusive women rights and involvement.
- Security situation in northern Afghanistan, and consequences for an oil and gas based industrial development particularly in Jowzjan and Sar-e-Pol.
- Possible regional factors of importance for an assessment of the possibilities and the conflict potentials, as the initiative to lay the ground for energy transfer from Central Asia to South Asia through Afghanistan.
- Potential for regional use of electricity production based on gas deposits and a mapping of relevant challenges in this connection.

It is desirable that a representative from the Norwegian Embassy in Kabul can take part in some of the interviews for to contribute to increased learning and knowledge sharing. The team is expected to make their own interview appointments.

#### **Time-schedule and organizing the study**

The deskstudy, datacollection and interviews in Oslo and preparation for interviews in Kabul and the fieldwork is expected started in January 2010. The field research is tentatively planned for January/February 2010, data analysis and report writing in March and submission of final report by end of April 2010. It is acknowledged that the implementation must be adjusted to actual security situation in Afghanistan. Norad must immediately be informed about any delays.

#### **Implementation**

The study is to be implemented as a mix between a desk and field-study, with and international/afghan team project team. It is desirable with a team of minimum 2 international consultants, and where local Afghan competence is drawn on to the extent possible. The fieldvisit should be undertaken by international and national consultants. It is a prerequisite that one of the afghan consultants is a woman. CMI hold the responsibility to enter contracts with local partners.

A final lists of interviews is to be developed but it should include the Norwegian Embassy in Kabul, central Afghan Ministries and departments, international organizations and possibly embassies from some of the neighboring countries.

In northern – Afghanistan should the interviews include Governors, members of Provincial Councils and single ministries as well as representatives from the UN, ISAF and NGOs in the Jowzjan and Balqh provinces. The security situation might necessitate that some of these interviews are undertaken by afghan consultants. The results of the interviews in northern-Afghanistan shall if required be discussed with central actors in Kabul.

The report shall be in English and of no more than 30 pages, excluding annexes. The report will be submitted electronically.

Those taking part in the fieldvisit in Afghanistan shall have necessary first aid training and knowledge on how to handle the security situation. It is a premise that also local consultants are sufficiently secured. It is understood that CMI has its own emergency plan and a permanent crisis team to handle eventual risk situations. A thorough assessment of the security situation in Kabul and northern Afghanistan is to be undertaken with the afghan team

members and used for the planning of travels and stay. Advice shall be sought from the Norwegian Embassy in Kabul. All team-members shall have an insurance covering war risks.

## ANNEX II: Interview list

NAME	LOCATION	POSITION
Mr. Petter Stigset	Oslo	Senior Advisor, Norad
Mr. Petter Bauck	Oslo	Senior Advisor, Norad
Mr. Shahrani	Kabul	Minister of Mines
Mr. Amirzadah Khosti	Kabul	Head of Department MoFA
Mr. Enayatullah Nabel	Kabul	MoFA
Ms. Muzghan Mustafawi	Kabul	Deputy Minister, Ministry of Women Affairs
Ms. Shafiqa Noori	Kabul	MP, Head of Committee for Natural Resources and Environment Protection
Ms. Ghulalai Noor Safi	Kabul	MP, Balkh Province
Mr. Rahman Oghli	Kabul	MP, Faryab Province
Mr. Baz Mohammad Jowzjani	Kabul	MP, Jowzjan Province
Mr. Nawandish	Kabul	Mayor of Kabul
Mr. Faizullah Zaki	Kabul	MP, Jowzjan Province
Ms. Kristin Hauge	Kabul	Councillor, Norwegian Embassy
Ms. Siv Kaspersen	Kabul	Councillor, Norwegian Embassy
Mr. Abdul Haq Shafaq	Faryab	Governor of Faryab
Mr. Rahmatullah	Faryab	Head, Provincial Council
Mr. Latif	Faryab	Member, Provincial Council
Mullah Mohd Nabi	Faryab	Member, Provincial Council
Mr. Muhibullah	Faryab	Member, Provincial Council
Mr. Ghulam Sakhi Naweed	Faryab	Member, Provincial Council
Mr. Saed Farukh shah Jinab	Faryab	Member, Provincial Council
Mr. Mr. Mohd Ebrahim Teenmas	Faryab	Member, Provincial Council
Mr. Abdul Ghani Nasrat	Faryab	Member, Provincial Council
Mr. Angar Tokhi	Faryab	Member, Provincial Council
Mr. Faqeer Mohd	Faryab	Member, Provincial Council
Ms. Rahima Baihaqi	Faryab	Member, Provincial Council
Ms. Durtaj	Faryab	Member, Provincial Council
Ms. Sharifa Azimi	Faryab	Head, DOWA
Ms. Salima Ormal	Faryab	Head. Dept. of Labor and Social Affairs
Ms. Nooria Fikri	Faryab	Head, Law Department MOWA
Ms. Anisa Zaray	Faryab	Program coordinator AWEC
Ms. Muloda Rahimi	Faryab	DoWA
Ms. Rezagul	Faryab	DoWA
Ms. Atifa Karwani	Faryab	Gender mainstreaming Manager DoWA
Ms. Rabia Hashemi	Faryab	DoWA
Ms. Maliha	Faryab	Teacher
Mr. Nusrat	Faryab	Teacher
Mr. Azizullah	Faryab	Shopkeeper
Mr. Mohd. Hashim Ahpari	Faryab	NCA, Head of Field Office

Ms. Susan Wintelow	Faryab	NRC, Head of Provincial Office
Ms. Saliha	Faryab	NRC, Programme Coordinator
Mr. Mohd Samim Faryab	Faryab	CHA
Eng. Mohd Tawoos	Faryab	CoAR
Eng. Mateen Rasikh	Faryab	SDO
Eng. Daoud Bakhshi	Faryab	ADA
Mr. Mohammad Hashim	Faryab	AWSDC
Mr. Ahmad Zaman	Faryab	NC
Mr. Mirwais	Faryab	NPO
Mr. Hashim Zareh	Jowzjan	Governor of Jowzjan
Mr. Abdul Qadir Malia	Jowzjan	Deputy Chair, Provincial Council
Ms. Nabiya Mustafazade	Jowzjan	Member, Provincial Council
Ms. Faradeba	Jowzjan	Member, Provincial Council
Eng. Salaam	Jowzjan	Geologist, Dept. of Hydrocarbons
Eng. Abdul Rahman	Jowzjan	Head, Afghan Gas
Eng. Hussain	Jowzjan	Afghan Gas
Eng. Fateh Mohammad	Jowzjan	Afghan Gas
Eng. Abdul Ghani	Jowzjan	Afghan Gas
Eng. Nazar Mohammad	Jowzjan	Head, Hydrocarbon Survey Dept.
Eng. Habibullah	Jowzjan	Geologist, Dept. of Hydrocarbons
Eng. Hassan	Jowzjan	Geologist, Dept. of Hydrocarbons
Eng. Mohammad Afzal	Jowzjan	Technician, Afghan Gas
Eng. Mohammad Ayub	Jowzjan	Head, Pipelines Afghan Gas
Ms. Zahar Arib	Jowzjan	Head of DoWA
Ms. Hakima Adil Afzali	Jowzjan	DoWA
Ms. Fatima Niazi	Jowzjan	DoWA
Ms. Roeda	Jowzjan	DoWA
Ms. Semeen	Jowzjan	DoWA
Ms. Roshan	Jowzjan	DoWA
Ms. Shakiba	Jowzjan	Head, Dept. Refuges and Repatriation
Ms. Fauzia	Jowzjan	DoWA
Ms. Nooria	Jowzjan	DoWA
Ms. Nelufar	Jowzjan	DoWA
Ms. Nafisa	Jowzjan	UN Habitat (trainer)
Ms. Fahima	Jowzjan	Deputy, CDWAO
Ms. Dilaram	Jowzjan	Household
Ms. Nadira	Jowzjan	Household
Ms. Frishta	Jowzjan	Doctor
Ms. Tamana	Jowzjan	Doctor
Dr. Mohd Afzal Hadid	Balkh	Head, Provincial Council
Mr. Akhlaqi	Balkh	Deputy, Provincial Council
Ms. Mahjoba Sadat	Balkh	Member, Provincial council
Ms. Rababa Naebi	Balkh	Member, Provincial council
Mulawi Mutawakil	Balkh	Member, Provincial Council
Haji Mohd Khan	Balkh	Member, Provincial Council
Mr. Azizullah Khan	Balkh	Member, Provincial Council
Mr. Khaliq Bae	Balkh	Member, Provincial Council
Abdul Latif Khan	Balkh	Member, Provincial Council
Ms. Fariba Majeed	Balkh	Head of DoWA
Mr. J.R. "Dick" Dumford	Kabul	USAID, Head Energy Groups



Mr. John Smith-Sreen	Kabul	USAID, Division Chief, Energy and Water
Ms. Nina Nadiradze	Kabul	USAID, Deputy Division Chief
Mr. James E. Gilmore	Kabul	USAID, Project Manager – Environmental
Mr. Mahmood Mir	Kabul	USAID, Senior Energy Advisor
Mr. Mohammad Yasin Osmani	Kabul	General Director, Office of Oversight for Anti-Corruption
Mr. Qaseem Ludin	Kabul	Deputy Director, Office of Oversight for Anti-Corruption
Mr. Saifullah Abid	Kabul	MoF, Advisor to the Minister
Mr. Sigurd Marstein	Kabul	Minister Counsellor and Civilian Coordinator, PRT Meymaneh
Mr. Geir Ytreland	Oslo	Consulting Geologist

## ANNEX III: Timeline work performance

### Main elements in the work performed by the Norad advisory team<sup>30</sup> for the Afghan Ministry of Mines 2007–2010

Date	Description of work
Late 2006	MoM requests Norwegian assistance to develop the petroleum sector in Afghanistan.
January 2007	Meetings between the Afghan Minister of Mines Mr. Adel and the Norwegian Foreign Minister Gahr Støre in Kabul.
January 2007	Norad commissioned ECON and AdeB to assess whether Norway should provide long term assistance to develop the petroleum sector in Afghanistan. In addition, AdeB was commissioned to provide short term assistance advising on amendments to the petroleum law and regulations.
January/February 2007	AdeB desk studies of the Hydrocarbons Law commenced.
13-26 April 2007	<p>Field trip, Kabul and Sheberghan: Main focus of AdeB was on amending the Cabinet approved Hydrocarbons Law 2005 prior to submission to the Parliament.</p> <p>Econ on field trip to Sheberghan area to evaluate current installations and infrastructure.</p>
20-30 May 2007	<p>Field trip, Kabul: Main focus of AdeB was on amending the draft Hydrocarbons Regulations prepared by <i>inter alia</i> the World Bank.</p>
June 2007	<p>Draft report entitled “Evaluation of the feasibility of providing Norwegian assistance to the petroleum sector in Afghanistan” submitted.</p> <p>The report concludes <i>inter alia</i> that:</p> <p><i>“The hydrocarbon resource potential in Afghanistan is significant and if extracted can play a very important role in the development of the country. Especially the link between gas and power is important. By developing the gas resources in the Sheberghan area in Northern Afghanistan, enough gas will be available to meet the demand for electricity in the country. A reliable power supply is important for economic growth which again will increase the political stability in Afghanistan.”</i></p> <p>The report further recommends a five element strategy to increase the activity level in the petroleum sector in Afghanistan. The strategy entailed:</p> <p>1) Preparation of a reactivation and production round for the oil and gas fields in the Sheberghan/ Sar-i-Pol area</p>

<sup>30</sup> Team consisted of representatives from: Econ Pöyry AS, Arntzen de Besche Advokatfirma AS, Gaffney Cline and Associates. Project leader: Geir Ytreland.

	<p>2) Identification of private anchor customers for the Sheberghan gas</p> <p>3) Legal assistance to the Ministry of Mines</p> <p>4) Launch of the first exploration round in Afghanistan</p> <p>5) Capacity building in the Ministry of Mines</p>
28 July 2007	The intended last draft of the amended Hydrocarbons Law submitted to MoM.
31 August 2007	First draft of Hydrocarbon regulations submitted to MoM.
September 2007	Work on amendments of proposed Model PSC commences (first draft prepared in connection with a World Bank programme).
September 2007	<p>Norad requested to prepare a tender round for 4 blocks in Northern Afghanistan.</p> <p>Work on the first draft of tender documents/compilation and organization of data package commenced.</p>
19 September 2007	Work Shop on Production Sharing Mechanism in Oslo.
8 October 2007	<p>MoM and MFA entered into a Memorandum of Understanding.</p> <p>The MoU sets out to provide support to the MoM along two axes; preparation for an oil and gas tender round, as well as a more long-term capacity building programme for the staff of the Ministry.</p>
April 2008	Bazarkhami block was dropped from the list of blocks to be included in the first tender round.
2. – 3. April 2008	Work Shop in Kabul on the First Afghan Hydrocarbons Tender Round
May 2008	Work on harmonization of draft Model EPSC with respect to draft Hydrocarbons Law and draft Hydrocarbon Regulations commenced.
4. – 15. May 2008	Field Trip to Kabul to clarify the progress of the Parliamentary approval process of the Hydrocarbons Law.
June 2008	<p>Revised draft Hydrocarbon Law approved in the Lower House; to be passed on to Upper House for approval and to President for sanctioning.</p> <p>AdeB team field trip to Kabul to review translation of approved law.</p>
June – July 2008	Final translation of approved Law received and comments on corrections given for consideration in Upper House treatment.
13 July 2008	Norad team in Kabul to discuss bid parameters/Term Sheet.
16 September 2008	Norad team in Kabul to discuss bid parameters/Term Sheet.
September/October 2008	Updated drafts of Hydrocarbon regulations and Model EPSC submitted.
27 – 30 October 2008	Field trip by Norad team to Kabul to discuss term sheet/bidding round.
Late December 2008	Upper House approves the Hydrocarbons Law.
28 January 2009	The Hydrocarbons Law sanctioned by President Karzai.
1 February 2009	The Hydrocarbons Law is gazetted in extraordinary issue no 972.
Late February 2009	Norad team meets with MoM in Dubai and finalizes all outstanding issues relating to ToR, Model EPSC and a couple of clarifications of new draft Regulations.
17 March 2009	Launch of the first Afghan Hydrocarbons Bidding Round

26 April – 15 May 2009	Road Show (Dubai, London, Houston, Calgary and Singapore)
15 May 2009	Data package available.
15 June 2009	Deadline for Pre-qualification Application.  Late June 2009: Norad team in Kabul to assist in pre-qualification evaluations.
1 July 2009	Pre-qualification Participants Announcement.
28 July 2009	Bidders Conference, Dubai
15 September 2009	Original deadline for Bids, extended same day, prior to expiry.
15 November 2009	New bid deadline, 1 bid received.
23 February 2010	Bid opened.
14 April 2010	Bid rejected.

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Norad has been engaged in capacity building and provision of technical support to the Afghan Ministry of Mines since 2007. A part of this engagement relates to the development of the Afghan Hydrocarbons Law, and commercialization of gas and oil reserves through an international bidding process.

The Afghan oil and gas industry has been in production since the mid 1980s, but is in need of major investments. Afghans interviewed are of the opinion that oil and gas reserves are national

property, to be used for the benefit of all Afghans.

The review has identified a range of risks and challenges to the further process, and Norad is advised to consider:

To await further engagement on policy matters until there is further clarity as to how the Government of Afghanistan aims to develop and utilize these resources. But consider to provide:

- Advice on the political/diplomatic process of negotiating agreements for utilization and division of underground natural resources;
- Assist in training and development of Afghan technical expertise in oil and gas exploration, production and management;
- Assist in the further development of the hydro power and alternative energy sector.