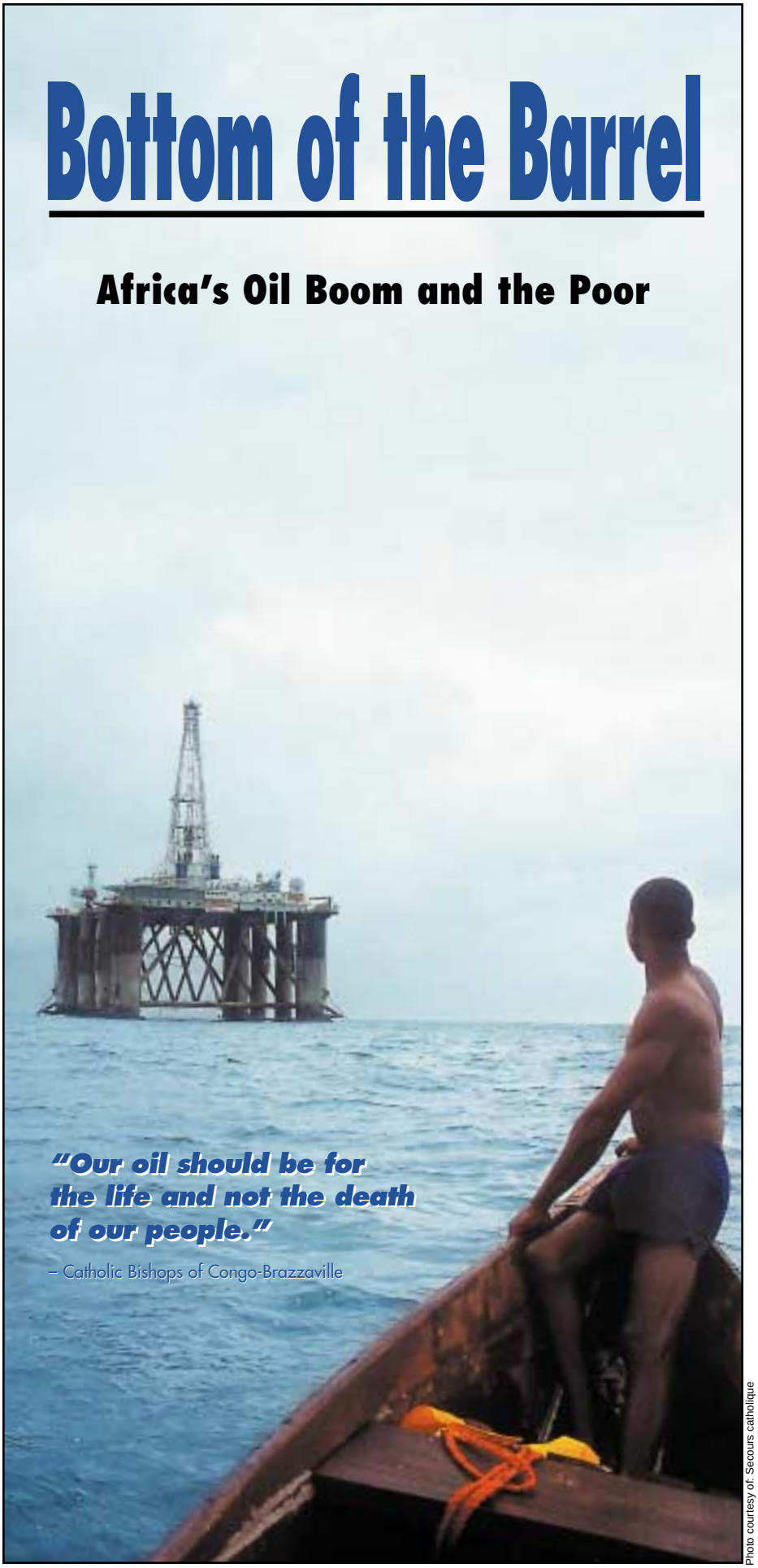
Bottom of the Barrel

Africa's Oil Boom and the Poor



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Cover photo: Offshore oil platform near Pointe Noire, Congo-Brazzaville.
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This report is dedicated to all those in Africa who are acting courageously to bring transparency and accountability to the use of Africa's oil wealth. We especially acknowledge the pioneering work of the *Episcopal Conference of Cameroon, the Episcopal Conference of Congo-Brazzaville, the Catholic Justice and Peace Commission of Pointe Noire,* and *the Association of Episcopal Conferences of Central Africa* (ACERAC).

Bottom of the Barrel:
Africa's Oil Boom and the Poor

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Executive Summary

Oil Boom: Peril or Opportunity? Sub-Saharan Africa is in the midst of an oil boom as foreign energy companies pour billions of dollars into the region for the exploration and production of petroleum. African governments, in turn, are receiving billions of dollars in revenue from this boom.

Oil production on the continent is set to double by the end of the decade and the United States will soon be importing 25 percent of its petroleum from the region. Over $50 billion, the largest investment in African history, will be spent on African oil fields by the end of the decade.

The new African oil boom – centered on the oil-rich Atlantic waters of the Gulf of Guinea, from Nigeria to Angola – is a moment of great opportunity and great peril for countries beset by wide-scale poverty. On the one hand, revenues available for poverty reduction are huge; Catholic Relief Services (CRS) conservatively estimates that sub-Saharan African governments will receive over $200 billion in oil revenues over the next decade. On the other hand, the dramatic development failures that have characterized most other oil-dependent countries warn that petrodollars have not helped developing countries to reduce poverty; in many cases, they have actually exacerbated it.

Africa's oil boom comes at a time when foreign aid to Africa from industrialized countries is falling and being replaced by an emphasis from donor nations on trade as a means for African countries to escape poverty. The dominance of oil and mining in Africa's trade relationships, coupled with this decline in aid flows, means that it is especially vital that Africa make the best use of its oil.

CRS is committed to helping to ensure that Africa's oil boom improves the lives of the poor through increased investment in education, health, water, roads, agriculture and other vital necessities. But for this to occur, these revenues must be well managed. Thus, this report addresses two fundamental questions: *How can Africa's oil boom contribute to alleviating poverty? What policy changes should be implemented to promote the management and allocation of oil revenues in a way that will benefit ordinary Africans?*

Managing Petrodollars Well: Presently, Africa's oil revenues are inserted into governments lacking in transparency, accountability and fairness. Without improving their democratic institutions and administrative capacity, it is unlikely that African oil exporters will be able to use petrodollars to fuel poverty reduction; instead, oil monies are more likely to make matters worse for the poor. CRS supports the proper democratic management of this natural resource and the implementation of just development strategies that provide benefits for the poor.

Without improving their democratic institutions and administrative capacity, it is unlikely that African oil exporters will be able to use petrodollars to fuel poverty reduction; instead, oil monies are more likely to make matters worse for the poor.

A first step towards these goals is to build transparency. Oil is a natural resource owned by all Africans. Nevertheless, as this report describes, many aspects of the oil industry in Africa are concealed or shrouded in mystery; key facts about oil are often treated as state secrets. Thus, it is difficult, if not impossible, to track how much money is being generated or how these revenues are spent. Transparency depends on multinational oil companies publishing what they pay and on governments revealing what they spend.

The Responsibility for Change: Like oil exporters in other regions, long-time African oil producers such as Nigeria, Angola, Congo-Brazzaville, Cameroon and Gabon, have been largely unable to convert their oil wealth into broad-based poverty reduction. Nor have these countries been able to diversify their economies or prepare for a post-oil future. To the contrary, petroleum has become a magnet for conflict and, in some cases, civil war. New oil producers, such as Equatorial Guinea, appear to be repeating some of the mistakes of their more experienced neighbors.

But while the record of oil exporters in Asia, Africa, Latin America and the Middle East

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shows that oil-dependence is most often a perilous development path, *negative outcomes from oil booms are not inevitable.*

The primary responsibility for managing Africa's oil wealth in a transparent, fair, and accountable way lies with Africa's governments. Building democratic states capable of focusing on reducing poverty is one of the key challenges facing Africa in the 21st century.

Africa's governments, though, are only one part of a web of interests and relationships in the African oil boom. Other key actors determining the outcomes of this boom are foreign oil companies, International Financial Institutions like the World Bank and the International Monetary Fund, export credit agencies, and Northern governments. The World Bank Group has played a catalytic role by supporting changes in legal frameworks and investment environments, financing projects and providing risk insurance. Export credit agencies have provided additional finance in risky environments, with few strings attached. The U.S. has identified increasing African oil imports as an issue of "national security" and has used diplomacy to court African producers regardless of their record on transparency, democracy or human rights.

The Need for a "Big Push": Many of these actors are now making tentative steps to address the "paradox of plenty" problem generated by Africa's oil boom. They have begun to recognize that improving the distribution of benefits from oil production is not only an ethical mandate, but also an essential ingredient towards a more stable and sustainable world. The IMF and World Bank are taking steps to increase transparency in Africa's oil economies. Corporate actors are increasing their philanthropic programs and engaging in dialogue with civil society on ways to increase transparency in the sector. And Northern governments, such as the U.S. and U.K., are beginning to acknowledge the need to address the perils of oil-led development. These actions, while welcome, are not enough.

Because developing oil fields and building pipelines happens faster than the construction of efficient states and good governance, only a sustained, coordinated and coherent international effort – a "big push" to change the policy environment – by the relevant actors involved in Africa's oil boom can improve the prospects for transforming Africa's oil wealth into improvements in the lives of the poor. Only a concerted change in the incentive structure surrounding oil can help to ensure that petroleum revenues will be well managed.

The Chad-Cameroon Pipeline Project is the biggest international effort to date to focus an oil development project on a poverty reduction outcome. Multinationals, International Financial Institutions, and governments are working to increase the benefits and minimize the harm of this oil project to local populations. International and local civil society groups are closely monitoring the project. In Chad, Africa's newest petro-state, the explicit goal is to build government capacity to manage massive new oil wealth in a transparent and fair manner. To date, results have been mixed, but the real test will come when, in 2004, oil revenues will more than double Chad's national budget overnight.

Unless the main players in the oil story make specific policy changes, Africa's oil boom is unlikely to foster any significant poverty reduction.

To improve outcomes for the poor, all actors need to change some of their practices and work together in a more concerted manner. Unless the main players in the oil story make specific policy changes, more fully described in the report's conclusion, Africa's oil boom is unlikely to foster any significant poverty reduction. Instead, oil riches most probably will continue to produce corruption and mismanagement, environmental destruction, human rights violations, and conflict. It is urgent that improvements be made now to emphasize transparency and fairness, the construction of capable and accountable institutions, and the respect for human rights and the promotion of democratic space in oil-producing countries.

Summary Recommendations:

National governments *should*

- Remove legal and extra-legal obstacles to transparent disclosure and monitoring of the oil sector.
- Guarantee respect for human rights, including freedom of expression, association, and the press.
- Collaborate with citizen groups monitoring the management and allocation of oil wealth.

Oil companies *should*

- Support the international "Publish What You Pay" campaign by publicly disclosing, in a disaggregated, regular and timely manner, all net taxes, fees, royalties and other payments made to African states, at any level, or to local communities, including compensation payments and community development funding.
- Fully respect human rights in their practices.

The World Bank and International Monetary Fund *should*

Use all of their leverage, with both companies and countries, to strategically promote transparency, fair and accountable revenue management and allocation, and respect for human rights. Leverage should be properly sequenced, that is, significant steps towards the building of good governance should take place prior to assistance for developing the oil sector. The World Bank should ensure that all of its activities in the extractive sector are fully aligned with its poverty reduction mandate.

Export credit agencies *should*

Require private sector companies wishing to access loans, guarantees and risk insurance to publicly disclose, in a disaggregated, regular and timely manner, all net taxes, fees, royalties and other payments made to African states.

The U.S. and other Northern governments *should*

- Emphasize the respect of human rights, the promotion of good governance and democracy, and the transparent, fair, and accountable management of oil revenues in their bilateral relationships with African petro-states.
- Support effective international efforts aimed at increased transparency of oil revenue payments by companies to developing countries.
- Use their influence to prioritize transparent, fair and accountable revenue management within the World Bank and IMF.

The United Nations *should*

- Ensure that its efforts to promote business partnerships with oil companies in African countries do not compromise the broader UN mission of promoting good governance, human rights and sustainable development.
- Support, through the United Nations Development Program, African civil society groups focused on increased transparency and accountability oil-producing countries.

International private humanitarian and development agencies and non-governmental organizations *should*

- Strengthen and support the development of independent monitoring and information systems regarding oil activities and revenue management in Africa.
- Provide assistance to local groups to develop their capacity to generate credible independent information on oil development projects and oil revenue management.
- Unite with CRS and other groups to support the "Publish What You Pay" campaign.

Introduction

"Our oil is still, in most cases, the private reserve of the powers that be . . . Central Africa wallows in misery despite the growing discoveries of oil . . . Our involvement, as a church in Central Africa, with the issue of oil does not arise from meddling in issues reserved for State authorities. We are witnesses to the suffering of the people to whom we belong. Our prophetic mission impels us to launch a heartfelt appeal to all those who participate in oil exploitation in our region or who wield any political and economic power."

– Statement of the Catholic Bishops of Central Africa – (Association of Episcopal Conferences of the Central African Region), July 2002, issued in Malabo, Equatorial Guinea

Sub-Saharan Africa is in the midst of an oil boom. This boom is a moment of great opportunity and great peril, especially for Africa's poor.

The impact of the oil industry in many African countries is hard to exaggerate. Catholic Relief Services (CRS) conservatively estimates that sub-Saharan African governments will receive over $200 billion in oil revenues over the next decade, the largest and most concentrated influx of revenue in Africa's history.[1] But in most countries, petrodollars have not helped developing countries to reduce poverty; indeed, the presence of oil has exacerbated poverty. In Nigeria, for example, which has received over $300 billion in oil revenues over last 25 years, per capita income is less than $1 a day.[2] Surprisingly, Nigeria has performed worse, in terms of basic social indicators, than sub-Saharan Africa as a whole and much worse than other regions of the developing world.[3] This is an example of what has been called "the paradox of plenty."[4]

The Nigerian experience does not have to be repeated in the future. The sizable oil revenues generated by Africa's oil boom, if well managed, offer the potential for improving the lives of the poor through increased investment in health, education, water, roads and other vital necessities. But if these revenues are inserted into governments lacking in transparency and accountability, it is unlikely that they will fuel poverty reduction; to the contrary, they are more likely to make matters worse for the poor. We seek to avoid this worst-case scenario. We support the creation of conditions that would allow for the just use of petroleum revenues and the adoption of development strategies that will benefit the poor.

How can Africa's new oil boom be different from past development failures associated with petroleum? What policy changes should be implemented, both domestically and internationally, to promote the efficient management and fair allocation of oil revenues in a manner benefiting the poor? These questions are most important for Africa's oil exporters, but they are also vital for neighboring countries and the global community. Our own well-being in part depends on whether Africa's oil exporters become regional engines of stability, democracy, growth and job creation, or whether they will be regional vortexes of destabilization, decline and war – generating the human and environmental disasters characteristic of failed states.

Africa's trade relationship with the rest of the world is dominated by "extractive industries," especially oil, gas and mining. These sectors accounted for more than 50 percent of Africa's exports and 65 percent of all foreign direct investment during the 1990s.[5] The planned investment in Africa's oil sector over the next decade will be by far the largest in Africa's legal economy. This new capital enters at a time when foreign aid to Africa from industrialized countries is falling and being replaced by an emphasis from donor nations on trade and participation in the globalized economy as a means for African countries to escape poverty.[6] The dominance of extractive industries in Africa's trade relationships, coupled with this decline in aid flows, means that it is vital for the region to make the best use of its oil.

The Importance of Transparency and Accountability

Oil is the common heritage of Africa. Nevertheless, many aspects of the oil industry are deliberately concealed or shrouded in mystery; key facts about oil are often treated as state secrets. When the Catholic bishops of Central Africa met in July 2002 and issued a statement on oil and poverty in the Gulf of Guinea, they denounced the "complicity" between oil companies and politicians in the region and decried oil contracts that "are drawn up in absolute secrecy. The contracts our states sign are surely to the advantage of the latter and reinforce our economic dependence."[7] This secrecy makes it extremely difficult, if not impossible, to assess whether the division of benefits between companies and governments is fair and to monitor the extent to which the government's share is being utilized to benefit the poor. Because this transparency is essential for holding all major players in the oil story accountable for their actions, we support the growing international campaign to "Publish What You Pay".

The Publish What You Pay Campaign

Church and civil society groups alike have increasingly called on governments and oil companies to be more transparent in their operations and financial dealings. With information on the amount of money received by their governments, church leaders, civil society groups and ordinary citizens can use what political space exists to try to hold their governments to account.

CRS has joined more than 130 civil society groups around the world in endorsing the Publish What You Pay campaign platform. Launched in June 2002, the Publish What You Pay campaign promotes mandatory, rather than voluntary, disclosure of extractive industry (oil, gas and mining) revenues from multinational companies to host governments. The coalition is calling on the G8 industrialized nations to take leadership and promote transparency over oil, gas and mining revenues worldwide. One approach would be for stock market regulators to require oil, gas and mining companies to publish net taxes, fees, royalties and other payments to all national governments as a condition for being listed on international stock exchanges and financial markets. Relying on companies to disclose information voluntarily has so far failed because they fear discrimination by host countries and competitive disadvantage – it is difficult take positive steps toward transparency unless all of their competitors are obligated to do the same. The campaign calls for mandatory disclosure backed by legislation so that citizens in developing countries are able to call their governments to account over management of resource revenue. Major human rights and development groups, such as, Human Rights Watch, Oxfam America, Save the Children, Global Witness, the Open Society Institute and others have joined local groups in producing countries in calling for mandatory disclosure of payments. The UNDP and the World Bank's IFC have endorsed the concept in principle. A group of European investors representing $650 billion has called on oil and mining companies to be more transparent in their revenue payments:

This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behavior, impairing their local and global "license to operate", rendering them vulnerable to local conflict and security, and possibly compromising their long-term commercial prospects in these markets.[8]

Transparency in revenue payments is not a panacea for problems of revenue mismanagement, but rather a necessary first step for corporate and government accountability: you cannot manage what you cannot measure. The campaign is not suggesting that oil companies tell host governments *how* to spend their money, but rather that they should publish information that will help citizens hold their own government accountable. The campaign is not calling on companies to disclose commercially confidential information, but rather to publish the same basic data on payments made to governments that they are required to disclose in many developed countries. Mandatory regulation would also help address the legal and contractual obstacles to disclosure companies face in many developing countries. Companies may be able to disregard secrecy clauses in production sharing agreements and other contracts if required to disclose payments by their home governments.

Publishing amounts paid to local governments may have an added benefit for companies facing demands for local benefits. Disclosure may shine a spotlight on local government management of oil revenues once these amounts are known. Whether derived from voluntary action or mandatory regulation, groups on the ground across Africa are ready to use information on oil payments to lobby their own governments.

For more information on the campaign, visit www.publishwhatyoupay.org

If the management of oil revenues is based on transparency, accountability and fairness, petrodollars can be the basis for substantial benefits for the citizens of oil-exporting countries.

Dependence on petroleum for development is perilous, as we shall see, but *negative outcomes for Africa's poor from the oil boom are not inevitable.* If the management of oil revenues is based on transparency, accountability and fairness, petrodollars can be the basis for substantial benefits for the citizens of oil-exporting countries. With this in mind, this report suggests recommendations for policy-making aimed at improving the outcomes for the poor. A concerted, sustained, coordinated and coherent effort – a "big push" to improve the policy environment for revenue management – by all the relevant actors involved in oil-exporting countries could greatly improve the possibility that Africa's oil wealth could be transformed into concrete improvements in the lives of Africa's poor.

Building transparent and accountable "petro-states" focused on reducing poverty and building viable post-oil futures is one of the key challenges facing Africa in the 21st century. The primary responsibility for this task lies with Africa's governments. But African governments lack incentives to change without a more transparent and accountable international policy environment for revenue management. These governments are only part of a web of interests and relationships involved in this boom. Other key actors, and ones with often overwhelming clout, are foreign oil companies, International Financial Institutions (especially the World Bank and the International Monetary Fund), and Northern governments home to multinational oil companies. Unless these actors work together to make specific policy changes, Africa's oil boom is unlikely to foster any significant poverty reduction and may instead contribute to increased corruption, mismanagement, environmental destruction and human rights violations. It is urgent that improvements be made now.

Catholic Relief Services and Oil

Why is CRS – a humanitarian relief and development agency – issuing a report on Africa's oil boom? Africa's oil boom captures the most powerful and most extreme examples of misery amidst plenty. The seeming paradox of poverty and conflict amidst great natural resource wealth has been of growing concern to CRS staff and partners in Africa. Research, policy analysis and advocacy addressing structural injustices and the root causes of poverty around the world are fundamental to the CRS mission of serving the poorest of the poor and to promoting global solidarity. CRS works with country programs and partners in Africa, as well as the Catholic Church in the U.S. and other civil society partners around the world, to support training, research, policy and advocacy activities at the local, national, regional and international levels. In this way, it hopes to address the injustices of poverty amid plenty.

Religious teachings provide a moral and ethical framework for viewing issues related to oil extraction, including a "preferential option" for the poor, respect for human dignity, good stewardship of the common heritage of the earth, peace building and distributive justice. Across Africa, a wide range of churches, religious organizations and other civil society groups are boldly speaking out on the impact of oil extraction in their countries. For many of them, work addressing oil is an explicit anti-poverty activity similar to the global Jubilee debt relief campaign.

About the Report

This report builds on and supports the work of Africa's churches, religious communities of all persuasions, and civil society groups who are addressing the peril and potential of petroleum. It focuses on the oil producers in the Gulf of Guinea, from Nigeria down the coast to Angola, the key region for African oil production and exploration. Its emphasis is on the relationship between oil and poverty, and more specifically on oil revenue management and its potential to contribute to poverty reduction. It has three objectives:

- To inform African and international civil society groups and all other interested parties about the oil boom, the actors involved, and their strategies in the Gulf of Guinea, by making the latest research and scholarship accessible.
- To influence policy debates concerning Africa's oil boom at a moment of heightened attention.
- To develop recommendations that, if implemented, will enhance the prospects that oil revenues will be used to alleviate poverty and that can serve as a platform for continued advocacy by CRS, its partners in Africa and other civil society groups.

The report is organized as follows:

- Section One, **Africa's Oil Boom**, focuses on the international actors that shape the policy environment of African governments.
- Section Two, **The Paradox of Plenty: The Record, The Challenge** examines the largely negative experiences of oil exporting developing countries and explores why oil revenues have rarely been translated into poverty reduction.
- Section Three, **African Petro-States**, discusses the particular experiences of Africa's oil exporters.
- Section Four, **Addressing Africa's Paradox of Plenty**, discusses efforts by different actors to promote more pro-poor benefits of oil production and greater transparency and accountability in the use of oil revenues.
- Section Five, **The Chad-Cameroon Oil Experiment**, evaluates efforts to avoid the mistakes of other oil producers in Chad, Africa's newest petro-state.
- The **Conclusion** offers a set of policy recommendations for African governments, oil companies, International Financial Institutions, Northern governments and others to improve the poverty-reduction outcomes for Africa's oil producing countries.

Our report focuses specifically on oil and poverty alleviation, thus it does not centrally address problems of the environment and climate change, human rights issues related to onshore production, and the relationship of oil wealth to conflict. Because we seek to provide a regional overview, we provide only snapshots of particular country situations, especially those such as Nigeria, Angola and Sudan, which have been well documented by Human Rights Watch, Global Witness, Christian Aid, the International Crisis Group and others.[9] Our hope is that the additional research, information and analysis provided here is useful to many in the struggle for transparency, accountability and the just use of oil wealth to benefit Africa's poor.

1. Africa's Oil Boom:

"The last decade's scramble for Africa saw growing rivalries between U.S. and French oil companies, as deep-water technology opened up new fields off West Africa. Swift expansion followed, as countries called in the oil majors and hoped for a big find. The result was years of fast growth, big signature bonuses and blurred borders between politics and business."

– *Africa Confidential,* March 2002[1]

A powerful convergence of interests between African governments, international oil companies, International Financial Institutions and Northern governments is propelling the rush to exploit Africa's oil reserves.

Sub-Saharan Africa is home to eight oil exporters – Nigeria, Angola, Congo-Brazzaville, Gabon, Equatorial Guinea, Cameroon, Chad, the Democratic Republic of Congo and Sudan. Several other countries will soon join their ranks. Some exporters are greatly increasing production, new exporters are entering the field and both large and small companies are snapping up exploration licenses from Mauritania to Madagascar. Governments across the continent, including Sierra Leone, Senegal, Niger and Uganda, to name a few, are hoping that they, too, can cash in on the oil bonanza.

See centerfold map and production graphs in centerfold spread

Some African countries (e.g. Nigeria and Angola) have been producing oil for decades – with dismal development outcomes. Others (e.g. Equatorial Guinea and Sudan) have only recently begun exporting oil. Still others (e.g. Gabon and Cameroon) are gradually nearing the end of their own oil booms. While Africa's oil boom may last for decades, there is actually a relatively short window of opportunity to create a policy environment for turning oil wealth into viable post-oil economies aimed at permanent poverty reduction. What the global big players do during this period is critical for determining whether oil riches will actually benefit the poor or further impoverish the continent.

While Africa's oil boom may last for decades, there is actually a relatively short window of opportunity to create a policy environment for turning oil wealth into viable post-oil economies aimed at permanent poverty reduction.

The stakes are huge. In the next few years, for example, Nigeria, sub-Saharan Africa's largest producer, plans to top more than 3 million barrels per day (bpd) in output, while Angola, its second largest producer, plans to double its 1 million bpd production. Angola's deepwater discoveries have been called "the oil jackpot of the 21st century," and between 1995 and 1999, Angola increased proven reserves by 600 percent, more than any other country in the world during that period.[2] Other countries are hoping to become the next winner in the oil sweepstakes: the tiny island state of São Tomé and Principe may have more than 4 billion barrels of oil in its territorial waters.[3]

1.1 A New Scramble for Africa

The Gulf of Guinea region, covering west and central Africa, is generally viewed by the oil industry as the world's premier "hotspot," soon to become the leading deepwater offshore oil production center.[4] Almost every month an industry conference in Houston, London or an African oil capital extols the opportunities to be found in this "new El Dorado."[5] Dramatic improvements in exploration and production technology, especially offshore and deepwater drilling (5,000 to 10,000 feet), have opened up vast acreage off the African coast. (Extracting oil from the ocean is much more expensive than extracting it from the ground. Saudi Arabian oil, for example, is still profitable if sold for $2 to $5 a barrel, while deepwater oil must fetch $14 to 16 to be profitable.)[6]

Production

Overall oil production in sub-Saharan Africa is predicted to jump from 3.8 million bpd to 6.8 million bpd in 2008, with increases concentrated in Nigeria, Angola, Chad and

Equatorial Guinea.[7] West Africa's growth potential is considered to be greater than that of Russia, the Caspian or South America.[8] The U.S. government's Energy Information Administration (EIA) conservatively calculates that the region will be producing 9 million barrels a day by 2030.[9]

Oil Industry Key Terms

- **Upstream** – Industry term for the exploration and extraction portion of the business; dominated by international oil majors.
- **Downstream** – Term for the refining, marketing and distribution of petroleum products portion of the oil industry.
- **Barrels per day (bpd)** – Common measure of oil production.
- **Permit block** – License to explore in a geographically defined area either onshore or offshore for a set period of time.
- **Block operator** – Company with largest investment share in a consortium exploiting a block.
- **Bidding Round** – A period of time in which companies bid for the right to explore a block. Governments evaluate, among other things, technical credentials and signature bonuses being offered by bidding companies.
- **Carve out** – Owner of a block allows another company to explore in a smaller section of the block.
- **Production Sharing Agreement (PSA) (also known as Production Sharing Contract (PSC)** – Standard operating procedure in Africa. Foreign partner acts as contractor for the government, finances all investment costs, recoups the investments with "cost oil" and shares "profit oil" with the government on a sliding scale linked to internal rate of return rather than cumulative production – incentive to invest to achieve higher production levels. PSAs are attractive to government as they avoid risk. Foreign companies are able to "front-load cost-oil" and amortize investment quickly. Government shares of oil can be sold on the international market by their national oil company or through traders. The foreign company can also pay for it with cash. The government may tax "profit oil."
- **Joint Venture Agreements** – The government and the companies share investment costs for exploration and production in proportion to their participation stakes. Companies receive entitlement to oil and ownership of reserves. Joint venture agreements common only to Nigeria.
- **Cost oil** – Oil retained by foreign oil company to recover investment costs in a **PSA**.
- **Profit oil** – Oil production shared between company and government once investment is recovered.
- **Royalties** – The governments share of production or revenues retained by the government.
- **Signature bonus** – Companies are often required to make up front cash payments to national governments upon signing a contract for a new concession. In Angola, recent signature bonuses range from $100 to 400 million per block. In some new countries seeking to attract exploration, no bonuses or small bonuses are required.
- **OPEC (Organization of Petroleum Exporting States)** – Organization whose members agree to abide by production levels set collectively in an effort to influence world oil supply and pricing. OPEC reportedly favors a world oil price "sweet spot" of between $23 and $27 a barrel.

Reserves

Sub-Saharan Africa has about 7 percent of proven world oil reserves, according to the EIA. Africa's exploitable reserves may expand significantly with technological advances over the next decade. Of the 8 billion barrels of crude oil reserves discovered by prospectors worldwide in 2001, 7 billion were in the fields off West and Central Africa's Atlantic coast.[10] The Gulf of Guinea has up to 24 billion barrels in reserves, according to some estimates.[11]

Investment

According to industry sources, the Gulf of Guinea region will receive the world's largest amount of offshore hydrocarbon capital investment by 2005.

To lift this oil and ship it to industrialized markets will require huge investments. According to the American Petroleum Institute, a whopping $10 billion in capital investment will be needed for every one million bpd increase in production.[12] About $52 billion will be invested in deepwater African fields by 2010, with approximately 32 percent coming from the U.S.[13] According to industry sources, the Gulf of Guinea region will receive the world's largest amount of offshore hydrocarbon capital investment by 2005.[14] Angola alone could see $20 billion in investment in the next five years, according to the Centre for Global Energy Studies.

1.2 African Governments Live on Oil

African governments raise revenues from the oil sector through taxation, levies, royalties, signature bonuses, their share of production-sharing agreements, and / or joint ventures. They have the sole legal authority to decide which international companies may operate within their borders. They negotiate with companies over how to divide the benefits from the exploitation of petroleum, and the strength of their bargaining position ultimately determines the percentage of revenues accruing to the state.

Governments also determine whether and how their share of oil revenues will be spent. They have the authority to decide priorities, allocate resources, and reward some groups, regions or individuals more than others. While they may claim to operate in the interest of an entire nation, Arvind Ganesan from Human Rights Watch observes: "The government's take is not necessarily the public's take. It may just be the government's take."[15]

Government institutions in the Gulf of Guinea are weak and sometimes inexperienced with oil contract negotiations. As oil becomes the dominant economic activity of a country and the leading export activity, governments become dependent on oil money as the main source of revenue and foreign exchange and as the economic basis of their power. This dependence on oil revenues negatively affects the capacity of states and their ability to govern. The more governments spend, the more they need oil revenues.

Oil Companies: A Typology

Supermajors: The largest oil companies in the world. They are international and have vertically integrated operations including exploration, production and "downstream" retail operations, e.g. gas stations and other operations. With consolidation of the oil industry, supermajors now include: Shell, BP and Total in Europe; and in the U.S. ExxonMobil and ChevronTexaco. These companies have a high level of consumer visibility and thus may be more susceptible to consumer actions.

Majors: Other large oil companies not approaching the sheer size of the supermajors. These include: ConocoPhilips, Occidental Petroleum and Unocal.

Independents: Smaller companies focused on the "upstream" or exploration and sometimes production end of the business. These include: Amerada Hess, Marathon, Talisman, and others.

National Oil Companies (NOCs): Usually a state-run or parastatal company. NOCs control most production in the Middle East and are significant in other countries such as Brazil (Petrobras) and Malaysia (Petronas). In most African countries, the NOC is not an operator but rather creates partnerships with foreign companies with capital and technical expertise. NOCs often market "profit oil" gained from production sharing agreements.

1.3 Oil Companies Get Interested in the Gulf of Guinea

African governments ultimately make the decisions regarding the exploitation of petroleum in their territory, but they operate in an international environment conditioned by very powerful actors. Most important is the global oil industry, which is dominated by a few "supermajor" companies. These companies have superior access to capital and technology in an industry extremely dependent on both. Oil companies, including some of the world's largest multinationals, most often dwarf the countries where they operate. ExxonMobil's profits of $15 billion in 2001, for example, are more than tenfold greater than the $1.4 billion GDP of Chad in the same year – a comparison that is repeated, in varying degrees, across the continent. Asymmetries of wealth, power and knowledge between international oil companies and host governments in Africa are the norm, thus oil companies can drive hard bargains over the percentage of oil profits accruing to them, often winning greater shares than they have been able to extract in other parts of the world.

Oil Dependence in African Exporters (2002 estimates)

Country	%GDP	%Exports	%Govt. Revenue
Nigeria	40	95	83
Angola	45	90	90
Congo-Brazzaville	67	94	80
Equitorial Guinea	86	90	61
Gabon	73	81	60
Cameroon	4.9	60	20

Sources: World Bank, IMF, CIA World Factbook 2002, U.S. Department of State, U.S. Energy Information Administration.[16]

Sub-Saharan African oil has been traditionally dominated by France's Elf, the Anglo-Dutch company Shell, and, to a lesser extent, the U.S.-based ChevronTexaco. (Elf is now part of Total, formerly TotalFinaElf, an amalgam of France's Total, Belgium's Petrofina and Elf.) Total does business in all of sub-Saharan Africa's producers, except Sudan and Chad and has about half its worldwide reserves in the Gulf of Guinea. Shell, meanwhile, has historically predominated in Nigeria and ChevronTexaco has long operated in Angola.[17]

While U.S. companies have been present in Africa for years, the scramble for African oil is now taking on a much more American character. New fields are being aggressively pursued by ExxonMobil, ChevronTexaco, and to a lesser extent, by independents such as Amerada Hess, Vanco, Ocean and Marathon. U.S. companies have plans for large investments in Africa, for example:

- **ChevronTexaco** – Announced in 2002 that it had invested $5 billion in the past five years in African oil and would spend $20 billion more in the next five years.[19]
- **ExxonMobil** – Intends to spend $15 billion in Angola in the next four years, and $25 billion across Africa during the next decade.[20]

Non-Western companies such as Malaysia's state-owned oil company, Petronas, and the Chinese National Petroleum Corporation, are also increasingly present on the continent, most notably in Chad and Sudan.[21]

A division of labor has developed in Africa between the "supermajors", on the one hand, and smaller independent companies that employ a higher risk business model, on the other. These independents enter "frontier" countries and sign exploration contracts in hopes of a major find. Once commercially viable, the rights to the field are often sold or shared with larger companies that have access to the necessary capital and technology.

Go to www.catholicrelief.org/africanoil.cfm for online report supplements, including a country-by-country breakdown of company investments in African oil.

Several factors have contributed to an interest in African oil. These include:

- Oil from the Gulf of Guinea is typically high quality and low in sulfur – suitable for stringent refined product requirements and for refining centers in the U.S. As such, it provides especially large profit margins
- Fields are close to U.S. markets, making oil easily transportable over open sea lanes.
- The bulk of new discoveries are found offshore, reducing, in the eyes of the companies, potentially explosive interactions with the local population and possible social turmoil onshore. This lowers political risk.
- Africa's oil markets are generally wide open to foreign participation. In contrast, foreign companies are locked out of many other countries, e.g., Saudi Arabia, Kuwait, and Mexico, where large reserves are controlled by national oil companies, offering limited or no participation opportunities for foreign companies. State run national oil companies control more than two-thirds of world oil reserves.[22]
- Only Nigeria among Africa's oil exporters is a member of OPEC, which sets limits on member country production levels.

African Oil: Beyond the Gulf of Guinea

While most interest has been centered on the Gulf of Guinea, the scramble extends beyond the sub-region, with countries offering generous terms to companies willing to take a risk. These terms attract smaller "junior" oil companies willing to take more risks in "frontier" locations, such as the Anglo-Australian company Fusion, which holds acreage in Gambia, Senegal, Guinea Bissau, Ghana and Gabon.

West Africa: Mauritania is expected to yield significant oil finds after initial prospecting success, as is Niger, where ExxonMobil and others are exploring. Other countries along the West African coast are in exploration or licensing phases, such as Senegal and Guinea-Bissau. Côte d'Ivoire is a small but potentially growing producer. Sierra Leone, having just emerged from a civil war fuelled by diamond smuggling, recently launched an offshore bidding round, and President Tejan Kabbah has said that developing the oil sector is one of his personal priorities.[18]

East Africa: Sudan is the active oil producer in East Africa. Elsewhere, the Kenyan government has spent over $169 million in oil exploration in the past 15 years without success. In Tanzania, foreign firms have sunk almost $300 million in exploration in the last 20 years without success, but the government is continuing to push oil exploration. Shell licensed acreage off the coast of Tanzania, near Zanzibar, in 2002. Uganda is a hopeful site for exploration. Heritage Oil launched exploratory drilling in the Semiliki Valley in western Uganda and reportedly struck oil. (Seismic surveys in 1999 revealed a potential for almost 1 billion barrels.) The northern and southern Lake Albert basin is of interest, and this potential field is shared with the Democratic Republic of Congo.

Southern Africa: Exploration is ongoing in offshore Madagascar and South Africa.

See **Centerfold Map** *for a visual depiction of the scramble for Africa's oil.*

1.4 Seeking National Security: The U.S. and African Oil

As U.S. energy companies become more involved in Africa, so too does the U.S. government, driven by both national security and economic concerns. In a global environment shaped by fears of terrorism and instability in the Middle East, Africa is suddenly no longer considered a strategic backwater; a major reason is oil.

U.S. demand for oil is growing significantly, from 19.7 million bpd in 2002 to an estimated 26 million bpd in 2020, but there will be little if any domestic growth over the next few years. With significant domestic conservation and non-oil energy strategies presently not a

serious political consideration, maintaining a continuing, stable and diversified stream of foreign oil is seen as key to "national security." According to the National Energy Plan developed by Vice President Richard Cheney's task force in 2001, "Energy security is a fundamental component of national security and a prerequisite to continued economic growth." The National Energy Plan projects that the U.S. "will import nearly two of every three barrels of oil (it consumes) – a condition of increased dependency on foreign powers that do not always have America's interests at heart."

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Africa is highlighted in the plan as a significant and growing source of U.S. imports. The U.S. imports about 17 percent of its oil from sub-Saharan Africa, but this is projected to rise to to 25 percent by 2015.[23] Other industry sources put this figure in 2003 at 21 percent with the 25 percent figure achieved by 2005.[24] Major suppliers to the U.S. include Nigeria, Angola, Gabon, Congo-Brazzaville and Equatorial Guinea.

In the wake of the terrorist attacks on the U.S. on September 11, 2001, securing new African oil supplies as a means of energy diversification has gathered new impetus. African oil "promoters," including the Corporate Council on Africa, which publishes glossy investor guides for countries such as Equatorial Guinea and hosts African heads of state in Washington, and the Africa Oil Policy Initiative Group, have encouraged more U.S. policymakers to pay more attention to the oil potential of the region, and they have responded.[25] Last year, Walter Kansteiner, U.S. assistant secretary of state for Africa, said that "(It is) undeniable. . . that African oil has become of national strategic interest to us."[26] Whether this makes oil supplies any more secure is questionable since the Middle East continues to have almost two-thirds of the world's proven oil reserves and 30 percent of world oil production. While African oil is of growing importance and will provide a growing percentage of U.S. oil needs, it can diminish but not replace U.S. reliance on the Middle East.

In this context, U.S. "supermajor" oil companies enjoy the support of their home government's diplomatic resources when they venture to Africa. (Similarly, European companies, including those based in France and the U.K., have enjoyed close diplomatic support from their home governments which in many cases take advantage of their close ties with former colonies.

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U.S. diplomats have had high level contacts with African oil producers during the Bush Administration. Secretary of State Colin Powell visited Angola and Gabon in September 2002, while Assistant Secretary Kansteiner has been to Angola, Nigeria, Gabon and São Tomé over the last year and has met with officials from Equatorial Guinea. President George Bush has met Cameroonian President Paul Biya, Angolan President Jose Eduardo Dos Santos, President Teodoro Obiang Nguema of Equatorial Guinea and the heads of other African petro-states.

1.5 Financing the Boom: The World Bank Group and Export Credit Agencies

International Financial Institutions (IFIs) are also very important players shaping the environment for African governments. While their own direct contributions to projects are not always large, they often pave the way for private investment. Given real and perceived business and political risks, as well as the huge sums involved in exploiting Africa's oil, foreign companies often turn to public agencies, such as the World Bank Group and export credit agencies (ECAs), to help underwrite their oil-related investments. This permits them to use public monies to mitigate their financial risks, and it provides powerful leverage for improving their legal and business environment. While most money invested in Africa's oil boom is raised from commercial banks and Western capital markets, World Bank and ECA financing often plays a key catalytic role in arranging finance for large projects in high-risk areas, such as Chad **(see box)**. Multilateral Development Banks (MDBs), such as the World Bank, and Export Credit

Agencies allocated approximately $51 billion between 1995 and 1999 to support extractive industry projects in the developing world and the former Soviet Union.[27] Beneficiaries of World Bank and ECA finance include such well-known companies as Halliburton, ChevronTexaco and Shell.

The World Bank Group

The World Bank Group is especially significant because its lending is meant to have an explicit anti-poverty focus. The group is comprised of the International Bank for Reconstruction and Development (IBRD – "World Bank"), International Development Association, the International Finance Corporation (IFC) and the Multilateral Insurance Guarantee Agency (MIGA). While IBRD loans are provided at near market rates, IDA provides so-called soft loans to poorer countries on concessional lending terms. The World Bank Group provides direct finance for oil projects, grants political risk insurance and other guarantees, and promotes changes in the policy and legal environment conducive to investment. The presence of the World Bank Group can be extremely important because it serves as a type of "good housekeeping seal of approval" for commercial banks and capital markets, thus encouraging private investment in particular projects.

Extractive industry projects are very attractive to IFIs because they provide lucrative financial returns to the institutions themselves – they have been the most profitable loans in the International Finance Corporation portfolio.[28] Increased government revenues are also attractive because they insure a steady flow of revenues for debt repayments.

World Bank participation is sometimes – as was the case in Chad – a pre-condition for oil projects in order to minimize political and financial risk as well as to open doors to other public and private financing sources. Benefits ascribed to this sector by the World Bank Group are generally limited to increased revenue to host governments. But, as we shall see, this increased revenue has rarely translated into public benefits, especially for the poor. Yet lending continues for oil projects to African countries with no proven record of transparent revenue management.[29]

Financing a Project: The Chad-Cameroon Oil and Pipeline Project

World Bank Group participation in an oil project opens doors to other financing sources, as in the case of the $3.7 billion Chad-Cameroon project. Project finance includes:

- World Bank Group
  - IBRD loans $92.9 million
  - IFC loan $200 million
- Other financing
  - European Investment Bank $41.5 million
  - Export Credit Agencies
    - U.S. EXIM Bank $200 million
    - COFACE (France) $200 million
    - African Ex-Im Bank $500 million

Remaining financing by commercial lead arranging banks:

- ABN-Amro
- Credit Agricole Indosuez

Source: World Bank Group, Export Credit Agencies, Afreximbank, Environmental Defense

International Financial Corporation Project Finance

The IFC is the largest source of multilateral or bilateral financing for the private sector in Africa. It is a significant source of project financing for the oil industry. In 2001 alone, oil and gas projects in sub-Saharan Africa, primarily offshore, represented almost 40 percent of the approximately $840 million IFC upstream oil portfolio.[30] Additionally, resource extraction (oil, gas, and mining) accounts for nearly two-thirds of IFC investment (by value) and 10 percent of the total number of IFC projects in the World Bank designated Low-Income Countries Under Stress (LICUS).[31]

Recent investments by the IFC in African oil have included projects in Congo-Brazzaville, Chad, Cameroon, Gabon, Nigeria, and Côte d'Ivoire.[32] A $118 million project with U.S. based Ocean Energy was, according to the IFC web site, sought for "political comfort" and the project was a "prime catalyst in opening up the Ivorian hydrocarbon sector to foreign investors." A $250 million IFC project involving Shell and the Cameroonian state oil

Export Credit Agencies

Australia:	Export Finance and Insurance Corporation (EFIC)
Canada:	Export Development Corporation (EDC)
France:	Compagnie Française d'Assurance pour le Commerce Extérieur (COFACE)
Germany:	Kreditanstalt fur Wiederaufbau (KfW)
Italy:	Mediocredito Central SpA
Japan:	Japan Bank for International Cooperation (JBIC)
United Kingdom:	Export Credit Guarantee Department (ECGD)
United States:	Export-Import Bank (Ex-Im Bank) Overseas Private Investment Corporation (OPIC)

company is described by the IFC as "vital to ensure the optimal exploitation of Cameroon's most important oilfields. The direct benefits of this Project to Cameroon are thus considerable as it receives a large proportion of the operating income arising from oil production."[33]

Export Credit Agencies – Public Money, Private Gain

ECAs are also fundamental players in the global economy, yet their activities are little known. ECAs are governmental or quasi-governmental entities that are operated by most industrialized countries. Their primary function is to promote exports in "risky" developing country markets that are considered financially and politically uncertain. ECAs provide home country exporters and their banks with *loans; guarantees* (repayment protection for private-sector loans provided to foreign buyers of national exports); and *insurance* that protects exporters against loss if a foreign buyer or other foreign debtor defaults in payment for political or commercial reasons. In effect, they are public monies used to underwrite private gain.

The amount of investment that ECAs support globally is significantly greater than the total amount of lending from the World Bank, IMF, and other multilateral institutions combined, according to the IMF.[34] In 1998, ECAs supported exports totaling $391 billion or eight percent of total world exports.[35] Export credit agencies have been instrumental backers of extractive industry projects in developing countries, including oil projects in Africa.

Most ECAs are not required to meet minimum developmental, environmental or social standards for projects they finance. (The World Bank Group offers many of same financial services as ECAs, but unlike the ECAs they insist upon some social and environmental conditions in their loans.) Because ECAs aggressively promote their national corporate interests, they also tend to compete heavily with one another and rush to back projects that will benefit their domestic producers and manufacturers, at times without full consideration of the project's environmental and social impact.

The U.S. has two ECAs, the Export-Import Bank (Ex-Im Bank) and the Overseas Private Investment Corporation (OPIC). The Ex-Im Bank is government held and publicly funded through tax dollars. In 2001, the Ex-Im Bank provided support for $1.3 billion worth of

African Oil Exporters and Export Credit Agency Debt

The percentage of total external debt held by ECAs (2000):

Country	Percent
Nigeria	71
Gabon	55
Congo-Brazzaville	42
Dem. Rep. of Congo	33
Cameroon	31
Angola	20

Source: Environmental Defense

U.S. exports in the petroleum sector. Unlike the Ex-Im Bank, OPIC is not a publicly funded organization but rather charges a user fee to businesses that seek its investment services, which are primarily political and financial risk insurance. In contrast to other ECAs, both the Ex-Im Bank and OPIC have adopted some environmental and labor rights guidelines.

It is difficult to obtain information on ECA projects in sub-Saharan Africa. A sample review of 50 ECA projects in Africa from 1994 to 1999, valued at $15 billion, showed that the largest sector was oilfield exploration and development, at $7 billion or half of the sample size.[36] In addition, much of the debt burden of African oil exporters is owed to ECAs **(see box on page 16)**. Africa's own ECA, the African Export-Import Bank (Afreximbank), headquartered in Cairo and founded as a pan-African institution in 1994, is heavily invested in the oil sector, which constituted 43 percent of outstanding loans and 15 percent of approvals in 2001, including $500 million for Chad-Cameroon project.[37]

Shaping the Environment for Oil Exploration

Especially since World War II, multinational energy corporations, their home governments, and International Financial Institutions have powerfully shaped the global environment in which countries with oil must operate. This is true in Africa today. While African governments ultimately decide how revenues are allocated inside their borders, the policies, actions and development strategies of these international players are essential, if not decisive, elements for determining what revenues actually accrue to governments, how these revenues are managed, and how they are spent. Taken together or individually, they are more powerful than any single African government. In assessing whether Africa's new oil will ultimately contribute to the alleviation of poverty in the region, the record of the performance of all oil-exporting countries thus far, examined in the next section, serves as an urgent warning to these big players.

Export Credit Agencies in Angola

A recent study of ECA activity in Angola from 1980 to 2002, a period of near constant civil war, conservatively estimates that ECAs from nine countries funded a total of 27 transactions covering a value of $3 billion. The total value of projects supported through this financing was $4.84 billion. Every dollar of ECA finance leveraged another 60 cents in additional capital from other sources. Foreign direct investment during the same period was estimated at $9.4 to $14.9 billion, showing that ECAs backed 25 to 51 percent of all investment in Angola. Of approximately $14 billion invested in Angola's oil sector from 1980 to 1999, at least 30 percent was covered by the ECA financing projects uncovered in the study. About 20 percent of Angola's crushing $11 billion in external debt is export credit debt.

The report notes a historical irony: "At the same time that the Reagan Administration was working to topple the MPLA government, it was providing generous export credits to the industry that generated 90 percent of the MPLA's revenue. Between 1983 and 1985, EXIM issued almost $410.1 million in loans and guarantees for offshore oil projects in Angola. The result was an almost comical spectacle: Cuban troops defending EXIM-financed industrial installations against 'freedom fighters' that had received a White House welcome from President Reagan himself."

Source: Carbonell, Tomas (2002), "Export Credit Agency Activity in Angola 1980-2002", unpublished paper, Environmental Defense, Washington, 2002.

2. The Paradox of Plenty: The Record, The Challenge

The promise that oil will boost the standard of living of Africans echoes repeatedly throughout the Gulf of Guinea, raising popular expectations to sometimes-soaring heights. As Ed Royce, the chairman of the Subcommittee on Africa of the U.S. House of Representatives says: "African energy is critical to African development. It provides a revenue stream. . . to break the cycle of poverty that plagues the continent."[1] "There's incredible opportunity for wealth creation for local people," adds one Amerada Hess company representative speaking of the potential oil wealth of São Tomé.[2] In West Africa the hopes of people watching new pipelines built through their communities or seeing the impressive installation of offshore platforms can be palpably felt. They believe that oil will bring jobs, food, schools, healthcare, agricultural support and housing. "We were told by the company that we would have a new school, with books and electricity and water," a village chief in Congo-Brazzaville reported.[3]

"There's incredible opportunity for wealth creation for local people," says an Amerada Hess company representative speaking of the potential oil wealth of São Tomé.[2]

But will oil deliver on these promises? The disturbing record of oil-exporting countries to date suggests that Africa's oil boom can have a positive impact on the alleviation of poverty *only if urgent and significant changes occur in the global policy environment.* The alternative for Africa's poor would be disastrous.

2.1 Oil Rich, Dirt Poor

The lived experience of oil-exporting countries over the past several decades tells a story which differs radically from the promise of petroleum.[4] *When taken as a group, all "rich" less developed countries dependent on oil exports have seen the living standards of their populations drop – and drop dramatically.*

For most countries, including Algeria, Angola, Congo, Ecuador, Gabon, Iran, Iraq, Kuwait, Libya, Peru, Qatar, Saudi Arabia, and Trinidad Tobago, this development failure has been very severe, plunging real per capita incomes back to the levels of the 1970s and 1980s.[5] For a few, most notably Nigeria and Venezuela, the failure to develop has been catastrophic; in these cases, real per capita income has plummeted to levels not seen before 1960.

The gap between the promise of petroleum and the perversity of its performance in recent times is enormous. Study after study demonstrates that, as a group, countries dependent on oil as their leading export have performed worse than other developing countries on a variety of economic indicators; they have performed worse than they should have given their revenue streams; and poverty within their borders has been exacerbated rather than alleviated over the past two decades. [6]

Study after study demonstrates that, as a group, countries dependent on oil as their leading export have performed worse than other developing countries on a variety of economic indicators; they have performed worse than they should have given their revenue streams; and poverty within their borders has been exacerbated rather than alleviated over the past two decades.

Even more worrisome, the gap between the expectations created by oil riches and the reality produced is a dangerous formula for disorder and war. *Countries that depend upon oil exports, over time, are among the most economically troubled, the most authoritarian, and the most conflict-ridden states in the world today.*

2.2 Poor Development Outcomes are not Inevitable

Such grim development results are not inevitable. Resource booms can be detrimental, for sure, but they can also be beneficial. Norway (a relative newcomer on the oil scene) has used the benefits from North Sea petroleum to earn the highest place on the United Nations Development Program's list of best development performers.[8] Thus, the country where people live best, according to a wide range of economic indicators, is an oil exporter. This means that the underlying development problems around petroleum are not inherent in the resource itself – oil is merely a thick, viscous black substance.

Oil creates the illusion of a completely changed life, life without work, life for free . . . the concept of oil expresses perfectly the eternal human dream of wealth achieved through lucky accident . . . In this sense oil is a fairy tale and like every fairly tale a bit of a lie.

— Ryszard Kapuscinski, *Shah of Shahs*[7]

What matters for determining whether the poor will benefit over the long run from oil exploitation is how revenues are raised, what percentage remains inside the producing country, and how these revenues are utilized. Whether countries succeed in "sowing their petroleum," that is, turning oil revenues into long-term benefits for their people, ultimately depends on the quality of public policy. Simply stated, given the right incentives for making good policy choices, petroleum revenues can be "black gold" rather than "the excrement of the devil," as Juan Pablo Alfonzo, the founder of the OPEC, so poignantly warned.[9]

Underlying development problems around petroleum are not inherent in the resource itself – oil is merely a thick, viscous black substance. (Photo: Marc Thomas)

2.3 Why Managing Petroleum is No Easy Task

The successful management of any mineral-based economy is especially difficult, but petroleum may be the hardest resource to utilize well. Countries dependent on oil exports seem particularly susceptible to policy failure.

Concentration of Power and Resources

Simply stated, given the right incentives for making good policy choices, petroleum revenues can be "black gold" rather than "the excrement of the devil," as Juan Pablo Alfonzo, the founder of the OPEC, so poignantly warned.[9]

— Interview with Terry Lynn Karl, Caracas, 1975

The reason lies in the interaction between economic and political power. Because the petroleum industry is more capital intensive than any other economic activity and involves very extensive knowledge, skills and technology, only the biggest players, either multinationals or states, are able to exploit this resource. At the same time, because profit margins are so huge, the rents generated by oil generally overwhelm all other revenue sources. Thus, oil-led development has a strong tendency to concentrate both production and revenue patterns, and this occurs in countries where economic and political power often is already very concentrated. In effect, only large and powerful global and state actors can get into the oil game. Only those who control political power can grant the opportunity to make money from oil, and only those who receive this opportunity can provide the revenues to keep regimes in power. Thus a partnership of mutual interest (though often fraught with tensions) is created. This does not occur to the same extent in more diffuse wealth-generating activities based on, say, fertile soil or fisheries, where the barriers to entry are far lower, the actors more numerous and the benefits more dispersed.

The Prevalence of Rent-Seeking

The result is what economists call a "vicious" development cycle based on rent seeking. Rent-seeking is widespread behavior aimed at capturing petrodollars through unproductive and even corrupt means. In oil-exporting countries, all actors (whether public or private, domestic or foreign) have overwhelming incentives to seek links with the state in order to make money; governments, in turn, reward their supporters by funneling petrodollars, tariff protections, contracts, or subsidies their way. In the end, productive economic activity is actually penalized, growth is hindered, and economies become distorted. Political power can only be sustained as long as oil revenues flow.

The Absence of Counter-Pressures

The difficulty of managing oil revenues well is compounded by several factors. Primarily, most developing counties lack the type of political institutions necessary for counteracting

rent seeking. Democratically accountable executives, efficient civil services and tax authorities, independent legal systems, active and informed civil societies and open and transparent policy-making processes are simply not in place.

"People rob because there is no reason not to, and you are stupid if you don't."

— Venezuelan Minister of the Treasury responding to the question of why corruption is so high in oil-exporting countries, Caracas, 1977.

Furthermore, because profits are so huge in oil, even healthy pre-existing economic activities can be quickly disrupted and replaced by the growing reliance on petrodollars. It is easier to import food than to produce it if a government has the cash, and it is far simpler to buy technological know-how than develop it. Thus, the fiscal advantage of petroleum can actually serve as a handicap, hindering the development of other productive activities. In the end, rather than being able to use oil revenues to complement other economic activities, oil exporters find that they are stuck in a permanent extractive phase – at least until their oil runs out.

Perverse Incentives from the International Policy Environment

Finally, the external policy environment rewards over-dependence on petroleum, overly-centralized power, and even rent-seeking — merely by pursuing business as usual.

For example, an oil company might make a less than transparent deal with a government, or pay secret bonuses that cannot be traced. This makes it difficult to assess their contracts, know what revenues actually accrue to governments from petroleum and judge whether the proportion accruing to countries is fair. It also makes it very difficult to hold governments accountable for their revenue management. Furthermore, as numerous studies have shown, powerful oil companies, whether foreign or domestic, come to play a disproportionate role in the decision-making of oil-exporting countries. This permits them to design laws and manipulate legal structures in their favor.[10] It also means that they increasingly find themselves in politically-explosive situations. Witness, for example, the increasing number of lawsuits alleging that oil companies have supported human rights violations or environmental destruction (e.g., in Ecuador, Burma, Indonesia, Colombia, and Nigeria).

The external policy environment rewards over-dependence on petroleum, overly-centralized power, and even rent-seeking — merely by pursuing business as usual.

Home governments, acting in perceived national security and economic interests, have formed strong alliances with authoritarian rulers who happen to sit atop oil deposits and have downplayed their records of human rights violations. At the same time, they have failed to insist that multinational oil companies operate with the same standards abroad that they are held to at home.

Finally, IFIs also support oil's perverse development cycle by routinely encouraging development strategies based on the "comparative advantage" of petroleum, thereby helping to lock countries into a perverse pattern. At the same time, they support lending to deeply-indebted oil exporters, along with private commercial banks, even when it is clear that debt only supports unproductive activities or papers over rent-seeking behaviors. Such practices prolong the ability of governments to mismanage their oil resources and help to defer critical but painful development decisions necessary to bring about change.

Where business lacks transparency, governments are accountable to none, economies are weak, administrative capacity lacking, and participation absent or wanting – yet investments and lending continue to pour in without restrictions – rent-seeking and corruption result. Over time, earnings are squandered, a precious asset is depleted, and widespread poverty remains.

The Boom-Bust Cycle

Initially, oil development seems to work – at least for some time. Especially at the beginning, petroleum exploitation provides positive outcomes; per capita income may

soar and financial accounts look startlingly favorable. Initially, the record shows petrodollar spending in most oil-exporters led to increased employment opportunities (especially in construction), generous pension plans for some, better nutrition, health and infrastructure development. Telecommunications, paved roads, railways, and power-generating capacity increased considerably. In a few cases where oil-exporting countries have very small populations and very large oil reserves, (e.g., Brunei or the United Arab Emirates), these gains have been sustainable for some time.

But these positive outcomes are undermined by greater and greater rent-seeking. As economies grow more dependent on a depleting resource, as these resources are mismanaged through rentier pressures, and as growth declines while demographic pressures grow, oil exporters move from exhilarating booms to painful busts. The volatility of oil prices – the rapid fluctuation from $8 to $35 per barrel and back – further undercuts efforts to turn oil wealth into other more permanent forms of sustainable development.

Boom-bust cycles affect even the world's richest oil exporters. Look at Saudi Arabia, where budgeting is murky, per capita defense spending is the highest in the world, and at least 10,000 princes from the House of Saud receive stipends running from $800 to $270,000 per month while the rest of the fast-growing population sees its opportunities decline. Even where proven reserves are the greatest in the world, productivity has taken a nose dive and per capita income has plunged from $28,600 in 1981 to $6,800 in 2001.[11]

2.4 The "Resource Curse" or How Oil Dependence Produces Decline[12]

Negative development outcomes associated with petroleum and other minerals are known as the "resource curse."[13] Essentially, this refers to the inverse association between growth and natural resource abundance, especially minerals and oil. Countries that are resource poor (without petroleum) grew four times more rapidly than resource rich (with petroleum) countries between 1970 and 1993[14] – despite the fact that they had half the savings. The greater the dependence on oil and mineral resources, the worse the growth performance,[15] a finding that has been confirmed by economists in the World Bank and IMF.[16]

Under the current policy environment, here is how oil dependence hurts development:

1) *Oil booms raise expectations and increase appetites for spending.*

The promise of oil wealth dramatically expands the horizons of governments in oil-exporting countries. A boom mentality not only affects they way that governments behave, creating grandiose plans and ideas, but it also shapes how people respond. Work ethics are undermined, and productivity sinks.

2) *Governments dramatically increase public spending based on unrealistic revenue projections.*

In all OPEC countries, windfalls increased both public spending and the appetite for transfers by a factor that was more than proportionate to the size of the boom itself.[17] This meant that spending quickly surpassed revenues. Nonetheless, different interests and groups continued to demand even larger shares of national income when petrodollars were scarce.

3) *Booms decrease the quality of public spending and encourage rent-seeking.*

The concentration of fiscal resources from an oil boom fosters excessive and imprudent investment. It also leads to the maldistribution of resources, a decline in productivity, and massive corruption. Grandiose "white elephant" projects, characterized by enormous corruption in the awarding of import quotas, industrial licenses, trade franchises, low-cost credits, and access to foreign exchange, become the normal way of

doing business. Examples abound: a mountain-top resort in Venezuela, the largest airport in Saudi Arabia, a man-made river in Libya, the Trans-Railway in Gabon, and a "national car" in Indonesia. Oil-exporting countries are ranked among the lowest in Transparency International's World Corruption Index and are considered especially corrupt.[18]

4) *The volatility of oil prices hinders growth, distribution and poverty alleviation.*

The volatility of oil prices makes planning extremely difficult, and it hampers exchange rate unification and trade liberalization – all of which have a detrimental effect on growth. In OPEC countries, oil price volatility exerted a strong influence on government finances and patterns of national balance of payments, which subsequently meant that performance deviated from planned targets by as much as 30 percent. Furthermore, volatility has been shown by scholars to be bad for investment, income distribution, educational attainment and poverty alleviation.[19] And because oil price volatility has been getting worse, especially since the 1990s, even greater detrimental effects on economic performance can be expected.

5) *Booms encourage the loss of fiscal control and inflation, further hampering growth, equity and the alleviation of poverty.*

In the context of pressures to overspend, corruption, poor quality spending and uncertain revenues, oil booms are accompanied by the loss of control over public spending. Because there is no transparency in the management of oil revenues, parallel budgets are created. As a result, price stability and budgetary discipline suffer. Thus, even as oil money is pouring in, government accounts are characterized by deficits and double-digit inflation. Almost all OPEC members incurred budgetary deficits year after year, with Algeria topping the list, followed by Iran, Indonesia, Nigeria, Saudi Arabia, Ecuador, Libya and Qatar. Even the capital surplus countries of the Persian Gulf eventually began to run serious budget deficits.

6) *Foreign debt grows faster in oil-exporting countries, mortgaging the future.*

In most oil-exporting countries, external debt, which was negligible (except for Mexico) before the 1973 oil boom, has grown by leaps and bounds. As pressure on spending rises, governments borrow more and more, even mortgaging future oil payments to banks. Astonishingly, pushed by rent-seeking and the loss of fiscal control, oil countries have borrowed faster and more than non-oil exporting less developed countries, despite benefiting from petrodollars. This borrowing is both demand and supply driven. Governments seek to borrow to cover shortfalls in expected petroleum revenues, but bankers also especially favor lending to oil-exporters because their loans are backed by petroleum.

7) *Non-oil productive activities, like manufacturing and agriculture, are adversely affected by the oil sector in a phenomenon called the "Dutch Disease."*

The Dutch Disease occurs when oil windfalls push up the real exchange rate of a country's currency, rendering most other exports noncompetitive. At the same time, persistent Dutch Disease provokes a rapid, even distorted growth of services, transportation, and construction, while simultaneously discouraging some industrialization and agriculture.[20] Agricultural exports – a labor-intensive activity particularly important to the poor – in particular are adversely affected by economic dynamics set off by the exploitation of petroleum.[21] The languishing of the agriculture and manufacturing sectors of oil countries not only makes them more dependent on petroleum, thereby exacerbating other problems of dependency, but it can also lead to a permanent loss of competitiveness.[22] Meanwhile, the oil sector cannot make up the shortfall. Because oil is an enclave and highly capital-

intensive activity, it provides little employment and relatively few linkages with the rest of the economy.[23]

8) *Petrodollars replace more stable and sustainable revenue streams, exacerbating the problems of development, transparency and accountability.*

Oil revenues over time decrease reliance on non-oil taxes, and they can actually replace previously existing taxation systems. This frees oil-exporting governments from the types of citizen demands for fiscal transparency and accountability that arise when people pay taxes directly to the government. Thus petrodollars actually sever the very link between people and their government that is the essence of popular control.

Workers leave the Total petroleum terminal at Djeno, Congo-Brazzaville. Because oil is an enclave and highly capital-intensive activity, it provides little local employment and relatively few linkages with the rest of the economy. (Photo: L. Charrier, Secours Catholique)

2.5 The Oil/Poverty/Conflict Syndrome

But the story gets worse. More than any other group of countries, oil and other mineral exporters demonstrate the perverse linkages between skewed economic performance, poverty, injustice, and conflict. Countries dependent on oil and other mineral wealth are far more likely to have civil wars than their resource-poor counterparts and war disproportionately harms the poor.[24]

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The gap between expectations and the dismal economic performance of oil-exporting countries is politically explosive. Because oil governments funnel petrodollars to their own friends, family, military and political supporters, social class, ethnic or religious groups,[25] their populations see foreigners and favorites getting rich, but their own lot does not change. In the context of apparent oil riches, it may even get worse. Over time, this is not a formula for stability.

Militarizing Oil Countries: As petrodollars fail to keep pace with demands, oil-based governments often increasingly rely on repression to keep themselves in power. Not surprisingly, then, oil dependence is closely associated with militarization. As a group, oil exporters spend much more money and a greater percentage of their revenues on their military and security forces than non-mineral dependent countries.[26]

The extent of militarization is stunning. In the decade from 1984 to 1994, for example, OPEC members' share of annual military expenditures as a percentage of total central government expenditures was *three times* as much as the developed countries, and *two to ten* times that of the non-oil developing countries. From the perspective of poverty alleviation, the sheer waste of this military spending is staggering.

Petrodollar Support for Authoritarian Rule: Not surprisingly, given this pattern of spending, oil rents have tended to impede democratization and have sustained a long line of authoritarian rulers – from the Shah of Iran to Nigeria's Abacha to the House of Saud to Saddam Hussein.[27] These regimes prohibit the types of organizations that provide a voice for the poor, create an informed civil society, and permit their people to influence the management and allocation of oil wealth. Furthermore, dependence on oil tends to impede democratization, and it may even erode democratic rule where it previously existed, as demonstrated by the dramatic case of Venezuela. This is especially unfortunate because

democracy, when combined with merit-based civil services, reduces the corruption and mismanagement oftentimes associated with oil dependence.[28]

Had all the major players in the oil story behaved differently earlier then the outcomes could be different. This is the challenge facing Africa's oil countries.

Oil and Civil War: Fights over oil revenues become the reason for ratcheting up the level of pre-existing conflict in a society, and oil may even become the very rationale for starting wars.[29] This is especially true as economies move into decline. Petroleum revenues are also a central mechanism for prolonging violent conflict and only rarely a catalyst for resolution.[30] Think, for example, of Sudan, Algeria, the Republic of Congo, Indonesia (Aceh), Nigeria, Iraq, Chechnya and Yemen.

2.6 The Bottom Line: The Urgent Need to Change the Policy Environment

The record of oil-exporting countries to date provides a powerful lesson for assessing the prospects for poverty alleviation in Africa. The message is clear: If oil is exploited as it has been in the past, that is, if revenues continue to lack transparency and accountability in their management, the results seem only too evident – and too grim.

If Africa's new oil boom is to produce better results, cycles of rent seeking and boom-busts must be broken – or not permitted to start. For this to occur, powerful actors need to change some of their standard operating procedures. Had all the major players in the oil story behaved differently earlier – had international companies, their home governments, and banks insisted upon transparent and fair revenue management, had governments and domestic private sectors been required to be more accountable to their publics, and had publics been more organized and informed – then the outcomes could be different. This is the challenge facing Africa's oil countries.

3. Africa's Petro-States: Country Experiences and Regional Trends in the Gulf of Guinea

Africa's oil exporters have yet to meet the challenges posed by oil-led development. To the contrary, both old and new exporters hew closely to the poor record just examined. But problems related to the exploitation of oil are even more severe given the exceptionally low level of development in the region and the extraordinarily weak political and administrative capacity. Thus African oil governments are fully part of the history of rent-seeking and other negative development outcomes, including violence, associated with the resource curse.

Examining snapshots of Africa's current oil exporters demonstrates the urgent need for transparency and accountability in managing oil wealth conflict. While these exporters have disparate colonial legacies, sizes and populations, and post-independence development trajectories, they share in common an extreme dependence on petroleum **(see box on page 12)**. They also share certain problems common to the region, as we shall see, such as high levels of conflict, maritime disputes, and futures mortgaged through oil-backed loans.

Changing the international policy environment in which African governments must operate is crucial if the direction of the continent's oil-based development trajectory is to be reversed. Such changes are especially urgent if new exporters, like Equatorial Guinea and Chad, are to avoid the problems plaguing their predecessors.

National Oil Companies in Africa

National oil companies in Africa often regulate the oil sector, collect revenues from oil activities, and form partnerships to develop oil resources. (Gabon is unusual in not possessing a national oil company.) While they have been important agents of development in other parts of the world, in Africa they are characterized by opaque accounting, monopoly behavior and contradictory administrative roles. One World Bank adviser calls them "self-styled emporiums, states-within-states."[1]

Nigeria – Nigerian National Petroleum Corporation (NNPC)

Angola – Sonangol

Congo-Brazzaville – (SNPC) - Société Nationale des Pétroles du Congo

Cameroon – (SNH) - Société Nationale des Hydrocarbures

Equatorial Guinea – GEPetrol

Sudan – Sudapet

South Africa – Petro SA

Ghana – Ghana National Petroleum Corporation

Senegal – PetroSen

Guinea-Bissau – PetroGuin

3.1 The Paradox of Plenty in Africa's "Old" Oil Exporters

This sub-section highlights two countries in the Gulf of Guinea that are "older" exporters, Nigeria and Gabon, meaning that they experienced the first big oil boom of 1973. They have learned to be tougher bargainers with the oil companies, in part through sharing information through their membership in OPEC (Gabon left in 1995). The difference in experience shows with regard to government revenues garnered from the oil sector. Nigeria, having learned from OPEC members outside the region, is in a class of its own, capturing between 50 to 70 percent of oil revenues from international companies.[2] Contrast this to newcomers Equatorial Guinea, which only earns 10 to 20 percent, or the roughly 10 percent accruing to the government of Chad. This means that the older exporters have had a greater opportunity to use oil wealth to alleviate poverty. Yet, despite their enhanced prospects from capturing more oil rents, the oil-led development trajectory of these older exporters is similar to that of exporters in other regions of the world.

3.1a Nigeria: Africa's Oil Giant Fits the Profile

Nigeria, sub-Saharan Africa's largest oil producer, is a classic illustration of the "paradox of plenty." Flush with proven reserves (approximately 30 billion barrels) and having earned a whopping $340 billion over the past 40 years, Nigeria's production ranks only behind Saudi Arabia, Venezuela, Iran and the United Arab Emirates.[4] Oil dependence is

The Nigerian National Oil Company – NNPC

The Nigerian National Oil Company (NNPC) was created in 1977 as a vehicle for partnerships with foreign oil companies and is now a holding company for a diverse set of subsidiaries. A vertically integrated oil company; its activities include oil exploration, production, oil refining, pipelines and storage terminals, marketing of oil, gas and refined products and petrochemicals. It currently operates six joint venture equity participation agreements with multinational oil companies, serving as the majority partner with a major international oil company that acts as operator. The NNPC initially had an 80 percent stake in the operations of the Shell Petroleum Development Company (SPDC), but it has lowered its participation to 55 percent. Its participation in other joint ventures is 60 percent, but NNPC has been unable to meet its share of maintenance and running costs. Production Sharing Contracts (PSCs) were introduced in 1991 to alleviate NNPC's funding problems, but production under them is still limited (an estimated 3 percent of the total). Lack of arrears payments and financing from NNPC to joint venture partners lea to a drop in exploration and production activities by the oil companies in 2002.[3] Few internal financial controls exist at NNPC, although the NNPC has undergone yearly external audits, something unusual for state oil companies in the Gulf of Guinea. Final responsibility for maintaining the quality of the external audit is unclear. Until recently, the NNPC lacked an independent Board of Directors to provide a measure of corporate governance: a Board now exists (since early 2002) but its degree of independence from the government is unclear.

A Shell oil installation abuts villages in the Niger Delta, southeastern Nigeria. There is deep dissatisfication in the Delta that Nigeria's massive oil wealth has not improved the lives of the local population. Occupation of facilities, political instability and theft of oil has cut production by up to one third in the last two years. (Photo: Africaphotos.com)

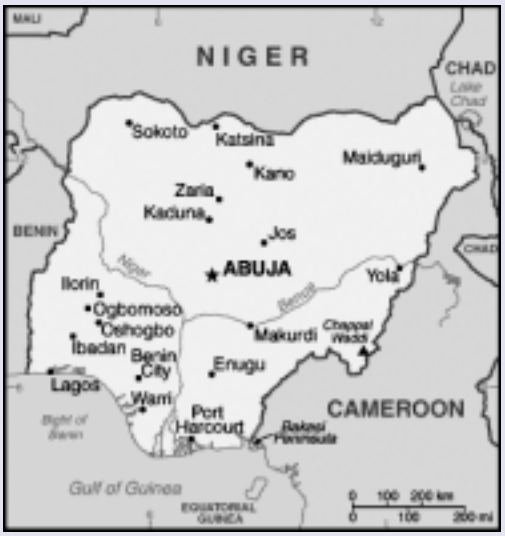
overwhelming: petrodollars account for 83 percent of federal government revenue, more than 95 percent of export earnings and approximately 40 percent of GDP.5 These oil riches have done little to change the situation of the poor. More than 70 percent live on less than a dollar a day, 43 percent lack sanitation and clean water, and infant mortality is among the highest in the world.[6]

So overwhelming is mismanagement and rent-seeking that Nigeria has unfortunately become virtually synonymous with corruption. The capture of oil monies is the only big game in town. Monies flow into the state largely through the Nigerian National Oil Company (NNPC), which was created in 1977 as a vehicle for partnerships with foreign oil companies. (See Box) It receives about 57 percent of total crude oil, most of which it subsequently exports. [7] The proceeds of the sale of NNPC oil are deposited in an account at the Central Bank of Nigeria (CBN)[8] shared by the three levels of government on a constitutional formula.[9]

Fiscal Mismanagement and Dutch Disease: Such formulas sound good on paper, but without instruments for fiscal stabilization, accountability or transparency the results are predictable: petrodollars are stolen or squandered. No fiscal rules are in place to ensure fiscal sustainability, or intergenerational equity. According to Human Rights Watch, "little of the money paid by the federal government to state and local governments from the oil revenue is actually spent on genuine development projects:

there appears to be virtually no control or proper audit over spending by local and state authorities."[10] An estimated $4 billion of government funds – some 90 percent of which came from oil – are reported to have been stolen by General Sani Abacha during his dictatorship in the 1990s.[11]

Nigeria exhibits other classic oil related patterns. With the emergence of the oil sector in the late 1960s, the Dutch Disease set in: an overvalued exchange rate seriously harmed the agricultural and manufacturing sectors, which have stayed inefficient and weak. High vulnerability to booms and busts have made it difficult to plan or project government spending levels.12 Various development schemes over the past decades have been launched and then abandoned because of declines in oil revenues. The result has been painful: The percentage of people living in poverty increased from 28 percent in 1980 to 66 percent in 1996, according the Nigeria's Federal Office of Statistics. Per capita income has fallen from $800 in 1980 to $300 today.13



Nigeria

Oil production (2002): 2.1 million bpd

Population: 129.9 million estimate

Human Development Index Ranking: 148 of 173 ranked

Top Foreign Companies: Shell, ChevronTexaco, TotalFinaElf, ExxonMobil, ENI/Agip

President: Olusegun Obasanjo

Delta Violence and the Search for Offshore Oil: This deterioration has been accompanied by political decay, a rise in oil-related human rights violations and violence, most notably in the Niger Delta where most oil is produced. The national government has been highly unstable, fluctuating between military and civilian rule. There is a cycle of activism, militancy and repression linked to oil, as spills and other environmental problems result in the loss of livelihoods for many residents. The international outcry at the hanging of Ken Saro-Wiwa and other Ogoni activists protesting the despoiling of their Niger Delta lands and other events have had bottom line impacts on the industry. Some estimates suggest that militancy and protest has cut onshore oil production by a third, 700,000 plus bpd, in 2001-3.[14]

Oil companies have become a target for communities that see little benefit from monies paid to federal, state and local governments. They complain of serious environmental damage and human rights violations and hold multinational oil companies partly responsible. Thus, security has become a major concern. In addition, organized criminal gangs have engaged in "bunkering," or oil theft, loading oil barrels on cargo ships and reportedly costing oil companies at least 20 percent of their production.[15] "I imagine if it goes on, the volumes will get to a level where it won't be possible to do business," a Shell official said.[16]

So difficult has this situation become that oil companies have begun to change their strategies. Until 1993, all oil activity in the country was restricted to land and shallow waters, especially since onshore production costs are reputed to be among the lowest in the world at under $2 a barrel. But the increasing financial and political risks of operating in the Niger Delta, along with financial rewards, have compelled many companies to seek new finds offshore; currently, approximately 40 percent of Nigerian oil is produced offshore — even though the cost of production is more than significantly higher.[17] Shell, Nigeria's largest producer, and other companies find it easier to operate in deep waters than in the "disruptive" operating environment of the Delta.

The Political Allocation of Oil Rents: In the wake of rising conflict, Nigerian governments have also changed their strategies. To placate local populations in oil-producing areas, the 1999 constitution mandates that at least 13 percent of revenue

generated from oil be paid to the states where it is produced. The federal government began payments according to this new allocation in 2000, although the amounts received have not reached the full 13 percent. States gained about $120 million in 1999, rising to almost $1 billion in 2001, but a lack of transparency and mismanagement pervade state and local government structures as well.[18] The federal government has argued that states are not entitled to revenue from offshore fields, a view upheld by Nigeria's Supreme Court in April 2002. Leaders in the Delta have sharply protested this ruling – because this would mean a sharp drop in revenue for Delta states. (Some funds are channeled through the new Niger Delta Development Commission. **(See box on page 50)** In October 2002, Nigeria's parliament approved an amendment to an oil revenue sharing law so that states can share in offshore proceeds as well.[19] President Obasanjo, as of early 2003, had refused to sign the bill into law.

As dissent grows, the economy deteriorates, and debt increases, there is strong consensus from most global players that transparency is an important first step for changing Nigeria's development trajectory. Since the end of the Abacha regime, the federal government of Nigeria has put forward several measures designed to increase transparency in the sector, starting with President Obasanjo's cancellation of the 16 deepwater exploration licenses issued by the outgoing military regime to what it termed "indigenous businesses."[20] The opening of a new bidding round for exploration licenses in 2000 followed this cancellation. The World Bank has been involved in a dialogue with Nigerian authorities on a range of petroleum sector topics (although there is currently no lending operations specifically targeted at the oil sector.) Still, contracts and payments are not transparent, financing to support a rentier economy remains easily available and the mismanagement that robs the poor of their life chances continues. Meanwhile, Nigeria smolders.

Gabon

Oil production (2002): 247,000 bpd

Population: 1.3 million

Human Development Index: 117 of 173 ranked

Top Foreign Companies: TotalFinaElf, Shell, Vaalco

President: El-Hadj Omar Bongo

3.1b Gabon: Running Out of Oil

While much smaller in size and population, Gabon's resemblance to Nigeria is striking in many respects. One of Africa's richest countries, with an unevenly distributed per capita GNP of $3,180 in 2000, the country is heavily dependent on oil – the sector accounted for about 73 percent of gross domestic product in 2002.[21] Like Nigeria, Gabon saw its wealth grow during the late 1960s through petroleum development. Awash in petrodollars and blessed with a tiny population of just over 1 million (an advantage not afforded Nigeria), the government embarked upon a classic buildup of state bureaucracy, lavish spending and ambitious infrastructure projects. Yet even with the advantage of its small population, Gabon, like its oil giant neighbor, has not managed to diminish poverty or build a sustainable model of development.

But Gabon is different from Nigeria in one especially crucial respect: *it is running out of oil.* Oil production is experiencing real decline. Thus, short of new finds, it may soon find itself the unlucky pioneer in the quest for a viable post-petroleum future. Production had dropped by a third and government revenues by half in the last five years, according to the finance ministry in late 2002. In 2003, for the first time in 30 years, receipts from oil are predicted to be lower than non-oil revenues.[22] The IMF predicts that oil production will fall by half again by

2006.[23] Thus, Gabon, while the subject of considerable interest for smaller, independent oil companies willing to develop smaller fields, is mostly watching from the sidelines in the otherwise frantic search for oil.

Taxing Oil: Oil revenues accrue to the government through an attractive tax regime that has made entry into Gabon relatively simple. Government oil revenue comes from royalties, taxes on profits of petroleum companies and their subcontractors, taxes on the exploration area, company dividends to shareholder, and profit oil.[24] Unlike Nigeria, there has been no national oil company in Gabon since 1987, but the government has large direct interests in some licenses and, according to the *Economist Intelligence Unit*, oil revenues grease President Omar Bongo's "oil financed network of political patronage."[25] Oil exploration and exploitation in Gabon is governed by the Mining Code of 1982,[26] which favors production-sharing contracts (PSCs), under which contractor companies pay for all investment costs up-front. As oil runs out, the terms of these contracts are becoming less favorable to the government.[27]

Other Sectors Fail: Gabon suffers from the Dutch Disease and is a classic "enclave economy," due both to the lack of linkages with other productive economic sectors and the physical isolation of rigorously defined areas of production. With the exception of the exploration of forestry resources (the country's second economic sector) and the declining mineral sector, all economic activity is concentrated in the heavily circumscribed urban centers.[28] There is practically no local food production, which (contrary to that of neighboring Cameroon) has always been deficient, but has been virtually ended by oil dependence.[29] *Only about one percent of total land area is under cultivation* so that, according to the Africa Research Bulletin, "Gabon depends entirely on imports for its food, consumer goods and equipment […] the tomatoes are South African and the potatoes from France."[30] Despite employing an estimated half of the workforce, the agricultural sector's contribution to GDP is only 7 percent.[31] The decline in oil revenues accompanying the seemingly irreversible downturn in petroleum production means that there is little to paper over the long-term deterioration of the Gabonese economy. Other chief problems include the loss of control over government spending and an impasse with creditors on Gabon's debt.[32]

Lavish Spending by a Single Ruler: The absence of other potential resources has not put a curb on spending. Like Nigeria, Gabon's government could not avoid the temptation of lavish spending. The country once garnered the title of "world's largest per capita importer of champagne";[33] it faced bankruptcy a number of times (most famously after a regional summit of epic proportions); it had a row in the mid-1980s with France due to the latter's refusal to help it build a nuclear power station; and it built the very expensive (estimates point to more than $3 billion) TransGabonais railway from Libreville to Franceville. Despite the currently dire prospects for economic viability in the face of declining oil reserves, Libreville still brandishes a particularly ostentatious urban culture centering on the acquisition and consumption of imported goods.[34]

Libreville, Gabon's cosmopolitan capital. The country once garnered the title of world's largest per capita importer of champagne. Now, the oil – and the champagne – are running out and there is no viable plan for a post-oil future. (Photo: Africaphotos.com)

This pattern of spending has kept President Bongo in power since 1968. Ruling the country as a one-party state since the early 1970s based on a policy of ethnic inclusion through his Parti Démocratique du Gabon (PDG), the decline in oil revenues forced him to resort to a measure of political opening in the 1990s, which, in turn, led to a reconfiguration of presidential rule. But there has not been a substantial re-framing of internal politics, which are still dominated by President Bongo.[35]

Corruption and Little Fiscal Accountability: It is difficult to trace how oil monies have been spent – even for the International Financial Institutions. Because Gabon was the epicenter of a string of scandals associated with Elf Aquitaine throughout the 1990s, including allegations of hidden oil deals and the use of its banks for massive money laundering linked to French politicians and party financing, there have been some efforts towards fiscal control, but these have been largely unsuccessful. Audits of oil company payments to the government were only recently initiated (March 2002), and results are still unavailable. The government has been reluctant to share key data about the oil industry with the IMF. No audit of Gabonese oil sector institutions has ever been conducted. Meanwhile, laws aimed at channeling petrodollars more carefully are not obeyed. In 1998, for example, the Fund for Future Generations was created to capture 10 percent of budgeted oil revenues as well as 50 percent of any windfall revenues for future use. But no deposits have ever been made.

A Poor Poverty Reduction Record: Under these circumstances, Gabon has not done well in reducing poverty. The country's relatively high income per capita masks large inequalities, and some social indicators are comparable to those of lower-income African countries."[36] In 2001, the World Bank noted that "pockets of extreme poverty are growing in urban areas" and that more than half the population in the three main cities lack access to electricity or running water.[37]

Productivity has also declined with the presence of "easy money." Regarding social services, a 1997 World Bank report noted that there "is a striking imbalance between the mediocre outcomes in health and education and the relatively high level of public spending for these sectors. The health sector presents a demographic and epidemiological profile typical of a poor country. Public health indicators are only average for Sub-Saharan Africa." Gabon spends more per pupil than most African countries, but this has not been reflected in outcomes. The World Bank notes, in the "absence of a sectoral strategy and efficient budget procedures, budget allocations are simply renewed each year without rigor and control."[38]

The Debt Trap: Gabon was the first African country to turn to heavy borrowing and then seek debt relief. It was forced to call for the IMF's assistance as early as 1977, when the government's spending on a lavish Organization of African Unity summit in Libreville nearly bankrupted the state, and it continued to borrow throughout the 1980s, producing a crippling debt burden. Lack of compliance with several economic reform plans has in turn led to the non-disbursement of most of the amounts approved by the IMF. In October 2000, the IMF approved an 18-month Standby Arrangement that includes civil service reform and passage by the Senate of an anti-corruption legislation (which was passed in December 2001). By mid-2001, the IMF once again "determined that the remaining program could not be completed because of fiscal underperformance and delays in structural reforms."[39] Currently, more than 50 percent of the 2003 budget is earmarked for debt service – a whopping statistic.[40] This has lead the government to express slightly more interest in reaching an agreement with the IMF, including strict oil company audits and a credible poverty reduction strategy, that could assist the country in rescheduling its onerous debt.

Thus Gabon, once the regional role model of a successful "oil emirate", is now likely to become the poster child for the harsh reality of life after an oil boom. While high oil prices give the president some room to mask the looming economic and financial crisis, economic problems are severe.[41] Gabon has never been able to broaden its productive base, and no strategy for a post-oil economy has been implemented. A highly urbanized population used to consumer luxuries, imported food and profligate government spending will now have to make some harsh and unpopular economic adjustments, including restraining government spending. As both those inside the patronage circle, as well as those left out from oil riches in the

past, understand that there will be no future benefits for either, Gabon's much vaunted "stability" will be put to the test.

3.2 The Oil/War/Poverty Syndrome

Two other countries in the Gulf of Guinea, Angola and Congo-Brazzaville, show the same problems as the older producers, but with an added twist: civil war. In Angola, oil companies have operated profitably for decades alongside a recently ended civil war between the government and UNITA rebel forces – fueled by the country's mineral wealth. In Congo-Brazzaville, the struggle over the control of oil was one of the causes of a civil war. These wars, exacerbated and in part initiated by the presence of petroleum, in turn have dramatically worsened the perverse development outcomes associated with oil dependence.

The growing experience of Sonangol, Angola's state oil company, and the need for increased revenues to fight wars, have contributed to an effort by these countries to drive harder bargains with multinational oil companies. Angola captures between 40 and 75 percent of revenues raised from its petroleum and Congo-Brazzaville earns between 35 and 40 percent.[42]

3.2a Angola: Flexing Its Regional Muscles as Petrodollars Perpetuate Poverty and Conflict

"That's not a leak. That's a dike that has burst."

— Carlos Leite, IMF Resident Representative in Angola commenting on reports of at least $1 billion in oil revenues missing in each of the last six years.[43]

Angola is perhaps the starkest example of oil wealth juxtaposed against humanitarian tragedy.

Angola's Strategic Significance: On the one hand, Angola's strategic significance as an oil industry hotspot and the continent's second larger producer is undeniable. With reserves of over seven billion barrels, reputed to be larger than those of Kuwait,[45] it has been the most successful non-OPEC country in the world for oil exploration: its reserves increased fourfold in the 1990s alone.[46] More than 40 percent of its oil is exported to the U.S. market, and production is projected to increase to 2 billion bpd by 2008.[47] ChevronTexaco, Angola's largest oil producer, is currently pumping more than 500,000 bpd, and Total, ExxonMobil and BP are also heavily invested. Like Nigeria, Angola's oil dependence is legendary — from 1995 to 2001, oil tax revenues comprised 70-90 percent of state revenues and over 60 percent of GDP. More than 97 percent of Angola's oil is drilled offshore, so there is little interaction between companies and local communities.[48]

"You must view Angola in the proper context; we are emerging from 26 years of war…we simply lack capacity."

— Josefina Perpétua Pitra Diakite, Ambassador of Angola to the United States[44]

Its Misery: On the other hand, Angola ranks close to the bottom in the UN Human Development Index, an abysmal 161 out of 173. Average life expectancy is 45 years (30 percent lower than in most developing countries), 68 percent of Angolans are below poverty line, and 66 percent are without access to safe water.

But what makes Angola stand out especially among oil-exporters is the more than 4.3 million people who have been displaced by its oil-stoked civil war and who need some form of humanitarian assistance. More than 2 million of these depend entirely on this

A bullet-scarred church in Kuito, Angola. The country's decades-long war was fuelled in part by oil and diamond revenues. Foreign oil companies, mostly offshore, continued to operate profitably. (Photo: Africaphotos.com)

humanitarian assistance. The United Nations, in its 2003 appeal for Angola, has asked for $384 million for humanitarian and development operations, warning that the situation in the country could worsen if funding is not secured.[49] The reality is that the Angolan government, awash in oil revenues, could probably pay for the UN appeal in about a month—except that very little is known about the true amount of Angola's revenue from oil, how it is spent, or even where it is.

Angola

Oil production (2002): 900,000 bpd

Population: 10.6 million

Human Development Index Ranking: 161 of 173 ranked

Top Foreign Companies: ChevronTexaco, TotalFinaElf, ExxonMobil

President: Jose Eduardo dos Santos

And Its Corruption: The end of war presents an enormous opportunity for channeling oil revenues into relief and development efforts. But Angola's record on corruption and transparency, according to many observers, makes this an uphill struggle. The country ranked the third worst out of 102 countries surveyed by Transparency International in 2002. The U.S. State Department has said:

The country's wealth continued to be concentrated in the hands of a small elite who often used government positions for massive personal enrichment, and corruption continued to be practiced at all levels . . . an estimated 50 percent of state expenditures were not reflected in the official budget.[50]

In February 2001, the Angolan government said that oil revenues would supply $3.18 billion to the annual government budget, or 90.5 percent of government revenues, but there is virtually no way to know whether figures of this sort represent the full sum paid to the government by the oil companies.[51] Estimates of the government's true amount of revenue from oil vary between $3 to $5 billion per year, and at least $4 billion in oil money is unaccounted for over the last five years according to press reports.[52] Human Rights Watch estimates the discrepancy for 2002 at around $1.2 billion.[53] The Angolan Minister of Finance, Julio Bessa, has denied corruption allegations and said a lack of resources had contributed to shortcomings in financial management. Despite government pronouncements by President Dos Santos and others to the contrary, a United Nations

Sonangol Flexes Its Muscles Across the Region

Sonangol has provided other oil-producing countries with a model of commercial and political success. With fairly scarce human resources and a similar domestic setting to that of other producers, it has developed into a credible commercial entity in the course of the last two decades. Following sustained problems with oil traders in the early 1980s, it established an operation in the U.K. that markets Angola's own share of oil, thus cutting out multinational middlemen. Sonangol consultants have been dispatched to São Tomé, Equatorial Guinea, Congo-Brazzaville and even Gabon, a mature but by no means commercially astute oil player, and are involved in downstream operations in the D.R.C. In São Tomé, President Menezes has said that his country would receive assistance in recent negotiations with Nigeria regarding shared oil reserves, pitting two regional oil powers against each other in the tiny island nation.[55] Sonangol has also played an important role in the ongoing restructuring of national oil sectors in these countries. Angola pursues this agenda for reasons of national prestige and commercial interest. Assistance may encourage favorable resolution of maritime boundary negotiations with neighbor states as well as enable access to downstream markets (which it will be able to tap once the planned Lobito refinery is completed.)

How Oil Revenue is under-reported in Angola

According to the *Economist Intelligence Unit*, the system of parallel financing in Angola involves the large-scale diversion of revenue from the oil sector, with the result that much state revenue never enters the Treasury. There are five main ways by which oil revenue may be hidden or under-reported in Angola.

- The revenue that Sonangol receives from taxes and joint ventures and other revenue streams are not reported in government accounts. Until the recent establishment of the revenue model under KPMG's oil diagnostic, it had never been possible to determine accurately the revenue accruing to the government.
- The price of oil is underestimated in the state budget and any revenue above this estimation is never declared.
- Government expenditure statements are not accurate.
- The share of Sonangol's tax and royalty payments that is actually paid to the government is transferred after a substantial time lag and in the local currency. Because of Angola's high rate of inflation, government revenue is highly devalued by the time it is received.
- Finally, the tangled web of financial arrangements created by oil-backed loans.

Despite similar practices across the region, the *Economist Intelligence Unit* states, "Angola is clearly in a class of its own in this area."

Source: Economist Intelligence Unit 2002

study found no evidence of increased social spending over the past three years.[54]

Sonangol, the national oil company, has been able to increase its technical and organizational capacity in the midst of the long-running war. Sonangol regulates the oil industry, and it also is involved in product distribution, industry support services, banks, businesses, the Luanda refinery and a host of non-commercial (educational, health, etc.) activities. But not only is this giant – termed a "state within a state" by the head of the World Bank's development research department[56] – expanding in yet more areas of the economy (e.g., mobile phones, airlines, insurance, shipping),[57] effectively crowding out the nascent private sector and giving it "enormous leverage" in what amount to a monopoly in some sectors of the local market,[58] it is also using its experience to increase Angola's role in the region. (See Box "Sonangol Flexes its Muscles Across the Region.") According to an IMF report, the company has never been independently audited, so there is no way to assess its performance.[59]

The opaqueness of Angola's oil revenue, the large sums involved, and the overwhelming humanitarian and anti-poverty needs of the country have placed Angola at the forefront of oil sector revenue management debates. Sonangol receives a share of all oil produced, and the government receives petrodollars through a petroleum income tax. Together, they earn on average about 35 percent of total oil revenues, with the rest accruing to the companies. But there is no adequate mechanism to track these revenues. The *Economist Intelligence Unit* report for Angola describes a situation where "state finances are fragmented between secret offshore accounts and shadowy oil funds, under a system of parallel state finances which bypasses the Treasury and the budget and involves the presidential office, Sonangol, and Banco Nacional de Angola."[60]

The Problem of Oil-Backed Loans: Descriptions of corruption have been exacerbated by reports that the government of Angola has taken out hundreds of millions of dollars worth of "oil-backed" loans in the last several years, against the wishes of the IMF.[61] To guarantee that loans are repaid, foreign banks have arranged some offshore accounts as trust systems into which oil receipts can be paid directly. In 1999, the IMF estimated that oil-backed debt was estimated at 33 percent of Angola's total external debt, now thought to be over $11 billion.[62] With much oil output pledged to pay back loans, new loans are regularly sought.

While the war with UNITA is over, conflict continues between the government and rebels in the oil-rich enclave of Cabinda, home to ChevronTexaco operations.[63] So severe has been the juxtaposition of war, misery and wealth that Angola has been the focus of efforts at reforming oil revenue management, as we shall see in the next section. Such efforts are welcome, but they are late. As Angola's citizens wake up from the nightmare of civil war – a war prolonged and paid for by petrodollars – they find that much of the country's future oil wealth is missing or pledged to others. Angola's future is mortgaged to the hilt.

3.2b Congo-Brazzaville: Oil, Poverty and War Revisted

LE DEFI
AFRICAIN
Séjour de tous les enjeux du chef de l'Etat aux USA
Bush veut le Pétrole,
Sassou a besoin d'argent,
le FMI indexe la SNPC

– "Bush Wants the Oil, Sassou Wants the Money, and the IMF audits the SNPC (state oil company". Headline in independent newspaper, Brazzaville, September 2002, prior to President Bush's meeting with President Sassou-Nguesso

Congo-Brazzaville

Oil production (2002): 283,000 bpd est.

Population: 2.9 million

Human Development Index: 136 of 173 ranked

Top Foreign Companies: TotalFinaElf, ENI/Agip, ChevronTexaco

President: Denis Sassou-Nguesso

Civil war – fought in part over petroleum rents and centered on control of the capital – has also devastated Congo-Brazzaville (Republic of Congo). Multiparty competition in 1993, largely over which political force would control petrodollar profits, turned violent, plunging the country into conflict and destroying large swaths of Brazzaville. Over 800,000 Congolese, nearly 30 percent of the population, fled their homes during renewed fighting in 1998-1999, and much of Congo's business and administrative infrastructure was destroyed. The French oil company Elf-Aquitaine reportedly backed the winning side by providing former (and now current) President Denis Sassou-Nguesso funding to purchase arms and militia support in exchange for future access to oil under his government.[64]

The war exacerbated the country's already terrible poverty. It effectively cut off the capital from much of the country, especially Pointe Noire, the "oil" capital. National Route 1 has turned into a largely impassable dirt track. Intrepid drivers wistfully refer to the forlorn patches of tarmac that remain as "little Switzerland" in reference to a former president's claim that oil wealth would turn the nation into such a place. Train travel is subject to continuing bandit attacks. Food and reconstruction materials are perilously expensive in Brazzaville because of high transport costs. In Pointe Noire, largely untouched by the wars, the drainage and sewage system is partly broken and does not cover large parts of the city. Uncollected garbage piles up on main streets.

Soldiers guard the train route between Brazzaville and Pointe Noire. Train travel is subject to bandit attacks. Civil war during the 1990s – fought largely over control of petroleum rents and control of the capital – devastated the country. (Photo: L. Charrier, Secours Catholique)

How can one understand that during the last three decades, the frequent discovery and start-up of oil wells, always important, has not been accompanied by any kind of visible sign of economic transformation or rectification of the social situation of our population? Our oil must be an instrument for the life and not the death of our people.

— Catholic Bishops of Congo-Brazzaville 1999[65]

A Growing Oil Presence: It was not meant to be like this. Congo-Brazzaville has significant oil wealth; oil exports grew from $820 million in 1994 to $2.5 billion in 2001. With oil production at 283,000 bpd (2000 estimates), it has become sub-Saharan Africa's third-largest oil producer. The last major round of licensing in Congo took place in 1996/1997, when four deepwater licenses were awarded. Oil production is currently experiencing a slight decline but is expected to rise again when the new Moho and Bilondo offshore fields are brought on stream, possibly in 2005. The fields will be managed by Congo and Angola in a joint development area (JDA) where profits would be evenly split. Industry sources say the fields have the potential for one billion barrels, making it one of the largest potential fields in the Gulf of Guinea. ChevronTexaco estimates that, along with partner Total, the fields could soak up between $4-5 billion in investment, $2-3 billion of that before first oil is seen.[72]

Oil revenues ought to provide a sufficient basis for jump-starting development for Congo's almost 3 million people, but the weakness of the government and its dependence on petrodollars does not provide the conditions for driving good bargains. Although all of Total's and ENI / Agip's licenses (except one) are now taxed under PSC terms, these companies' operations are still governed by the very favorable 1969 *Conventions*

Sudan's Oil: Fuel for a Fire

Our country is poor and in need of economic development. However, oil is not contributing to the development. We witness this displacement of our flocks from their homelands, driven away by helicopter gunships, Antonov bombers and government troops and militias in order for oil companies to work in relative security. Private companies, like any other organ in the society, are obliged to abide by and promote respect for the principles of the Universal Declaration of Human Rights.

– Catholic Bishops of Sudan, 2001[66]

The exploitation of long-known oil reserves in Sudan has only added to fuel to the fire of the country's long running civil war. Over 2 million have died and 4 million have been displaced during the last 20 years of the war between the government of Sudan and the main-rebel movement based in the south, the Sudanese Peoples Liberation Movement. During the 1990s, Africa's newest producer has, controversially, attracted some Western oil companies as well as Malaysian and Chinese concerns. (U.S. companies are barred from doing business in Sudan because of U.S. government sanctions.) Activists have especially targeted Talisman, a Canadian oil company, which, under pressure NGOs and chuches, recently sold its shares in the Greater Nile Petroleum Operating Company.[67] As the Economist noted in 2000, the "ugly truth is that Talisman is helping the government extract oil, and oil is paying for the war."[68]

Sudan earned over $300 million from oil in 2000 and greater sums still in 2001 and 2002. Government take in certain blocks is as high as 80 percent. Over the next 20 years, the PFC Energy consulting firm estimates that the Sudanese government may receive up to $30 billion in revenues.[69] Oil revenues have allowed the government of Sudan to at least double its military spending, according to its own admission.[70] A Canadian government assessment mission and a Canadian/British independent human rights research team have both reported that Sudanese military gunships have used oil company airstrips to launch attacks against rebels and civilians in or near oil concessions.[71] The message of the Sudanese churches to oil companies, the government and the international community has been unequivocal, clear and consistent – because oil revenues fuel the war, stop exploiting the oil until a just peace is negotiated.

The division of future oil revenues has been a key sticking point in peace negotiations between the government and rebels. Even if peace comes, though, the serious questions regarding the problems of managing an oil-based economy for the benefit of all will remain.

Congo's National Oil Company and Angola

The national oil company, Societé Nationale des Pétroles du Congo, SNPC, established in 1998, is both responsible for the marketing of two-thirds of the country's share of production (for which it has recently established a London operation, SNPC-U.K.) and a commercial entity in its own right. The SNPC director-general Bruno Itoua is also President Sassou-Nguesso's advisor on hydrocarbons. Similar to the Angolan state oil company, Sonangol, the SNPC plays a pivotal role in the government's strategy of contracting oil-backed loans. (Congolese-Angolan cooperation increased substantially after the Angolan-backed 1997 overthrow of Pascal Lissouba's government and its replacement by Angolan ally Denis Sassou-Nguesso.) Sonangol has played an important role in shaping the "new" Congolese oil sector, and was instrumental in the creation of the SNPC. Two of the company's main tasks, negotiating oil-backed loans for the government and selling crude in the international market, have benefited from Sonangol's vast experience.

d'Etablissements, which among other advantages allows the companies exemption from customs duties.[73] The 1994 reforms reduced the levels of government "take" to around 38 percent, down from 54 percent for pre-1995 fields. The government collects oil fiscal revenue in the form of a share of profit oil and royalties, and signature bonus payments when it issues exploration permits. Profit oil is then shared between the government and the companies in a set proportion.[74] The terms are still very favorable to oil companies, even for the relatively low expectations of the region.

But Other Sectors Collapse: Up until mid-1980s, when oil prices fell, and later the 1990s, when civil war broke out, Congo-Brazzaville was flush with cash. The formal economy was run largely by the state, and urban centers swelled with people in search of high-paying government jobs. But classic Dutch Disease accompanied the oil boom, as coffee, cocoa, and sugar atrophied and sent rural dwellers moving to the cities. GNP per-capita rose in 1985 to over $1,000 (double the average level for sub-Saharan Africa), then subsequently fell to $727 in 1999.

Few Fiscal or Administrative Controls: The civil war and petroleum dependence have also exacerbated fiscal disorder. Despite the long-standing importance of oil, the country has yet to formulate a comprehensive fiscal strategy that would address oil price shocks and the exhaustible nature of its oil resources. While requiring a savings fund would not be feasible in light of Congo-Brazzaville's post-war reconstruction needs, there is no stabilization fund to provide a buffer for rapidly fluctuating oil revenues. A central bank account that was to have been the destination for excess revenues in 2000/2001 (where they could serve as a source of fiscal stabilization once oil prices started to decline) was never made operational. Oil revenues and expenditures are included in the budget, but this in turn is not made public.

"The control of oil manna is at the center of several battles for power in our region. Oil revenues have served as funding for arms purchases and to support private militias in certain States, sometimes with the complicity of oil companies. The latter have elsewhere, in their own interests, brought in financial and logistical support to belligerent parties in the region."

— Association of Episcopal Conferences of Central Africa, July 2002.

Confusing and overlapping administrative mandates add to the chaos characterizing revenue management. For years it has not been clear which agencies were in charge of defining and applying government petroleum policy, who was in charge of controlling the activities of petroleum companies, and which units had the authority to negotiate contracts between the government and the companies. Until the mid-1990s, Hydro-Congo, now defunct, and the Hydrocarbons Ministry jointly (and somewhat confusingly) exercised regulatory functions. With new reforms in the works, the latter is supposed to be the exclusive holder of regulatory functions in the future.[75]

The Result is Huge Oil-Backed Debt: Political and economic instability means that Congo has little access to international capital markets, thus it has used its oil reserves as collateral for foreign commercial borrowing. In 1999, the total Congolese debt was approximately $5.4 billion, amounting to a huge total debt-to-GDP ratio of 245.3 percent, and much of this is oil-backed loans at high interest rates.[76] Congo has been contracting such loans for about two decades, and these now account for around half of the country's total debt, which is thus unusually hard to manage. The Congolese government pledged to the World Bank and IMF in 2001 that it would stop contracting such loans, but the practice continues, and some lenders now worry that the government will not have enough oil in the future to meet its loan obligations.[77]

With both finances and debt running out of control in a war torn country, bringing transparency and accountable management to the oil sector is a key issue in the government's dialogue with the World Bank and IMF. Recently, the government has

committed itself to a number of reforms, including an audit of the state oil company, SNPC; a complete operational review of the oil sector, covering all companies in the sector; the restoration of fiscal control; and refraining from contracting any new oil-collateralized debt. These reforms are largely a response to a changing international policy environment. According to reports, for example, the IMF told the government that Congo could not qualify for debt reduction under the Heavily Indebted Poor Countries (HIPC) scheme if it continued to contract oil backed loans.

Meanwhile, Poverty Grows: More than 70 percent of the population of this resource rich country lives on less than $1 per day and half do not have access to clean water. Despite the country's exceptional revenues, infant mortality is unusually high and life expectancy is

Democratic Republic of Congo: An Enclave Among Enclaves

While the Democratic Republic of Congo (D.R.C.), formerly Zaire, has gained notoriety for a civil war dominated by looting of mineral assets such as diamonds and coltan, crude oil has, in relatively small amounts, continued to be exported during the civil war. Chevron has produced oil in the Congo since 1959, enduring political coups, country name changes, the kleptocratic rule of Mobutu Sese Seko and the recent civil war.

Oil is produced onshore in the Bas Congo region in western D.R.C. and offshore in the narrow wedge of Congolese territorial waters tucked in between Congo-Brazzaville and Angola. The present production by Chevron, Unocal and Teikoku Oil of Japan (offshore) and Total (onshore) averages 24,000 bpd. Since 1976, the fields have produced more than 160 million barrels of oil. The state oil company Cohydro partners with foreign firms. The heavily militarized onshore production zone near the town of Moanda is an enclave among enclaves – difficult to get to from the capital, special permission is required of both Congolese citizens and expatriates to enter the zone. Some say that even government ministers cannot learn the full details of operations in the zone. Some local people in the zone complain of destruction of mangroves, soil infertility, plant diseases, and respiratory problems; tortoises and oysters are reportedly covered with oil. Others speak of a dump, circled by fencing, filled with rotting barrels covered by dirt. Given the militarization and isolation of this zone, all of this is difficult to verify.

Some small compensation is paid to villagers in the form of bags of rice, but beyond that, the economic impact is limited. "[Oil workers] import everything, buy nothing locally and sleep on their platform. They may buy a few beers, but that's the total of their economic impact. It's like a mirage," says one civil society group member from the area.

In a country that has been wracked by war and the extra-budgetary proclivities of the previous Mobutu regime, even less is known of the oil industry and oil revenues than in neighboring states. Oil revenues from the relatively small output have long served as one of the most reliable sources of government revenue. At the end of the Mobutu era, a government budget estimated that oil revenues would be $186 million in 1996.[79] The well-known reputation of Zaire for corruption and a lack of transparency did not stop the World Bank from supporting an evaluation of Zaire's oil reserves during the mid-1980s.[80] The Bank also encouraged Zaire to open up new fields in the east of the country in the Central Basin and the Tanganyika Graben.

Since the overthrow of Mobutu, the presidencies of Laurent Kabila and, since January 2001, Joseph Kabila, have overseen an increase in oil activity. ChevronTexaco announced in 2000 that it would boost spending by $75 million to drill new wells and expand production.[81] The government also signed an agreement in June 2002 with U.K.-based Heritage Oil for the rights to exploratory drilling in north-eastern Congo.[82] This new area of 7.7 million acres is located on the D.R.C. side of the East African Rift basin, contiguous with Block 3 in Uganda where Heritage sank an exploratory well in September 2002. One problem is that rebel movements opposed to the Kinshasa government currently control the territory, which includes the site of serious Hema-Lendu conflicts in 2003. The Kinshasa government hopes reforms will encourage oil more investment.[83] None of this, though, will help Congo with its fuel supply problems. Congo's only oil refinery is unable to refine heavy Congolese crude – light crude oil must be imported from Nigeria.

Poverty amidst wealth. A shack made of scrap metal stands in the shadow of a Total petroleum terminal near Djeno, Congo-Brazzaville. (Photo: Ian Gary, CRS)

around the relatively low sub-Saharan average.[78] As military expenditures increase, medical equipment and structures fall into disrepair and medicines are not always available due to budgetary shortfalls. There have been parallel consequences for education: the schools suffer from lack of maintenance, and many schools were damaged during the civil conflict. While the need for debt relief may, in the short term, partially commit the Congolese government to carrying out some reform measures that might benefit the poor, it remains to be seen whether pressure from the Catholic Bishops of Congo-Brazzaville, who have recently launched an effort to improve oil revenue management, and other allies in and outside of the Congo, is strong enough to hold the government to its word.

3.3 Can "New Oil" Beat the Odds?

Oil newcomers do not make good deals. Compared with the take of Nigeria, Angola, or even Gabon as it runs out of oil, Equatorial Guinea, Chad and São Tomé have not come anything close to the types of contracts that characterize the OPEC countries or the more experienced producers.

3.3a Equatorial Guinea: Avoiding Its Neighbors' Mistakes?

Like the Scriptures say when the Pharaoh of Egypt had a dream of lean cows and fat cows, we have passed the time of lean cows that represent hunger, and we are now in the time of fat cows which is prosperity.

– President Teodoro Obiang Nguema, addressing a presidential campaign rally, December 2002, in Malabo, Equatorial Guinea. Official results gave him 97.1 percent of the vote.[84]

Equatorial Guinea today typifies the head-spinning changes that accompany new oil wealth. Suddenly finding itself wooed by the French and by the U.S. government (which had once closed and now plans to reopen an embassy there in 2003),[85] it has moved from the archetype of an obscure "tropical backwater" to the focus of oil executives worldwide. Once relatively isolated, direct flights now connect Malabo, the capital, directly to Houston, Texas.[86] Foreign investment is pouring into this tiny country of approximately 500,000 people[87] – over $5 billion in the last five years from the U.S. alone, making it the fourth largest recipient of U.S. investment in Africa.

The oil boom has hit. But will this new oil producer be able to escape the poverty-ridden and war torn fate of its neighbors? Within the next several years, Equatorial Guinea will likely surpass Congo-Brazzaville to become the third largest African producer of oil with 300,000 to 400,000 bpd — a level of production to be sustained over the next 15 years. Leading this boom is ExxonMobil, the country's major operator, but the government has recently made important license awards to Total, Chevron-Texaco, and other companies. Another licensing round is scheduled for 2003, and companies are jockeying for position to snap up some of the last remaining acreage. Equatorial Guinea is seen as especially attractive because development and operating costs are unusually low,[88] and the company take is among the most attractive in the Gulf of Guinea.

While the government's share of Equatorial Guinea's oil wealth is exceptionally low, petrodollars still flood its coffers. Oil revenues have rapidly risen from modest sums in the mid-1990s to huge amounts today; the government take has grown from $3 million in 1993 to an estimated $212 million in 2000 and possibly a whopping $725 million in 2003.[89] Revenues may reach more than $1,000 annually per citizen – a huge sum in Africa.[90] Fueled by these petrodollars, the country's economic growth rate of 65 percent in 2001 was the highest in the world. A GDP of $800 in the mid-1990s has swelled to over $2,000 today.[91] In less than a decade, and in the classic boom scenario, oil has gone from being completely unknown to being the only game in town – the oil sector rose from 11 percent of GDP in 1993 to 86 percent in 2000.

An offshore oil facility in the waters off Equatorial Guinea. Once isolated and little known, major oil companies are now beating down the door for the rights to lucrative offshore fields. (Photo: Africaphotos.com)

Sudden Wealth Supports Authoritarian Rule: Theoretically, large oil revenues and a tiny population should set this former Spanish colony firmly on a path out of poverty. But this sudden wealth flows into an authoritarian and institutionally weak polity, which is similar, if not worse, to those of other oil-exporters. According to human rights organizations and international observers, the country has a history marked by extreme levels of repression, human rights violations, rigged elections and little transparency or accountability. It is, even in comparison to its neighbors, an environment where independent politicians, journalists or other groups find it especially difficult to speak out, much less make demands. Civil society, outside of the churches, is virtually non-existent. This authoritarian rule has not gone unnoticed. In June 2002, the European Parliament condemned Equatorial Guinea for arrests and unfair trials of opposition leaders and called on the government "to initiate a genuine process of democratization, call free elections and guarantee full respect for human rights." They also urged the U.N. to re-appoint a Special Rapporteur on Torture in Equatorial Guinea.[92]

Authoritarian rule affects the entire institutional structure regulating the oil industry. Oil sector policy is officially directed by the Ministry of Mining and Hydrocarbons, which has until recently conducted the negotiations for the granting of exploration licenses and which officially controls the taxation of oil companies. In practical terms, however, President Obiang is said to keep a tight leash on the oil sector and personally supervises all financial transactions related to it. The de facto senior figure in the Ministry is Secretary of State (i.e., Junior Minister) Gabriel Nguema Lima, one of the president's sons and the *interlocuteur privilégié* of the private sector.

Equatorial Guinea's inexperience shows in its history of oil negotiations. Taxation of the oil sector takes the form of PSCs between the government and international oil companies, but the government take is very low by international standards. Although a more liberal regulatory and profit-sharing arrangement for hydrocarbon exploration and production activities was introduced in 1998, resulting in a rise of domestic oil receipts from a dismal 13 percent to 25 percent of oil revenue, the government's share remains relatively poor (even by regional standards).[93] Entry costs in Equatorial Guinea typically involve a modest signature bonus of around $750,000 as opposed to the hundreds of millions paid in Angola.[94] Until recently the fiscal oversight of oil company payments to the state did not even take place.

Compounding these problems is the lack of administrative structures capable of managing oil. Until recently, there was no fully or partially owned national oil company. In early 2001 the government announced plans to establish a national oil company (now called

GEpetrole[95]), to allow Equatorial Guinea to take a greater upstream stake in the sector and to facilitate the more rapid transfer of skills. GEpetrole has compensated for its lack of human resources by hiring Western consultants.[96] Angolan experts have been pushing for the government to set up a marketing structure to sell Equatorial Guinea's share of production, in precisely the same terms as those of London-based affiliates of Angola's Sonangol or Congo-Brazzaville's SNPC. But, just as in these other state companies, critics fear that GEpetrole will become a "vehicle for opaque accounting and inertia of the sort that has hindered development in neighboring countries including Angola, Cameroon and Nigeria."[97]

Equatorial Guinea

Oil production (2002): 265,000 bpd est.

Population: 500,000 est.

Human Development Index: 111 of 173 ranked

Top Foreign Companies: ExxonMobil, Ocean, Marathon, Amerada Hess

President: Teodoro Obiang Nguema

The Result is Fiscal Mismanagement and Corruption: With power concentration and weak institutional structures, it is not surprising that the World Bank has identified the task of "how to effectively collect its due share of oil revenues and manage these resources" as the government's major challenge.[98] The U.S. State Department said in a 2003 human rights report that the use of "oil revenues lacked transparency . . . there is little evidence that the country's oil wealth is being devoted to the public good."[99] Until recently, oil revenue was greatly underestimated and underreported in the budget. Fiscal policy was marked by sizable overruns, and substantial extra-budgetary expenditures were financed through advances from oil companies against future oil revenue. This has meant that, "in the context of expanding government revenue, the budget has lost relevance as an instrument of control."[100]

So chaotic are public finances that the International Monetary Fund has stepped in, insisting that oil revenues be included in the budget. Since reserve accumulation is now included in the budget, the claim is that this will make information about projected revenue accumulation available to parliament (although this institution is subordinated to the presidency). An oil fund to hold fiscal surpluses, decreed by law but not yet in existence, is intended to be another mechanism for better revenue management. Surpluses since 2001 are currently held in a Treasury Account abroad or are added to the reserves of the regional central bank (BEAC). But regulations determining the control and uses of this special reserve fund, should it actually be formed, are as yet to be determined by the government. An investigation by the *Los Angeles Times* reported that over $300 million in oil earnings have been deposited in a private bank in Washington, D.C. and that the account is under the sole control of President Obiang.[101]

IFI capacity building efforts have provided some benefits for the government. An audit of foreign oil company operations and government oil revenue payments for the period 1996-99, undertaken for the first time in 2001 and subsequently made available to IMF staff, uncovered huge discrepancies between payments due to the government and actual payments made, with a major operator in Equatorial Guinea having to make a corrective payment of about $53 million. On the advice of the IMF, the Equato-Guinean Government has entered a medium-term contract with auditors.[102]

Fitting the Pattern? Efforts to avoid the mistakes of Equitorial Guinea's neighbors have fallen far short of what is needed. The results are not surprising. In a short time, oil dependence has taken over the economy, accounting for 61 percent of government

revenues[103] and 86 percent of GDP.[104] This has already fundamentally altered the shape of the economy in familiar Dutch Disease ways. Agriculture – primarily cocoa and coffee – has fallen as a percentage of GDP from almost 60 percent in 1991 to less than 9 percent in 2001.

These economic indicators are unmatched by any appreciable improvement in lives of most citizens of the country. A World Bank country brief states: "While oil discoveries and rapid expansion of oil exports have caused a striking improvement in economic indicators, there has been no impact on the country's dismal social indicators."[105] Life expectancy is 51 years, and a third of the country will not survive to age 40. While the oil money pours in, 57 percent of the population has no access to clean water and educational expenditures as a percentage of GNP have remained a steady (and abysmally low) 1.7 percent since 1985, before the current boom.

Equatorial Guinea is a prime case where international actors could seize the opportunity to create incentives for a "young" oil producer to manage its newfound wealth more equitably. Without significant changes – and very rapid ones – the current mix of oil dependence, neglect of agriculture, corruption, poor administration, and authoritarian rule are the recipe for a bleak future.

3.4 Special Regional Problems: Mortgaging the Future and the Potential for Conflict

The countries of the Gulf of Guinea, as we have seen, thus far share in the paradox of plenty. But their problems in overcoming poverty are even worse. Because the newer producers have been so unsuccessful in negotiating more equitable shares of their oil revenues from the companies, because needs are so great, and because levels of mismanagement and corruption by African governments are so high, the appetite for revenues keeps growing. This has meant that some countries have mortgaged their futures. It also means that the premium for finding and gaining sovereignty over new oil is especially high. Where borders are unclear and stakes are huge, this is a recipe for potential conflict between African countries.

3.4a Oil-backed Loans

As addiction to petrodollars grows, the governments of Angola and Congo-Brazzaville have engaged in the contraction of oil-backed loans. The government of Equatorial Guinea has also received advances from oil companies themselves. These loans provide money on the strength of future oil production; they have high interest rates and short maturities and take place through safe repayment structures so that, according to the *Financial Times*, "the banks' appetites for these oil-backed loans are voracious."[106]

But they are not good for the development of a country. Take the case of Angola for example. Oil-guaranteed debt was estimated in late 1999 to be about 43 percent of total external debt. While this may appear to be a feasible short-term strategy, at least in the Angolan case where output is likely to double in the next five years, [107] generally speaking oil-collateralized loans are very unfavorable to the borrower.[108] Equatorial Guinea borrowed money from oil companies against future oil in the early years of exploration, but the practice has reportedly been discontinued. The IMF has expressed concerns that Gabon may resort to oil-backed loans in the future if its creditworthiness declines further. Many governments would rather contract oil-backed loans than agree to reform efforts aimed at revenue transparency that would allow them access to IMF concessional loans.

3.4b Maritime Boundary Disputes and the Scramble for More Oil

The desire to capture more oil revenues has also sparked off a round of sometimes amicable and sometimes acrimonious discussions concerning never-defined or ill-defined

maritime borders across the region. Reminiscent of the Berlin Conference that drew up Africa's colonial boundaries in the 19th Century, Africa's offshore fields are being carved up through licensing rounds, joint development agreements, and international disputes at the World Court, at a rapid pace.[109] Joint development agreements exist between Senegal and Guinea Bissau; Angola and Congo-Brazzaville; Nigeria and Equatorial Guinea; and Nigeria and São Tomé. Negotiations involving states, and their oil company backers, are done in secret, and disputes over lucrative oil acreage are likely to lead to tensions if not outright conflict in the coming years.

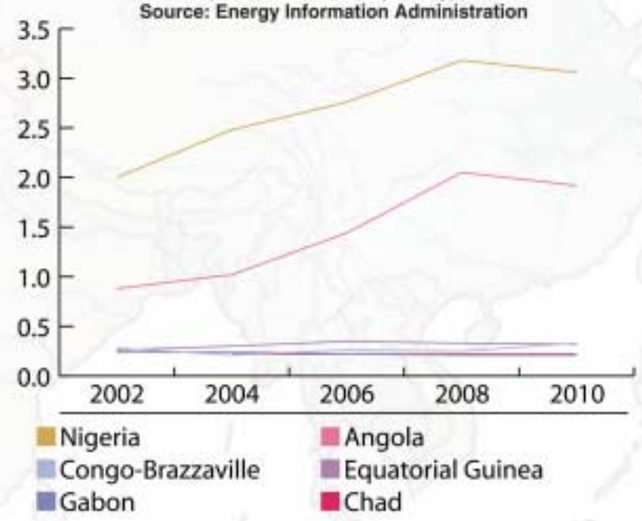
The following examples highlight the tensions involved in this scramble for state ownership of offshore oil fields.

- *São Tomé/Nigeria:* São Tomé's president, Fradique de Menezes, sacked his cabinet in October 2002 in a fall out over a Joint Development Zone (JDZ) agreement signed under the previous president. The agreement had highly favorable terms for Nigeria and a Nigerian owned company, Chrome Energy. A planned licensing round was delayed until late 2003 as São Tomé renegotiated the JDZ with Nigeria. ExxonMobil, ConocoPhillips and others have been eyeing the fields, with potential reserves of four billion barrels, and the dispute has caused tension between the two countries, with São Tomé looking to the U.S. for protection.[110]
- *Cameroon/Nigeria:* In late 2002, Cameroon won a long-running case at the World Court in the Hague concerning control over the potentially oil-rich Bakassi Peninsula. Both sides have told the U.N. and others that the verdict would be accepted, but tensions have continued between the two countries since the ruling.
- *Equatorial Guinea/Gabon* Unresolved is the ownership of acreage near the island of Annobon belonging to Equatorial Guinea. An accord has been reached with São Tomé, but none has been reached with Gabon, which shares waters east of the island. An agreement will also need to be reached with Angola to the south, although that process may be smoothed by a technical cooperation reached between the state oil companies of the two countries.[111]

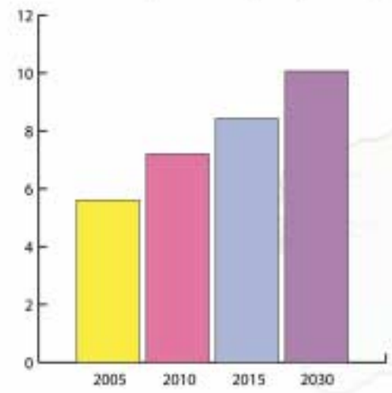
The mutually detrimental bickering over territorial waters (which spawned a veritable mini-industry of multilateral conferences and Western consultants) was to some extent laid to rest by the creation of the Gulf of Guinea Commission in November 1999. Founded with the explicit purpose of providing a forum for the resolution of oil-related disputes, the Commission's long-term goal is none other than to ensure that, in the words of Omar Bongo, president of Gabon, the exploitation of oil resources is "the object of constant cooperation at our level."[112] The short-term objective was partially achieved by the resolution of several of the disputes, including that between Nigeria and Equatorial Guinea.[113] In the case of Angola and Congo-Brazzaville, the 670 sq. km. "Structure K" lies between the two countries and will be jointly exploited by ExxonMobil and Total, whose good working relationships facilitated the inter-governmental dialogue. Nonetheless, as oil revenues prove insufficient to meet the needs of authoritarian governments and rapidly growing populations, the potential for conflict – both inside countries and between them – remains.

Oil: A New Scramble For Africa

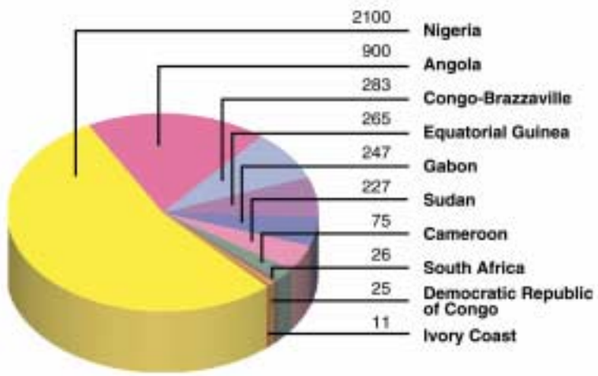
COUNTRY PRODUCTION TREND PROJECTIONS
(millions of barrels per day)
Source: Energy Information Administration



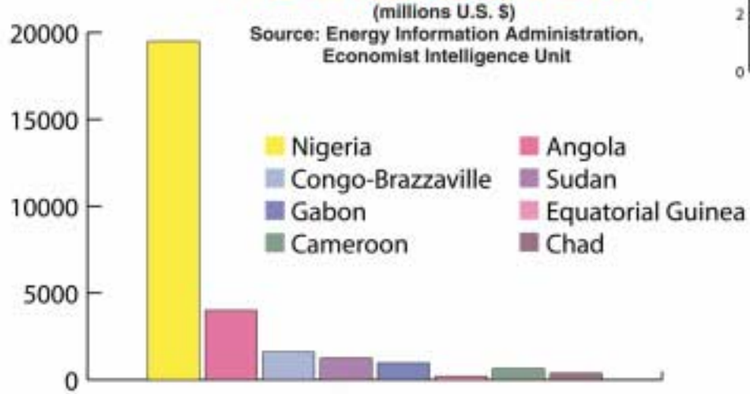
AFRICA'S OIL BOOM: PROJECTED OIL PRODUCTION
(millions of barrels per day)
Source: Energy Information Administration, Energy in Africa (1999)



OIL PRODUCION IN SUB SAHARAN AFRICA
(using 2002 data)(thousands of barrels per day)
Source: Energy Information Administration, Economist Intelligence Unit

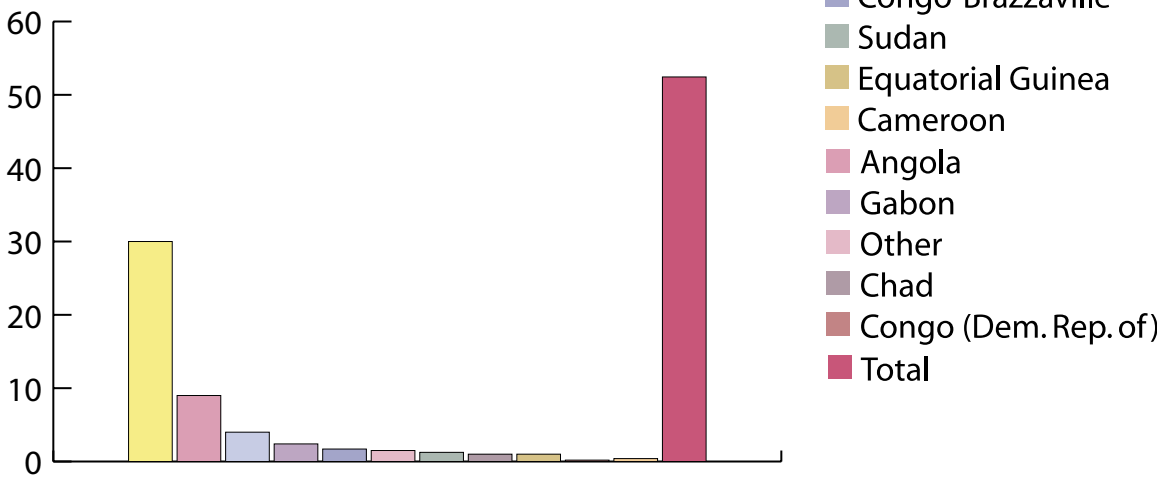


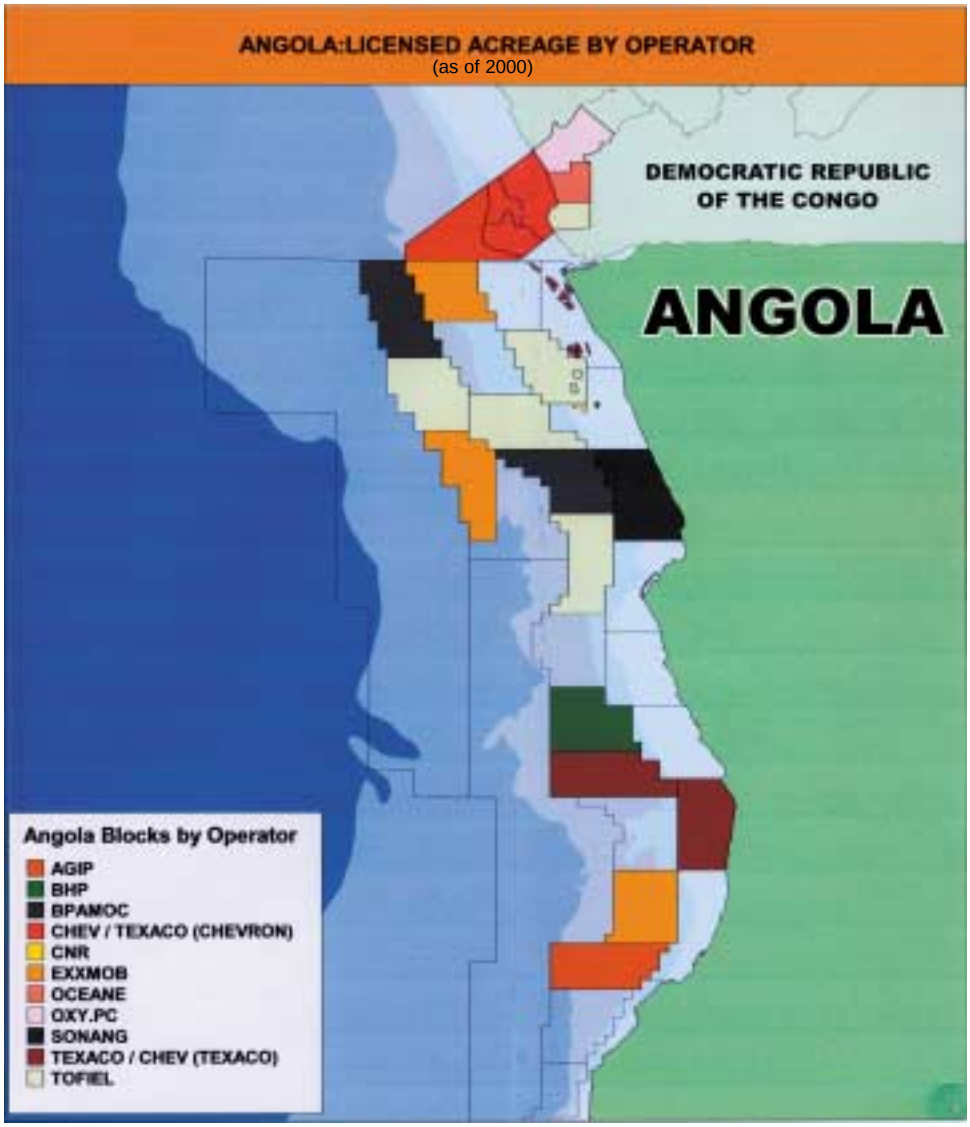
ESTIMATED ANNUAL OIL REVENUES FOR 2001
(millions U.S. $)
Source: Energy Information Administration, Economist Intelligence Unit



ESTIMATED AFRICAN CRUDE OIL RESERVES, 2001

Source: Energy Information Administration and other sources





4. Addressing Africa's Paradox of Plenty

"All peoples have the right to their country's natural resources and wealth without foreign domination."

— African Charter on Human and Peoples' Rights, Article No. 21

The dismal track record of Africa's oil producers has led to growing criticism from NGOs, development experts, and people living in oil-exporting areas, producing campaigns criticizing "blood oil" in Sudan, for example, and calling for companies and governments to "Publish What You Pay." The case of the Chad-Cameroon Pipeline highlights the unprecedented pressure on all major international players to improve their performance. There have been some efforts to change practices and standard operating procedures by the World Bank and the IMF, some oil companies, some governments in the developed world, and United Nations agencies. In most cases, these are incipient attempts that are welcome but often lack coherence, coordination and effectiveness. Even with the catalyst of an ever-wider group of civil society organizations and church groups becoming involved in natural resources and social justice, such efforts fall far short of the "big push" necessary to challenge the oil record.

But if the "resource curse" is to be broken, timid reforms are not enough. Addressing Africa's paradox of plenty requires vision and boldness from all major players. The incentive structures in the international environment helping to shape the decision-making of the region's governments and their domestic allies must be changed, and this will not be easy. Nor can this be accomplished by any single force acting alone. Altering incentive structures means that all actions by outside actors that encourage rent-seeking or other damaging development outcomes, whether accidental, intentional or resulting from standard operating procedures, need to be phased out. At the same time, new policies and actions explicitly rewarding transparency, accountability and fairness and penalizing their absence must be instituted. There is some movement in this direction, as we shall see in this section, but changes are still far too limited to alter the development trajectory of countries living through an oil boom.

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4.1 The Efforts of International Financial Institutions

The International Financial Institutions (IFIs) are critical "shapers" of the environment in which oil governments operate. In key moments, especially prior to the exploitation of oil and later when petrodollars become insufficient, they have important leverage in their relationship with African producers. Yet they have been slow to recognize the very poor development record of countries dependent on oil, gas and mining and even slower to alter practices that have contributed to these outcomes, in part, because they benefit from current arrangements. Thus, the IFIs have been a special focus of criticism by environmental, human rights, and pro-poor groups.

In response to the growing chorus of disapproval regarding their role in oil exporting countries, IFIs have begun to reassess their own performance. The World Bank Group has started to examine the huge discrepancy between its specific mandate to alleviate poverty and the actual outcomes in oil and mineral exporters. It has initiated the Extractive Industries Review and is making some attempt to address the problems of transparency and governance that so clearly affect the prospects for poverty reduction. The IMF has recently begun to promote oil revenue transparency as part of its overall fiscal transparency agenda. These efforts are still very preliminary and have as yet yielded few results, in part because the two institutions sometimes work at cross-purposes.

4.1a The World Bank Group

The World Bank's *World Development Report* for 2003 explicitly recognizes the paradox of plenty that plagues oil-exporters, including the causal role of weak political institutions in explaining the "resource curse" – an interpretation that economists have resisted for years.[1] Yet this recognition does not appear to have affected operational policy. World Bank lending and other assistance to extractive industries continues apace – regardless of the types of political regimes or state institutions that will utilize this lending. This means that the Bank is caught in a contradiction. Like all IFIs, it has sought to avoid issues of governance, pointing to its charter and claiming that a financial institution lends only technical development assistance. Its own analyses, though, demonstrate that good governance (including transparency, participation and state capacity) is critical for avoiding rent-seeking. At the same time, its actions, whatever the intent, often strengthen the most powerful forces engaging in these practices. The reluctance to address governance issues head on has caused problems in all areas of Bank involvement in Africa.

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Terms of Engagement

When dealing with countries with poor records on human rights, democracy and transparency, the World Bank, more often than not, chooses to engage rather than not to engage. This holds true with Africa's oil exporters. In Angola, for example, the Bank approved two projects worth $50 million designed to aid the country in its post-conflict transition in March 2003, despite the fact that the IMF and other organizations have been repeatedly frustrated in their attempts to improve oil revenue transparency there.[2] This is standard operating procedure, but it sends a signal that governments will be helped even if petrodollars are grossly mismanaged. An exception is Equatorial Guinea, where relations are strained but leverage is very limited due to recent oil windfalls.[3] In this case, the Bank's bottom line is "Oil money is transparent. The only way we come back is if you open up the oil sector accounts."[4] It is difficult to argue that the record of Equatorial Guinea is markedly worse than that of Angola, and the World Bank has yet to develop consistent "terms of engagement" with Africa's exporters.

Policy Advice and Reform

Once the World Bank has decided to engage in an oil country, it has traditionally focused on the policy environment related to oil exploitation, but this is narrowly defined. The rule of law is usually defined as investor rights, property rights and the sanctity of contract issues rather than more general rule of law and human rights issues. Thus, if an African government jails or sanctions an individual or group that questions oil policy, promotes transparency or fights corruption, this is not generally seen as a concern of the Bank.

Furthermore, the advice offered is generally favorable to the oil companies and international financial institutions, and it often works directly against transparency. The International Development Association (IDA), the "soft loan" arm of the World Bank dealing with the world's poorest countries, encourages the introduction or revision of petroleum codes and other aspects of investment regimes in order to create an improved investment climate for oil companies. Thus countries across Africa during the 1990s rewrote their petroleum and mining codes.[5] These revisions often provide especially good terms for foreign investors. (A conflict arises when World Bank funded government consultants also have multinational oil firms as clients.[6]) The resulting contracts in places such as Chad and Equatorial Guinea sometimes sign away a nation's wealth for a relative pittance.[7] New mining codes also downplay environmental and social impacts[8] and they often build in secrecy, making it difficult

for the public to know about the development of projects or the revenues generated from them.[8] For the International Financial Corporation of the World Bank, this is simply good business. It notes: "Over time, such reforms [of legal frameworks for oil and mining] have led to waves of exploration that are now giving rise to possible development projects in which IFC may play a role."[9]

International Financial Corporation – Business as Usual?

The International Finance Corporation is the central unit of the World Bank financing and promoting oil projects, with plans to become more involved in Africa. Its financing represents only a small percentage of total investment in the oil sector, but it claims to be a "path-breaker" in its transactions.[10] Despite the evidence produced by the Bank's own experts, it considers extractive industries to be "good performers, as is clear from financial returns on IFC's investments and their development impact" and claims that "properly managed, oil and gas operations can be expected to provide major benefits to the communities in which they take place."[11] Nonetheless, the IFC recognizes that oil development comes with problems and has lately lent rhetorical support to increased transparency, especially in the publication of net taxes, fees, royalties and other payments to host governments by extractive industry companies. But although its director, Peter Woicke, recently stated that "where governance is poor, there is little chance that sound policies will be implemented,"[12] the IFC has not conditioned its lending on governance and it continues to reward governments and corporations lacking in transparency and accountability, as in Gabon and other countries. Instead, arguing that it is solely commercial, the IFC assumes that the World Bank will take responsibility for solving oil-related problems that its facilitated investments may help to create.[13]

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Technical Assistance and Capacity Building

Programs to build government capacity have had, at best, mixed results, fuelling oil sector investments without increasing the abilities of governments to negotiate with oil companies or to manage increased revenues in a transparent manner. Because all states in the region are vastly handicapped – in institutional and human resource terms – in their dealings with the international petroleum sector, the need for substantial reform in contracts and revenue collection and management is undeniable. The World Bank, though, is prone to reduce complex political problems to a "capacity-building" agenda and therefore to see any streamlining of administration as inherently positive, thus its reforms often have the effect of strengthening already centralized and concentrated power arrangements without concomitant expansion of democratic space, improvement of human rights, or reduction of poverty.

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In Congo-Brazzaville, a World Bank-inspired oil convention clarified what had been a confusing relationship between the government and the national oil company, SNPC, but the reform coincided with President Sassou-Nguesso's strategy of denying institutional refuge to rivals by placing SNPC under the President's wing. This contradicted an IMF recommendation that SNPC be put under the Ministry of Finance. So tight is presidential control that the figures of the national oil company are said to be unknown even to the Ministry of Hydrocarbons or the Ministry of Finance, according to local press reports.[14] But while strengthening the position of a president elected through flawed elections, the World Bank also launched a $7 million project in 2002 on transparency and governance capacity building to assess what oil revenues exist and where they are directed – something only a few in power may know.[15] This will include audits of the state oil company, which is due in June 2003,[16] as well as foreign operators such as Total and ChevronTexaco, with the aim of increasing by 20 percent the revenues deposited into the Congolese central bank.[17] (Auditing foreign company payments to the Congolese government is seen as the "carrot" by the IFIs because it could lead to additional payments to the Congolese government, as opposed to the "stick" of auditing the SNPC.)[18] Disagreement between the World Bank and

Congolese government over the choice of consultants substantially delayed the process, but government representatives promise that "audit results of companies will be made public" and that these will help "clarify certain misconceptions regarding oil management."[19]

In Equatorial Guinea, the World Bank's own Operations Evaluation Department (OED) found in a 2002 review that performance in capacity-building initiatives to strengthen the petroleum sector by both the Bank and the government was "unsatisfactory."[20] Having noted approvingly at an earlier time that the risk of dealing with a weak government had been mitigated by "the establishment of the Department of Petroleum Affairs within the Presidency where both decision making power and the country's limited expertise in the sector are concentrated," the Bank later began to realize that this undemocratic context was precisely part of the problem.[21] Although a covenant in the credit agreement pledged that the government would start to enter oil revenues into the annual budget, this was never done. In reaction, according to its own review, the "Bank failed to react strongly to overdue audits, inadequate project accounting, and failure of government to comply with covenant requiring transparency in budgeting of oil revenues."[22] The project also failed to increase the government's take – one of its goals.

Reevaluating the Bank's Role

Pressure has grown considerably on the World Bank to rethink its support for extractive industries in light of the development record. After international advocacy groups and scholars demonstrated that the extractive industries contributed to conflict, human rights abuses, environmental degradation and did little to reduce poverty, World Bank President James Wolfensohn agreed to review the institution's activities in oil, gas and mining through an Extractive Industries Review (EIR),[23] launched in September 2001 and scheduled to conclude in December 2003. Funded by the Bank, it has a nominally independent staff and secretariat headed by Emil Salim, former environment minister of Indonesia and chair of the World Summit on Sustainable Development. The EIR is conducting research, site visits to projects like the Chad-Cameroon pipeline, and regional consultations with civil society, industry and government stakeholders.

Civil society organizations are calling for widespread reform. At the Africa-wide consultation for the EIR in January 2003, African groups issued a joint declaration calling for the suspension of World Bank financing and support for oil and mining until, among other conditions, revenues from projects are disclosed to citizens and the World Bank agrees not to make loans for projects where there is "no acceptable mechanism to tackle corrupt management of revenue."[24] While it is conceivable that the review could accept these conditions or even lead to the withdrawal of the World Bank Group from extractive industries, such bold moves are not likely. In comparison to another major review of Bank activity, the World Commission on Dams, the EIR does not have the same clout; it operates on a much smaller scale, with less than ten staff, a limited budget, limited research and a compressed time frame. Concerns have already been expressed about the process and especially its independence from the World Bank. Even if only modest reforms are proposed, it is unclear if the Bank will take them on board.[25]

4.1b The International Monetary Fund

The IMF, with a mandate significantly different from that of the World Bank, has been engaged in two key oil-related issues: the promotion of greater transparency and the establishment of special funds to manage petroleum revenues. Both occur through advice rendered in Staff Monitored Programs (SMPs), which the Fund describes as

"an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies," and other dialogues with the country. SMPs do not use IMF financial resources and are a precursor, if successfully completed, to gaining access to concessional rate IMF loans, including Poverty Reduction Growth Facility loans.[26] Other surveillance discussions called Article IV consultations usually take place once a year.[27]

Seeking Transparency—for Itself

The IMF seeks the disclosure, at least to its own staff, of aggregate government payments (which are still mostly unavailable) as well as the terms of oil contracts and the gains from past oil exports. In some cases, the Fund tries to use leverage over debt relief funds or debt rescheduling to encourage countries to refrain from oil-backed loans and other actions. With the World Bank, it has also supported oil-sector audits. Finally, it has published a "Code of Good Practices in Fiscal Transparency," which sets out standards for the collection and dissemination of fiscal data and information, and a "Code of Good Practices on Transparency in Monetary and Financial Policies," which identifies desirable data transparency practices for central banks and other financial agencies.[28] But while the Fund explicitly disqualifies confidentiality clauses as an excuse for a government's secrecy, this only applies to a government's dealings with the Fund, and these communications are in confidence. Thus, transparency comes across as a plea for operational access to the books rather than a principled defense of disclosure so that Africans, monitoring groups and others are also able to benefit from more information.

For the IMF, transparency comes across as a plea for operational access to the books rather than a principled defense of disclosure so that Africans, monitoring groups and others are also able to benefit from more information.

These efforts have had mixed results, as the examples of Angola, Equatorial Guinea and Cameroon illustrate.

In Angola, the IMF ran two staff-monitored programs from April 2000 to June 2001, its first ever in the country. These addressed the accounting of government revenues and expenses, auditing Sonanagol and the Central Bank, and limiting the use of oil-backed loans. Its "diagnostic" of the Angolan oil sector, though not a full audit, has not yet been made public due to objections from the government.[29] Unlike the recent resumption of aid by the World Bank, the staff-monitored programs have been suspended due to lack of progress on key transparency reforms. Press reports, based on a leaked copy of the IMF Article IV Staff Report on Angola (March 18, 2002), described the scale of financial diversion in the country. As reported by the *New York Times*, the IMF staff report said:

> *Reported revenues from Sonangol cannot be easily reconciled with its share of oil receipts. Further complicating the monitoring of oil revenues from Sonangol, the company assumed some time ago complete control of foreign currency receipts from the oil sector, and stopped channeling them through the central bank as mandated by the law. . . the lack of transparency regarding oil sector flows and external debt operations undermine the budgetary process and public accountability.*[30]

In Equatorial Guinea, relations with the IMF resumed in 2000, although no full-fledged program is in place. The IMF has said that the "authorities have yet to demonstrate their capacity to implement effectively the needed measures and thereby lay the foundation for establishing a strong record of policy performance. While Article IV consultations have taken place, the IMF noted fundamental obstacles to deeper engagement:

> *The management of oil contracts lacks transparency, and there is no fiscal control over the payments due from, and paid by the oil companies. Government oil revenue is paid into treasury accounts held abroad. Moreover, large extrabudgetary expenditures have been financed since 1996 through advances on oil revenue, and the oil companies have been withholding government oil revenue at source to repay these advances . . . Directors were particularly concerned by the serious lack of fiscal*

> *discipline and transparency. They stressed the need to introduce greater transparency in oil operations in the period ahead and to improve public accounting procedures, including control over expenditure commitment and management.*[31]

The SMPs in Angola have been suspended because of lack of progress on key transparency reforms.[32] Against the wishes of the IMF, the Angolan government has continued to borrow against future oil revenue. The *Economist* stated succinctly at the time of the SMP's demise that the Angolan government's wish seems to have been that of "keeping the IMF talking for as long as possible".[33]

In Cameroon, a declining oil producer in need of revenues, the IMF has had somewhat more success. Currently involved in an IMF-supported program under the Poverty Reduction and Growth Facility (PRGF), Cameroon is obliged to provide monthly data on oil exports, prices, and government revenue to the IMF, a demand to which it has complied. SNH, the Cameroonian national oil company, was audited by Gaffney & Cline Associates in 2000, as part of a broad revamping of the national oil sector.

Special Oil Funds

The IMF has participated in two key debates for oil exporters – the advisability of "Future Generation Funds" (FGFs) and "stabilization funds." Both have the advantage of "sterilizing" petro-dollars by holding them outside the economy for some period of time and, in the latter case, introducing them on a regular basis to protect against oil price fluctuations.

Future Generation Funds are funds used to invest a portion of present oil revenue to prepare for a post oil future. As Norway has learned, they are also potentially useful in preventing "Dutch disease" and the overheating of an economy during oil windfall periods. The issue of Future Generation Funds has proven to be remarkably divisive within the IFIs. The view that such funds can scarcely be contemplated in a context of dire poverty confronts across-the-board enthusiasts who cite examples from Norway and the State of Alaska – two examples that hardly share the conditions of Africa.[34] IMF advice has explicitly sidelined future generation funds in the case of Congo-Brazzaville, citing the need for postwar reconstruction. Chad has a provision for the establishment of a FGF as part of its revenue management scheme, and one is recommended for Equatorial Guinea on the basis of the country's evident lack of absorptive capacity. Future Generation Funds require good overall economic management, and there are no known cases of a well-administered FGF owned by a badly-run state, thus they seem unlikely to accomplish their intended purpose.[35]

Stablization Funds are used to manage external risks in price volatility – surplus earnings are stowed away when oil prices are high and drawn upon when oil prices are low. There is broad agreement within the IFIs of the need for stabilization funds to smooth out oil price shocks and enable efficient budgeting and planning for poverty reduction, but no African oil producer has an effective stabilization fund. Such funds are technically difficult to manage and come under strong political pressure to be used for immediate purposes. Oil stabilization funds can only be useful if they are extremely large owing to marked price fluctuations They seem to work best, one World Bank observer notes, where oil does not dominate the local economy and where a long tradition of good governance exists, as in Norway."[36]

4.1c The Role of the IFIs

International Financial Institutions want to remain involved in Africa and, for the most part, African governments welcome some form of institutional engagement with them. Without the IFIs, governments incur the risk of being blacklisted by donors and creditors; with them, some form of debt relief and aid is generally possible when coupled with modest reforms.

But regardless of their aims, by refusing to fully factor in governance, transparency, accountability and human rights, IFIs have sometimes helped to enable corrupt governments to continue their practices and helped to perpetuate rent-seeking. However well-intentioned the Bank's governance and transparency project is in, say, Congo-Brazzaville, it is difficult to imagine a positive outcome if human rights in the country are not observed, democratic elections are flawed, press freedom is restricted and the government lacks the will to implement reforms. How else will the Congolese know whether their government has driven a strong bargain with foreign oil companies, how much oil money is available, and what their government is doing with it?

Africa's oil producers do not necessarily need less government, but a merit-based civil service that is rewarded for capable management of oil wealth—a necessity that is not a requirement of IFI conditionality.

Furthermore, by insisting on a "one model fits all" formula and failing to confront the limitations of their own development models, international financial institutions can exacerbate the problems of oil-exporting countries. Structural adjustment, for example, emphasizes diminishing the size of bureaucracies and the resources allocated to the civil service as well as the privatization of key industries like oil. But Africa's oil producers do not necessarily need less government, but a merit-based civil service that is rewarded for capable management of oil wealth — a necessity that is not a requirement of conditionality. And as Russia's experience shows in the oil sector, privatization in the context of power concentration and corruption merely moves rent-seeking into a different arena of the public-private nexus.

Finally, the experience of the World Bank and IMF with Africa's oil exporters suggests a need for greater attention to coordination and policy coherence – both within the World Bank Group and between the World Bank and IMF – as well as more attention to timing and sequence in using institutional leverage.

Timing matters because the influence of international financial institutions is greatest prior to oil revenues coming on stream, declines in countries experiencing oil booms, and then rises again only after debt has become massive and/or oil is running out. It is no mere accident that the two regional "good students," from the point of view of the IFIs, are a particularly impoverished state that agreed to an uncommon level of external oversight before oil revenues have begun to flow (Chad) and a heavily-indebted and slowly declining producer past its petroleum glory days (Cameroon). If a government has resources the size of Angola's, it does not desperately need the International Monetary Fund (indeed, Angola did not first engage the IMF until the late 1990s oil price drop). From the short-term horizon of an oil government, the lending conditions of oil-backed loans – even with their very high interest rates – are infinitely preferable to a degree of external prodding that might rock the boat, thus genuine reform can only happen early – or it is generally too late.

Timing matters because the influence of international financial institutions is greatest prior to oil revenues coming on stream, declines in countries experiencing oil booms, and then rises again only after debt has become massive and/or oil is running out.

Sequence matters because pipelines and offshore platforms can be built much faster than capable states. This means that IFIs should raise the governance bar very high – only engaging to facilitate the oil sector *after* strong evidence exists that a government, with its oil company partners, is implementing transparency measures, eschewing human rights abuses, and creating the conditions to be held accountable for the use of oil revenues.[37] In other words, make the make the most of key (but very short) windows for reform. This lesson applies for engagement in Chad where, as we will see in Section Five, the World Bank required the adoption of a revenue management law, and it also holds for São Tomé and Principe, Niger, and Mauritania, a potential oil producer where the World Bank is starting another technical assistance program.[38]

Niger Delta Development Commission

In 2001, the Nigerian federal government launched the Niger Delta Development Commission.[39] This was in response both to a history of neglect, unrest, human rights abuses and under-development in the Delta, as well as the inability of state and local governments to effectively spend allocations received from the federal government. About 13 million people live in the Delta, which, in contrast to the revenues produced there, has the highest level of poverty according to government statistics.

Many people in the Delta believe that corruption and mismanagement will most likely mar the NDDC, as have many previous attempts, such as the Oil Mineral Producing Areas Development Commission. Historically, local communities have had little control over the use of revenue allocations sent back to the producing region, and such funds were greatly diminished after having passed through government channels, producing little development impact. According to the World Bank, oil companies have sometimes exacerbated problems through their activities:

There has been a tendency in the past for those with significant interests in the region to use their resources to try to buy the cooperation of leaders at all levels of government. It was deemed easier to pay leaders to keep their constituents under control, than to attempt to work with communities to address problems resulting from oil-related activities and to share some of the benefits of the petroleum resources.

The NDDC is an attempt to break from past practices and results, and is supported by the World Bank and United Nations Development Program (UNDP). The objective of the NDDC is to "conceive, plan and implement . . . projects and programmes for the sustainable development of the Niger Delta area" and to implement infrastructural development (roads, schools, clinics, etc.) The NDDC is funded by federal government and oil company money: This includes 15 percent of the 13 percent oil revenue allocation from the federal government to the nine Delta states and three percent of the company budget of oil and gas companies operating in the Delta. NDDC's budget request for 2002 was 40 billion Naira (about $307 milllion) while the Nigerian parliament had only allocated $130 million by early 2002. The NDDC has developed a formula whereby 60 percent of funds would be spent in proportion to the amount of oil produced in each state. The NDDC has complained that both the federal government and the oil companies have not paid the full amounts due.

The governing board of the commission is appointed by the president of Nigeria, with representatives from oil-producing state governments, representatives from other states, representatives from federal government agencies, and oil company representatives. Members of civil society from the oil-producing areas are notably absent. The NDDC launched operations in early 2001 and has so far announced over 600 projects in the nine Delta states. The NDDC, with help from the World Bank Institute and the German group GTZ is producing a "Master Plan for the Development of the Niger Delta" through a consultation process involving various stakeholders.

The World Bank is preparing a $75 million IDA loan to build the capacity and the budget management skills of the NDDC as attacks against oil installations by local inhabitants in the Delta – angered over a lack of visible benefits in their communities – have been rising. There are hopes that World Bank support to the NDDC will increase oil company payments. It is too early to tell whether the NDDC will be a true break from the sorry track record of past efforts in the Delta.

4.2 Corporate Responses to the "Paradox of Plenty"

Today oil companies are increasingly under pressure. As communities in the area demand greater benefits and less harm to their environment, lobbying and consumer campaigns target particular companies for activities ranging from oil spills to alleged involvement in human rights abuses, and shareholders protest involvement with

"unsavory" regimes, companies are increasingly worried about "reputational risk." The fear of consumer boycotts, threats of litigation, and negative publicity from lawsuits are also worrisome for supermajor companies, some of whom have faced difficult public pressure around the globe. The response of the companies – ranging from corporate philanthropy to corporate codes of conduct and other voluntary actions – are, in part, designed to lessen pressure for mandatory reform and regulation while maintaining cordial relationships with the host governments with whom they work.

The challenges facing the oil industry were captured in a report prepared by the International Association of Oil & Gas Producers before the recent World Summit on Sustainable Development in South Africa.[40] Claiming that the industry had managed to reduce "operational impact" while increasing philanthropic activities, it argued that those who have received clean water and benefited from inoculations and HIV/AIDS programs are "best qualified to determine the positive impact of oil and gas development on their lives." Citing the enormous revenues generated for local governments, it paid little attention to transparency, accountability, the correct use of resources or broadening the benefits of petroleum, which it called "unfinished business." But even this oil industry publication admitted:

> *We are sometimes perceived as arrogant, top-down, non-participative polluters, more interested in providing cheap energy to developed nations than fostering long-term prosperity elsewhere. Because the scale of our operations can dwarf entire national economies, we have been criticized for failing to use that clout as an instrument for positive change.*[41]

The companies are adopting various strategies to change this image and their practices.

Philanthropy

Charged with extracting too much from poor nations and damaging communities where oil is exploited, donations to local good works in host countries are one primary vehicle for companies to attempt to safeguard their reputations. These efforts, not surprisingly, are well publicized by oil companies. ChevronTexaco, for example, sub-Saharan Africa's largest U.S. investor, says, "The company's investments are not just in developing energy resources and creating jobs and revenues. The company also has awarded thousands of scholarships to students in colleges, universities and technical schools; built schools, clinics and housing; provided job training; funded small businesses and supported the fight against AIDS."[42]

Sometimes, oil company funded social development projects are well designed, useful and address an expressed need of the community. Other times, oil company projects can sometimes amount to no more than a village solar-powered streetlight that has long stopped working, a sewing machine in a room or an empty classroom shell. Where activists or the media shine a spotlight on the actions of corporations, for example in the Niger Delta, sums donated can be quite large. In 2001, Shell spent $52 million and ExxonMobil $12 million on community development projects in the Niger Delta. But where there is little media attention and activities are mostly offshore, (e.g., Congo-Brazzaville or Equatorial Guinea), there is also less philanthropy.

Philanthropy promotes good relations with the host government. Governments may compel companies to contribute to "social development funds" as part of their contractual obligations. In Angola, companies contribute to the presidential foundation – the Eduardo dos Santos Foundation. In Angola, part of the signing bonus paid by companies to work in a country may include a "social bonus fund," ostensibly to be used for social investment.[43] According to one knowledgeable observer, the reality is often quite different. "Basically, the funds would unsurprisingly be lost to waste, corruption or just bad planning. It is not unheard of in Angola for two adjacent clinics to be built where there still isn't a school, or

of impressive inauguration ceremonies with lots of media attention when the project opens, with operations of the same ceasing shortly thereafter."[44] Locally, projects can be manipulated and can sometimes amount to no more than cash payout to a local leader to win silence or to quell agitated youth activists.[45] Over the long run, these actions can exacerbate community tensions or other cleavages because companies are not well suited to be development agencies.[46]

While some of these efforts may produce laudable outcomes, corporate philanthropy is not a replacement for a fair share of petrodollars for oil states nor for the failure of the local and national governments – especially those awash in undisclosed oil revenues – to respond to the needs of their people. More useful would be efforts to bring transparency to oil revenues by making contracts public or initiatives to promote independent monitoring of oil revenues.

For these reasons, the companies now seek NGOs to serve as sub-contractors for their projects or develop alliances with official donor agencies, such as the United Nations Development Program (UNDP) or the U.S. Agency for International Development (USAID).[47] Through its Division of Business Partnerships, the UNDP has sought business partnerships in the Gulf of Guinea, contending that "working with a worldwide, trusted and credible organization like UNDP, will give corporate partners an opportunity to partner around and develop local projects throughout the developing world with a high level of confidence and transparency."[48] In addition, the UNDP says it can offer its "globally recognized name, along with its impartial status" to convene different development actors.[49] The UNDP has signed agreements with ChevronTexaco in Angola and Nigeria, where company/community relations have been especially fraught with tension.[50] The UNDP resident representative said that UNDP would help ChevronTexaco build peace, while ChevronTexaco says the partnership with UNDP "will ensure that our money is spent more efficiently and that we bring development to our communities faster."[51]

While some of these efforts may produce laudable outcomes, corporate philanthropy is not a replacement for a fair share of petrodollars for oil states nor for the failure of the local and national governments – especially those awash in undisclosed oil revenues – to respond to the needs of their people. More useful would be efforts to bring transparency to oil revenues by making contracts public or initiatives to promote independent monitoring of oil revenues. For example, the Norwegian petroleum company, Statoil, has funded human rights training for the judiciary in Venezuela and election monitoring and the development of election law in Kazakhstan – programs that help to create long-term capacity but also mechanisms for accountability.

Codes of Conduct

Almost all oil companies operating in Africa now have some sort of "corporate code of conduct," amounting to a pledge to abide by certain principles regarding relations with local communities, the environment, security and protection of facilities, and sometimes labor conditions and human rights. Growing out of the traumatic relationship of Shell with the Niger Delta, company corporate responsibility positions are the product of internal corporate culture, pressure for change from stockholders, and the consequences of past policies. While the codes are often well publicized, they vary greatly from company to company. Most voluntary codes of conduct rely on self-reporting by the company and lack any kind of compliance assessment by third-parties. Shell's General Business Principles (SGBP), for example, specifically prohibits payment of bribes and requires country managers to report on the implementation of the SGBP.[52]

"Some companies operating offshore think the only community they have to deal with are the fish."

— Senior oil company worker based in Nigeria

Despite company codes, oil spills continue in the Niger Delta and the bulk of the benefits continue to accrue to the local and national elite.[53] Changing internal corporate culture is a long-term process which needs committed leadership throughout the company.

Beyond Voluntary Approaches

There is only so far that even the most well meaning companies can go in a competitive environment which involves dealings with sometimes corrupt and unaccountable local governments. If acting to change international incentives means that they risk losing concessions, competitive advantage or the withdrawal of security, they will not do so. Especially where transparency is concerned, this argues for mandatory approaches to revenue disclosure by companies – a position informed by the cautionary experience of BP in Angola.

BP took the lead in transparency initiatives in 2001 by saying that it would publish payments to the Angolan government for oil concessions. This included net production, aggregate payments, total taxes and levies paid and a recent signature bonus to Angola. This stance was aimed at creating a new benchmark of public and shareholder expectations towards the private sector. But when BP told regulators that it had paid the Angolan government a $111 million signature bonus for 26.7 percent operating share in Block 31, there was an angry response.[54] Sonangol, the state oil company, cited a confidentiality clause and local legislation prohibiting the disclosure of such information. At the same time other companies were keen to stress that they were reliable business partners and failed to support the BP initiative. While BP remains an operator in Angola and has continued to express their interest in pursuing ways to increase transparency in their operations in Angola and elsewhere, it risked its good relationship with the host government in a competitive environment.

Because companies have legitimate business concerns related to maintaining the "sanctity of contracts," revealing sensitive information and maintaining good relations with host governments, regulatory approaches could level the playing field for all of them.

Mandatory disclosure of oil company payments to governments would eliminate the problems that BP faced in taking leadership on transparency. Because companies have legitimate business concerns related to maintaining the "sanctity of contracts", revealing sensitive information and maintaining good relations with host governments, regulatory approaches could significantly level the playing field.[55] Companies would not fear reprisals if all companies were forced to adopt the same measures, and publishing what companies pay, as the Publish What You Pay campaign demands **(see page 6)**, would involve little additional costs since such figures are already collected for internal purposes. Finally, this would protect company reputations far more than codes of conduct and philanthropy, encouraging campaigners and local citizens to turn their attention to how governments are managing the disclosed payments.

Increased transparency, accountability and stability in local operating environments is in the long-term interest of companies, even those operating strictly offshore. In the long run, well-functioning and transparent revenue-sharing agreements can improve the security of operations because residents see concrete improvements in their lives – and this will make for a less conflictual and costly business environment.

4.3 U.S. and Northern Government Efforts

Home governments – most notably the U.S., U.K., and France – can exert considerable leverage over the behavior of both African governments and the oil companies investing in those countries. While it is clear that commercial and security interests are at the fore, the priority given to the observance of human rights and the promotion of transparency in oil-producing countries is less evident. Positive signals are juxtaposed with less positive actions. While some initiatives promoting transparency and human rights have been supported, governments court the presidents of African oil producers through high-level meetings, regardless of their record in managing oil revenues or respecting human rights. (The presidents of Angola and Cameroon – both U.N. Security Council members during the debate on the Iraq war – had White House visits with President Bush). While such visits do not make the headlines in the U.S., back home they are trumpeted as proof that the head of state is steering the country in the right direction. While messages on

improving track records on corruption, transparency or human rights may be delivered in private, the public message is one of enhanced legitimacy and validation of the status quo. Nonetheless, some recent efforts are worth noting.

Promoting Transparency

Last year Prime Minister Tony Blair announced the Extractive Industries Transparency Initiative (EITI), led by the U.K.'s official development agency, the Department for International Development (DFID). The aim of the initiative is to promote transparency of payments to host country governments – and to promote transparency within those governments – and to create a broad and inclusive space for dialogue among governments, companies and civil society. The initiative has developed a list of principles and has pledged to consider both voluntary and mandatory approaches for revenue disclosure by companies and governments. Approaches have been evaluated for confidentiality (preserving proprietary information), universal applicability, comprehensiveness, comparability and feasibility. The EITI convened a large launch meeting in February 2003 attended by Northern and host governments, most of the major global oil and mining companies and Northern and developed country civil society representatives to consider these approaches.

As the Extractive Industries Transparency Initiative (EITI) is increasingly watered down, the ability of the EITI to deliver on the promise of increased transparency in African countries, where it is of especially great concern, remains seriously in doubt.

Negotiations have drifted, to the dismay of many civil society groups, towards "pilot" voluntary approaches that are promoted by the U.S. government, U.S. companies and others. According to Janice Bay of the U.S. State Department: "We support an approach based on compacts between willing 'pilot project' countries and the companies and civil society operating in those countries . . . We think successful 'pilot projects' in countries committed to fighting corruption could evolve into a model for others."[60] Many companies and governments are also pushing for aggregation of company revenue payment information in host countries rather than the disclosure by individual companies that is required in their own countries. As the initiative is increasingly watered down, the ability of the EITI to deliver on the promise of increased transparency in African countries, where it is of especially great concern, remains seriously in doubt.

The full participation of the U.S. government in the British transparency initiative, French initiatives brought before the G8 group of industrialized nations, or other initiatives related to extractive industries is fundamental to their success. The U.S. has shown some signs of interest in promoting transparency and curbing corruption in natural resources. For example, when Secretary of State Colin Powell visited Angola in August 2002, he reportedly said that the U.S. would reduce bilateral aid – roughly $100 million year – if Angola failed to reduce "corrupt practices in the oil industry"[61] The U.S. Treasury has also provided much needed assistance to the oil revenue oversight committee being established in Chad.[62]

Human Rights

There is also some move on human rights, but this too is very tentative at best. In December 2000, a dialogue facilitated by the U.S. State Department and the U.K. Foreign Office culminated in the signing of the "Voluntary Principles on Security and Human Rights" by several major oil and mining companies (ChevronTexaco, Conoco, Shell, BP) and human rights groups including Amnesty International and Human Rights Watch. Companies pledged to observe fundamental human rights and freedoms during the course of securing their facilities and dealing with local security forces and communities. The principles are voluntary and non-binding and delays and difficulties have been reported in their application. The U.S. State Department continues to track the implementation of these principles, but it is unclear whether, and how, these principles have changed company practice.

Increased Militarization in the Gulf of Guinea?

Will growing U.S. African oil imports lead to increased military activity and cooperation in the region?

- After U.S. Gen. Carlton Fulford, deputy commander-in-chief of the European Command, visited prospective oil exporter São Tomé last year, São Tomé's president told media outlets that the U.S. was planning to create a "home port" on the island. After returning from São Tomé himself in October, U.S. Asst. Secretary of State for Africa Walter Kansteiner denied such plans. He added, though, "They have no coast guard. Some countries simply violate international fishing agreements and heavily fish out their waters, so there is an effort to help them with some of these coastal patrols."[56]
- In Equatorial Guinea, after much lobbying and debate, the State Department granted a license to U.S. private military contractor MPRI, Inc. to advise the government of Equatorial Guinea on building a coast guard to protect their oil-rich territorial waters. The same company proposed training the police and military forces, but the State Department turned down the request on human rights grounds. The State Department 2002 human rights report said the country's security forces "committed numerous serious human rights abuses." Retired Lieutenant General Soyster of MPRI said."We thought helping the coast guard would be pretty innocuous in terms of human rights."[57]
- In October, Kansteiner told a Senate committee hearing that staff from the Angolan military were taking courses at the U.S. European Command and that an International Military Education & Training program (IMET) program was soon to be launched.[58]
- In April 2003, NATO Supreme Commander, U.S. General James Jones, told a group of defense writers in Washington that the U.S. planned to increase its troop presence in West Africa, including the deployment by NATO of a "quick-reaction force" in the region, before the end of the year. "The carrier battle groups of the future and the expeditionary strike groups of the future may not spend six months in Mediterranean Sea, but I'll bet they'll spend half the time going down the west coast of Africa."[59]

Government human rights abuses continue in Africa's oil producers. The authoritative Country Reports on Human Rights Practices produced by the US State Department describe in detail the serious human rights problems that occur in all of Africa's oil exporters.[63] State Department reports also note the lack of transparency in some African petro-states. But the picture becomes less clear when U.S. commercial interests intersect with countries with serious human rights problems. The example of Equatorial Guinea is illustrative. In June 2000, the U.S. Overseas Private Investment Corporation (OPIC) approved a $173 million guaranty and $200 million in political risk insurance for the construction and operation of a methanol gas plant in Equatorial Guinea, the largest ever loan by the agency for a project in sub-Saharan Africa. As a result of Congressional legislation, OPIC projects are supposed to meet environmental and labor rights standards and after some debate, Equatorial Guinea was certified as making progress towards these standards. This certification occurred despite serious labor and human rights problems in the country as documented by State Department, Amnesty International and the United Nations. Discussions regarding a possible new militarization of the region also counteracts any movement towards protecting human rights.

4.4 Civil Society: From the Grassroots to the Global Stage

African civil society and its international allies are increasingly designing programs to address the impact of oil production on the continent. Groups such as Environmental Rights Action and the Centre for Social and Corporate Responsibility in Nigeria, the Catholic Justice and Peace Commission in Congo-Brazzaville, the Center for Environment and Development, Service Ecuménique pour la Paix (SEP) and FOCARFE in Cameroon, the Chadian Association for the Defense and Promotion of Human Rights and many others across the continent are challenging their own governments and major international players to address the adverse impact of oil production in their communities.

Some groups have developed campaigns targeting specific companies, such as Shell in Nigeria, while others have formed alliances monitoring the impact of specific projects, e.g., the Chad-Cameroon pipeline project. Local groups are moving beyond issues of local or national concern to act in solidarity with groups across Africa. (For example, the Oilwatch Africa general assembly in March 2002 focused on supporting the work of Sudanese colleagues seeking to halt oil activities in that country.) Groups in countries just entering oil production – e.g., Chad – are learning from the experiences and strategies of colleagues in long-time oil producers such as Nigeria. **(See box on independent monitoring of the Chad-Cameroon project on page 76)** Local groups are working in concert with international NGOs to address the behavior of particular companies. For example, in Nigeria, the Centre for Social and Corporate Responsibility, supported by

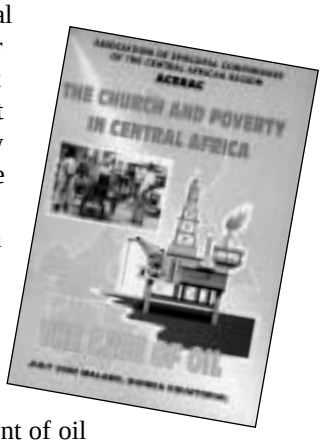
CRS, acts as an on-the-ground monitor of Shell activities for the U.K.–based Ecumenical Centre for Corporate Responsibility, a member organization with large investment portfolios. As more and more oil activity in Africa is focused offshore, some groups are focusing on the national questions of corruption, transparency and oil revenue management.

4.4a Resisting Plunder: Africa's Churches and Oil Advocacy

Africa's churches have been involved in oil advocacy since the late 1990s.[64] From parish priests monitoring the construction of an oil pipeline in Cameroon to Archbishop Kamwenho of Angola calling for revenue transparency in extractive industries when addressing the European Parliament, churches are vocal and active. Like their involvement in the Jubilee debt relief campaign, churches view activities addressing oil as a moral and ethical obligation aimed at ending poverty and building peace. Despite reactions from government officials saying that churches should "mind their own business" and stay out of economic affairs, church leaders have stood their ground. They are a powerful voice calling for better management of the oil sector in their countries.

A church dating from the Spanish colonial era in Malabo, Equatorial Guinea. At the end of a meeting in Malabo in July 2002, the Catholic Bishops of Central Africa issued a statement on oil and poverty in the region. They called on foreign oil companies to publish what they pay African governments. (Photo: Africaphotos.com)

Several important pastoral statements on oil have recently been issued. Despite a very risky political environment, the Catholic Church hierarchy from Central Africa issued a statement after their annual meeting in Malabo, Equatorial Guinea, in July 2002. Thus, churches in Cameroon, Chad, Congo-Brazzaville, Equatorial Guinea and Gabon have addressed "all those who, in our region, intervene in the extractive industries, in order that the exploitation of these resources may turn into a benefit for our daily fight against poverty."[65] Concluding that few have benefited from the region's enormous oil wealth, the Bishops called on sister churches in the North to influence oil company behavior. "Oil companies active in our region are based in your countries. We hope you will be able to amplify our voices. . . " Pointing out that the minimal benefits that have accrued to the region's people are dwarfed by the price they have had to pay, they have also called upon national governments to take steps to increase transparency and proper management of oil revenues. Foreign oil companies have been urged to publish what they pay local governments and to fully respect "the lives of our people, our environment and our individual and social rights."



"Oil companies active in our region are based in your countries. We hope you will be able to amplify our voices. . . "

Find the full text of African church statements on oil at www.catholicrelief.org/africanoil.cfm

In Congo-Brazzaville, the Catholic Justice and Peace Commission implements a research and advocacy program designed to encourage the adoption of new, more transparent procedures for managing the nation's oil wealth and for directing this wealth to social spending priorities. Work by the Justice and Peace Commission is supported by high-level advocacy by the bishops of Congo-Brazzaville. In June 2002, after an extraordinary meeting of the Episcopal Conference of Congo-Brazzaville devoted entirely to the question of oil, the bishops for the first time openly criticized the mismanagement of oil revenues in their country. They called on President Sassou-

CRS Extractive Industries in Africa Initiative

CRS works with African country program staff and partners – as well as the Catholic Church in the U.S. and other U.S.-based partners – to promote the use of natural resource exploitation for poverty reduction rather than conflict. CRS supports training, research, policy and advocacy activities at the local, national, regional and international levels, linking on-the-ground project support with advocacy in Northern centers of power. A first-ever, continent-wide workshop for CRS staff and partners was held in Douala, Cameroon, in 2001, while a follow-up workshop in Kribi, Cameroon – end point of the Chad-Cameroon pipeline on the Atlantic coast – in March 2002 drew over 60 staff, partners and resource people from Sierra Leone, Ghana, Nigeria, Chad, Cameroon, Equatorial Guinea, Congo-Brazzaville, Democratic Republic of Congo, Angola, Madagascar, Zambia, Kenya, Uganda, Sudan, Europe and North America. The workshop included academic and NGO issue presentations, opportunities for learning across countries, and advocacy training. In addition to work on oil, CRS has been on the steering committee of the U.S. Coalition to Eliminate Conflict Diamonds and supports programs fostering responsible use of diamond revenues in Sierra Leone, among other mining-related issues.

Examples of CRS oil-related project support includes:

- The Center for Corporate and Social Responsibility in Port Harcourt. The CSCR works to facilitate constructive dialogue between affected communities and oil companies. The Centre is linked to the Ecumenical Council for Corporate Responsibility in London, a committee of Shell shareholders that monitors Shell's activities in the region.
- The Chad-Cameroon Independent Pipeline Monitoring Project.
- The Justice and Peace Commission of the Episcopal Conference of Congo-Brazzaville for a research and advocacy program to improve oil revenue management.
- A popular education program on oil revenue transparency in Angola as well as support to independent station Radio Ecclesia.
- The Association of Episcopal Conferences of Central Africa for the development of a pastoral letter on oil and poverty in the region.

For more information on the CRS Extractive Industries in Africa Initiative, visit:
www.catholicrelief.org/africanoil.cfm

Nguesso and his new parliament to pass an oil revenue management law. The proposed law would create an oversight committee composed of representatives of the State, the Church, and civil society; earmark funds for investment in priority infrastructure; and require the regular publication of oil revenues and financial activity of the SNPC, the national petroleum company. The publication of the statement has gained wide publicity in Congo and abroad.[66] A delegation of Congolese church leaders and human rights activists visited France in February 2003 to encourage Total, the largest oil multinational in the country, and the French government to use their leverage to bring more transparency to oil revenues in the country. Ordinary French citizens have supported the effort through a Publish What You Pay postcard campaign. *African Energy* magazine said in a commentary that "the detailed nature of the Congolese bishops' recommendations shows civil society groups can play a significant role – provided they can get government and the oil companies to listen."[67]

In nearby Angola, the Angolan Catholic Church has been at the forefront of the civil society peace movement and has urged warring parties not to divert natural resource revenues to the war effort. The Church's independent radio station Radio Ecclesia and the church's nationwide network are important independent voices in civil society. Archbishop Kamwenho, who was recognized for the work of the Catholic Church in Angola when he received the 2001 Sakharov Human Rights Award from the European Parliament, said in

his acceptance speech that increased transparency would make it more difficult to use oil and diamond revenues to support war and would make it easier to increase social investments that benefit the citizens of Angola. This should be done as a matter of the rights of the people, he said, and not out of benevolence or charity.[68] Matching these efforts in Angola, a coalition of European and North American Catholic international development and social justice groups – including CRS, CAFOD, Trocaire, Secours Catholique and others – is implementing an advocacy effort to promote oil transparency in Angola.

Paris-based African Energy Intelligence has said "Given the church's influence in the region, the movement is likely to pick up steam."

Churches have many advantages related to their public advocacy role. Leaders like Archbishop Kamwenho of Angola or Archbishop Milandou of Congo-Brazzaville, are politically influential. Moreover, religious organizations are strong and permanent institutions, with existing structures, such as justice and peace commissions, with growing experience in research, analysis and advocacy. In some countries, such as Angola and Cameroon, church media outlets – newspapers and radio stations – provide a rare independent and credible voice for informing the population about social justice issues. Churches are also part of a transnational network, perfectly suited to bring concerns at the grassroots in Africa to centers of power in the North, where many oil companies and International Financial Institutions are headquartered. This institutional power can be used to gain access to policy makers at local and international levels. For these reasons, and others, the Paris-based *African Energy Intelligence* has said "Given the church's influence in the region, the movement is likely to pick up steam."[69]

U.S. Bishops on Africa's Natural Resources

The U.S. Catholic Conference of Bishops has supported the oil advocacy of sister churches in Africa, especially in the case of the Chad-Cameroon pipeline. The U.S. Bishops' recent statement on Africa addresses oil issues:

The moral measure of the U.S. trade relationship with Africa is whether it helps reduce poverty among Africa's poorest peoples . . .Governments, International Financial Institutions, and private corporations involved in the exploration, development, production, and sales of natural resources (e.g., oil, diamonds, timber, minerals, and precious gems) all have a moral responsibility to ensure that the otherwise legitimate development of these resources does not contribute directly or indirectly to corruption, conflict, and repression. Transnational corporations ought to adopt codes of conduct that reinforce their social responsibilities, direct their activities toward the common good, and adopt transparency in operations and financial accountability. In certain cases, it might be necessary for international authorities to penalize abusive companies. These are concrete ways to protect and promote the rights, dignity, and social development of the peoples and nations of Africa.

Source: *A Call to Solidarity with Africa*, U.S. Catholic Conference of Bishops, November 14, 2001.

4.4b Challenges for Civil Society

Civil society groups in African countries and their international allies face many challenges when addressing oil's impacts. Like the oil industry itself, advocacy related to extractive industries must be vertically integrated and take place at a number of levels and locations simultaneously. But civil society groups have neither the resources nor reach of governments, not to mention multinational corporations.

The first challenge is understanding the oil industry itself. Civil society actors need to be familiar enough with the oil sector to highlight both "worst practices" and particularly egregious corporate behavior or projects, while at the same time

promoting new mechanisms of regulation to address corporate behavior at the global level. More "positive" corporate behavior regarding human rights, transparency and other aspects of corporate operations should be encouraged without those "standout" corporations being subjected to negative competitive pressure. BP's leadership in transparency in Angola is a case in point. Deserving of strong support, civil society organizations can exert pressure to ensure that their governments do not penalize corporations that seek to change behaviors and past practices.

Second, activist strategies need to respond to changing corporate strategies and the changing nature of the oil business in Africa. Independent monitoring and reporting mechanisms – such as the Cameroon pipeline monitoring program or reporting on the situation in the Niger Delta – need to be strengthened and replicated. Media and policy makers need access to credible and well-documented information from often very remote locations to juxtapose against well-funded corporate public relations programs. NGO attention to particular companies or situations often waxes and wanes, but corporate and government behavior requires constant and sustained monitoring. As companies discover more lucrative finds offshore, and tire of conflict and demands for benefits onshore, activist strategies will need to adjust to more national – rather than regional – questions of revenue management and distribution. Work on oil revenue management can build on and forge alliances with those engaged in monitoring debt relief funds as well as participatory budget monitoring in Africa. As the role of non-Western companies grows in Africa – Malaysian and Chinese in particular – strategies beyond consumer pressure campaigns will need to be developed.

Third, stronger alliances need to be developed between Northern and African activists around shared objectives. This is especially important because this enhances the moral, intellectual and financial resources of all groups. Since oil corporation funding of local and international NGOs for community development activities may have a chilling effect on advocacy and postpone more meaningful structural reforms, and since international NGOs may find it difficult to both advocate for reform and serve as local subcontractors, strong alliances are one mechanism for counteracting these problems.

Finally, when political space opens up and meaningful opportunities for engagement, contribution and monitoring exist, civil society groups need to have the information, expertise and capacity to take advantage of such openings.

Overcoming the paradox of plenty depends, in large part, on the ability of engaged, informed and capable civil society groups using political space to hold their own governments and other actors accountable. Where governments are authoritarian, this is especially difficult, but pressure from inside and outside African countries creates greater political space in which to criticize, monitor and contribute. In Chad and Cameroon, this has meant that civil society groups, while not succeeding in their efforts to delay an oil pipeline until the fundamental issues of governance could be addressed, have made some improvements to the project by bringing problems to the attention of groups around the world.

5. The Chad-Cameroon Oil Experiment: Rhetoric and Reality

"The Chad-Cameroon project reflects an unprecedented collaboration effort between the Bank Group, the consortium of private companies, and the two governments."

— World Bank President James Wolfenshohn

"The exploitation of oil is a major new opportunity to accelerate development in one of the world's poorest countries."

— World Bank World Development Report 2003 on Chad-Cameroon Pipeline Project

"This is going to be the model for every single project of this type world wide."

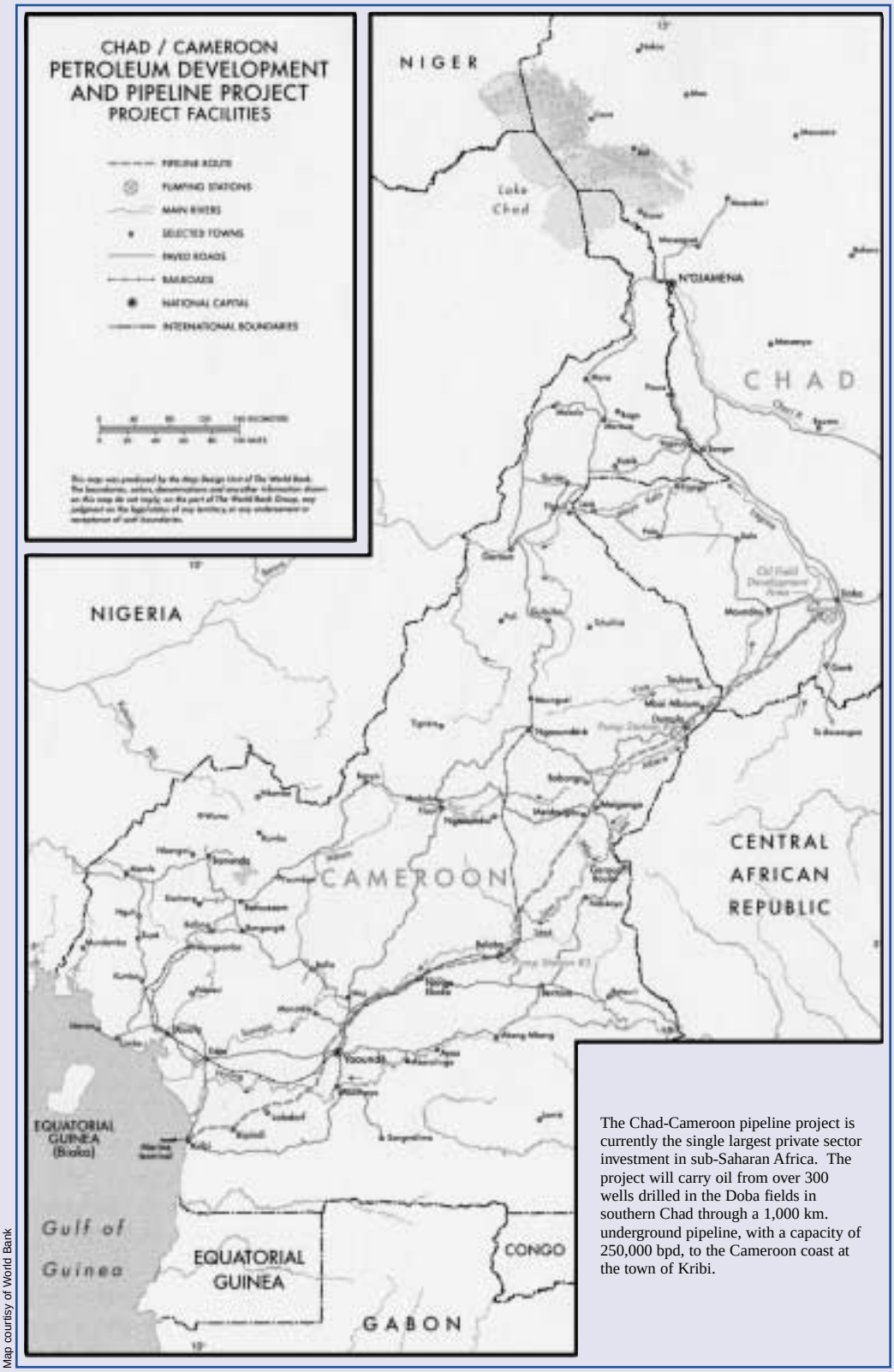
— Mohamedu Diop, Central Africa Resident Representative, IFC[1]

The Chad-Cameroon Oil and Pipeline Project is the most significant, and most closely watched, experiment designed to change the pattern of the "oil curse" and promote poverty reduction through targeted use of oil revenues. Widely touted as a "model" for other oil-exporting countries, this high-risk $3.7 billion project involves ExxonMobil, Chevron, Petronas (the Malaysian state oil company), the World Bank, the governments of Chad and Cameroon and other actors. The World Bank, perhaps more than any other player, has taken a huge reputational gamble by claiming that its assistance can promote the good government policies necessary to produce better outcomes from oil-based development. By contributing to project financing and loaning the governments of Chad and Cameroon money to finance minority shareholdings in the oil consortiums developed to exploit the oil, it became the catalyzing force for this controversial project.[2] As oil revenues start to flow into Chad in 2003, doubling government revenues almost overnight,[3] the World Bank's ability to promote poverty reduction, like that of the Chadian government, is on the line.

The Chad-Cameroon pipeline project is currently the single largest private sector investment in sub-Saharan Africa.[4] The project will carry oil from over 300 wells drilled in the Doba fields in southern Chad through a 1,000-km underground pipeline, with a capacity of 250,000 bpd, to the Cameroon coast at the town of Kribi. A 12-km offshore pipeline connects to a floating marine terminal where tankers are loaded for the world market. The project plans to exploit close to 1 billion barrels of oil in the Doba fields over a period of 25 years. Planned peak production of 225,000 bpd will be achieved in early 2004, but will gradually decline to 150,000 bpd in year six and 100,000 bpd in years ten and beyond, according to oil consortium documents.[5]

Thus Chad will most likely have only a brief historical moment to make the most of its oil boom. Original World Bank estimates, based on an oil price of $15 barrel, showed that Chad would gain over $2.5 billion in revenues while Cameroon will gain over $500 million in transit fees over the life of the project.[6] More recent estimates predict that Chad will more likely receive much greater sums — $3.84 billion in the first ten years of production alone, and perhaps $5 to $6 billion over the span of the project.[7] These revenues will more than double Chad's current budget expenditures, which stood at $300 million in 2001. Eighty percent of project revenues are expected to flow in during the first 15 years of the project. While these figures sound high, they represent only a small portion of the profits from petroleum since Chad's "take" from the multinational oil companies relatively low compared to other similar projects.[8]

CHAD / CAMEROON
Petroleum Development and Pipeline Project Map



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Map courtesy of World Bank

Petrodollars will profoundly transform Chad, one of the poorest countries on earth.[9] Like most of the other cases examined in this report, oil revenues will flow into a country with weak institutions as well as a tragic history of conflict, repression and human rights abuses. But in some respects the situation is worse. The World Bank has described Chad's institutional weakness as "all encompassing and greater than in most sub-Saharan African countries, reflecting the impact of almost three decades of civil strife."[10] Power is strongly concentrated in the presidency, occupied by the current president, Idriss Déby, who came to power in 1990 after his forces captured the capital, N'djamena. Recent presidential and legislative elections – in which Déby was re-elected and his party continued to maintain strong control of parliament – were deeply flawed. The State Department reported that "fraud, widespread vote rigging, and local irregularities marred the 2001 presidential election and the April 2002 legislative elections" in which Déby's party won 110 out of 155 seats in the National Assembly.[11]

Election posters in N'Djamena, Chad. Fraud and vote rigging tainted recent elections in the country, where the World Bank is involved in implementing a revenue management plan in Africa's newest petro-state. (Photo: Africaphotos.com)

The threat of violence in Chad is omnipresent. There is a history of tension and conflict between the populations in southern Chad – home to most agriculture and oil deposits – and northern-dominated governments in the capital, N'djamena. According to U.S. State Department and Amnesty International reports, massacres of civilians have occurred in the 1990s in the south near the oil-producing fields.[12] While Chad is calmer today, in 2002 clashes continued to occur between government forces and northern rebels, as well as new border clashes between government forces of Chad and the Central African Republic (C.A.R.). According to the State Department 2002 report for Chad:

> *The Government's human rights record remained poor, and it committed serious human rights abuses . . . Security forces committed extrajudicial killings [and] continued to use arbitrary arrest and detention; the authorities arrested opposition leaders . . . The judiciary remained subject to executive interference . . . The Government took judicial action against independent newspapers for publishing material that it deemed prejudicial to the Government.*[13]

This is not a picture of a polity that is able to manage petrodollar wealth well.

Cameroon, meanwhile, is often ranked as one of the most corrupt countries in the world and the government has restricted human rights. It ranked number one in Transparency International's corruption perception index in 1998 and 1999. The State Department Human Rights Report for 2002 said:

> *Cameroon is a republic dominated by a strong presidency. . . The President retains the power to control legislation or to rule by decree. . . The judiciary was subject to political influence and suffered from corruption and inefficiency. . . The Government's human rights record remained poor. . . Citizen's ability to change their government remained limited. . . Security forces continued to arrest and detain arbitrarily various opposition politicians, local human rights monitors and others.*[14]

This also does not bode well for poverty alleviation.

5.1 Changing Chad? The World Bank and the Problem of Governance

As news of a proposed Chad-Cameroon pipeline spread, local and international civil society organizations, especially environmental, human rights and faith-based groups, raised strong concerns that the benefits of the project would not reach the poor in this context of endemic corruption and political repression. Civil society groups also believed that plans to address the impact on the environment, compensation for relocated peoples, and the problem of revenue management where government institutions barely existed were inadequate. Some were against the project under any conditions, while others argued that political and state capacity reforms needed to take place well before any oil should flow.

Cameroon's Record on Oil Transparency

In 1998 and 1999, Cameroon was at the top of the list for most perceived corruption in Transparency International's annual rankings. The World Bank said in 2001 that the country "has a track record of endemic corruption."[16] For years, the World Bank and IMF have been encouraging Cameroon to make public its oil receipts and to incorporate earnings from the state oil company, the *Société Nationale des Hydrocarbures*, into the national budget.

A Cameroonian newspaper satirizes the IMF's attempts to increase government oil revenue transparency. "What do you mean you've lost the key to the door?", the IMF representative says to the president, who is struggling to find the key to the door marked "Oil revenue account."

Cameroon's oil production was in steep decline during the late 1990s as mature oil fields were depleted. Cameroon now produces 110,000 bpd, ranking it fifth in Africa. Oil now accounts for 33 percent of government revenues. During the era of former President Ahidjo in the 1970s, oil production was a well-kept secret, hidden offshore and arranged behind-the-scenes deals with French oil companies. The boom years of the early 1980s saw oil accounting for two-thirds of export earnings, which increased Dutch disease, wasted public expenditure and increased corruption.[17]

The current IMF resident representative, Werner Keller, says that problems with oil revenue transparency are a long-standing issue and that the SNH "needs permanent monitoring. When oil boom times come, the government is less willing to share; when times are difficult, as now, they are "more willing to share."[18] The World Bank resident representative in Cameroon, Madani Tall, says SNH "has come a long way with revenues transferred into the budget. Is it perfect? No. They need to be more transparent."[19]

The IMF currently receives regular statistics from the SNH and partial independent audits have been carried out. Operational audits are planned to "enhance the transparency of . . . the transfer to the Treasury of oil royalty revenues."[20] The larger legal environment is "basically market based" says Keller, and the World Bank is working on the reform of the legal system and judiciary, in addition to increasing transparency. "It always helps if you make more information available to the public," says Keller. In 2002, the IMF directors expressed continued concern over governance issues, transparency and the slow pace in improving public expenditure management.[21]

In order to attract investors in marginal and high-risk fields, Cameroon revised its Petroleum Code in 1999, with more favorable terms for investors. While this may simplify things for investors, the picture for ordinary Cameroonians seeking information on the country's oil is decidedly murky. Additional new revenues from the World Bank supported pipeline project will flow into this environment.

Most African civil society and church groups in both countries were not against oil exploitation *per se*, but felt that the conditions were not present in both countries for the project to benefit the poor. A joint statement by Catholic and Protestant church leaders in Cameroon in 1999, prior to World Bank project approval in June 2000, highlights the level of concern raised by the project:

> *The Christian Churches cannot remain indifferent to this project which impacts . . . the life and survival of millions of men and women. The project promises to generate huge revenues that would be able to help our people progressively escape from poverty . . . It is necessary to examine the ethical, legal and environmental implications involved before making a commitment to the project. We recommend that an independent commission be created. We believe that is the price that must be paid in order that the project has the greatest chance of achieving its goal, the fight against poverty.*[15]

In the context of civil society concerns and country political risk, the multinational oil companies actively sought World Bank involvement in the project. For the oil companies, the World Bank participation was attractive because it could provide much needed "political cover" as well as financing for the governments of Chad and Cameroon to participate in the oil consortium developing the project. Thus the World Bank, eager to enter the project for its own reasons, played a key catalytic role in the project – the Doba fields would have remained undeveloped were it not for World Bank participation in the project.[22]

World Bank involvement had several immediate effects. First, it triggered easier access to Export Credit Agency and private bank financing. **(see "Financing a Project", page 15)** The project has significant ECA investment, with the U.S. Ex-Im Bank and France's COFACE investing $200 million each. (The Ex-Im Bank described this investment as one "that will sustain U.S. jobs . . . and at the same time help to alleviate poverty and support economic growth in Chad and Cameroon."[23])

"We are trying our best. This is a high risk and high reward project. Of course it can fail."

— Jérôme Chevalier, World Bank manager of oil-related projects in Chad[26]

Second, it put the Bank itself in a very difficult political position. Because even its own experts argued that oil revenues, in the context of a country like Chad, were unlikely to benefit the poor and could actually fuel civil conflict, the Bank's own reputation was on the line in a way that differed from previous oil projects. This meant that appraisal documents had to continuously paint a very rosy picture of the country in order to proceed. Thus, contrary to the evidence, the appraisal report claimed: "Chad has successfully put in place democratic political institutions."[24] The World Bank and the IMF granted $260 million of debt relief immediately after the tainted presidential elections in May 2001 and the political violence that followed. This ignoring of reality continued in 2002. While fighting was going on in the north on the border with the Central African Republic in September 2002, the World Bank representative in Cameroon insisted "Chad is now at peace."[25] This refusal to openly acknowledge actual political conditions would haunt the development of the project.

Finally, because its own reputation was at stake, the World Bank obliged the government of Chad to make legal changes and substantive promises if it wanted the pipeline to proceed. Because the World Bank had justified its involvement to critics by promoting the poverty alleviation potential of the project and by promoting social and environmental safeguards and mitigation measures not found in other oil projects, the Chadian government had to agree to these and other measures aimed at managing and distributing future oil revenues if it wanted to see the project move forward.

Monitoring the World Bank and the Oil Companies

The World Bank's decision to assist in the development of the oil sector, despite very

evident problems of transparency and accountability in the region and in the face of strong international and local civil society pressure, led to some innovative measures unusual for a World Bank project. The Bank agreed to work with the oil companies to design strategies to mitigate the social and environmental impacts of the Chad-Cameroon pipeline and to produce, it was hoped, better outcomes for the poor. It also agreed to an unusual level of scrutiny of its own actions. These led to some important changes in both the Bank's standard operating procedures and the project itself.

- An External Compliance Monitoring Group (ECMG) monitors compliance of the oil companies to the environmental management plan. (The oil consortium pays for the consulting company performing this role.)
- An "International Advisory Group" (IAG), independent of the Bank and composed of "eminent persons" from academia, civil society and government in Europe, the U.S. and Africa, oversees the progress of the project and the adherence to environmental and social safeguards by the World Bank, national governments and the oil companies. The IAG makes regular field visits and reports directly to the World Bank president and the public at large.[27] Its function is purely diagnostic and advisory, and it has no authority to implement its recommendations.
- An elaborate individual and community compensation plan is being implemented to compensate those affected by pipeline and oil field construction. (The compensation rates were adjusted higher to a more realistic level after lobbying by local civil society groups in Cameroon and Chad.)
- The oil consortium agreed to devote significant resources towards complying with social and environmental safeguards.[28]
- The pipeline was re-routed from its initial path to avoid some of the most environmentally sensitive areas and to protect indigenous communities. Two environmental "set asides" are being established in the form of new national parks in Cameroon to compensate for environmental damage from the pipeline construction.
- A revenue management plan was developed for Chad, although no similar plan was developed for Cameroon, which has a long history of corruption.

"Two-Speeds:" The Sequencing Problem in Chad

To deal with the acknowledged weak institutional capacity of both governments to manage a project of this magnitude, the World Bank agreed to help build the capacity of Chad's state. Its management argued prior to approval that administrative capacity could be built alongside construction, rather than preceding the start of construction activities, despite the strong consensus among development experts that institutional capacity building projects are difficult long-term efforts.[29] To achieve higher capacity, the Bank supported, through $47 million in concessionary IDA financing, three projects: the Petroleum Environment Capacity Enhancement Project in Cameroon and, in Chad, the Management of the Petroleum Economy Project and the Petroleum Sector Management Capacity Building Project.[30]

Not surprisingly, since the approval of the project and the start of construction in late 2000, pipeline and oilfield construction have proceeded rapidly; the pipeline will be completed a year ahead of schedule, with the first oil to flow planned for July 2003. But the capacity building projects have lagged far behind. The International Advisory Group of the World Bank calls this the "two-speed problem" and have concluded: "The commercial project is moving forward while the institutions are limping along: *this places a dangerous handicap on the hopes of achieving a true development project*."[31] (emphasis added)

Government ministries tasked with supervising the social and environmental impacts of the construction work have little capability to do so, thus trouble builds up.[32] In Chad, reported problems have included significant in-migration and spontaneous settlements in the oil field area, complaints of excessive dust from construction that affects the health of the community, contaminated water, inflation of basic commodities and housing, delays in programs to aid local entrepreneurs to take advantage of subcontracting opportunities, and reports of school teachers and students leaving schools for pipeline construction jobs.[33] This is creating an added sense of grievance in the oil zones.

In Cameroon, major concerns have centered on the pace, quality and quantity of compensation to villages and communities for land and productive assets lost, in-migration and accompanying prostitution and spread of HIV-AIDS, progress on protection of environmental sites, and attention to the special issues of the Bakola/Bagyeli peoples and the implementation of the Indigenous Peoples Plan.[34] Labor unrest and strikes over working conditions, worker safety and contract disputes have also occurred periodically during pipeline construction in Cameroon.

Faced with growing internal protest, World Bank staff pledge to intensify efforts and Bank rhetoric has shifted to acknowledge that capacity building takes time. "This is a long term process of capacity building, perhaps 10 to 20 years, and we can't tell operators when to invest. Once a decision is made, the private partner wants to move as quickly as possible and get income early. It is better for Chad to have oil build gradually, but that's not real life," says Jérôme Chevalier, the Bank's oil project manager in Chad.[35]

"This is a long term process of capacity building, perhaps 10 to 20 years, and we can't tell operators when to invest. Once a decision is made, the private partner wants to move as quickly as possible and get income early. It is better for Chad to have oil build gradually, but that's not real life."

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Handling Complaints: The World Bank Inspection Panel

In March 2001, a formal complaint was filed to the World Bank's independent ombudsman's office, the Inspection Panel,[36] alleging violation of Bank policy in Chad during the planning and implementation of the pipeline project. The complainant, Ngarlejy Yorongar, a member of parliament and active opposition leader and presidential candidate who was arrested, beaten and tortured,[37] alleged violations of World Bank policies on the environment, resettlement, poverty reduction, economic evaluation, project monitoring and other issues. The Inspection Panel, in its September 2002, report found more than 20 instances of non-compliance with World Bank policy, including non-compliance with operational directives on environmental assessment, economic evaluation and poverty reduction.[38] The Panel did judge some complaints without merit, stating that concerns about oil spills, *a la* the Niger Delta, had been addressed in the use of new technology (including a buried pipeline), that forestry policy had not been violated and that the oil consortium's policy of compensating the community for fallow land was a sensible one and consistent with involuntary resettlement policies.

But the Inspection Panel's overall report was highly critical. Specifically, it found:

- Bank staff had not developed a regional environmental assessment for a project of such scope and magnitude.
- Bank policy on consultation with affected communities was violated. At least prior to 1997, consultations with affected communities were conducted in the presence of armed security forces and later in the presence of government officials – a practice not conducive to an open airing of views.
- The Bank did not undertake an economic cost-benefit analysis of alternatives to the pipeline project.
- Delays in government capacity building have affected the poverty reduction goals

of the project. "This objective [of poverty reduction] has not been achieved and raises questions about the Project's ability to realize several of its social objectives."

- On governance and human rights, the Panel recognized that these issues are not within their mandate, but "felt obliged" to examine them. The Panel noted that "on more than one occasion when political repression in Chad seemed severe, the Bank's President personally intervened to help free local opposition leaders, including Mr. Yorongar, who was reported as being subjected to torture. . . The Panel observes that the situation is far from ideal. It raises questions about compliance with Bank policies, in particular with those that relate to informed and open consultation, and it warrants renewed monitoring by the Bank."[39]

Bank management responded to this strong critique by pledging to redouble efforts to speed up capacity-building efforts. But once again the Bank refused to recognize the critical importance of governance and human rights in the pipeline project, claiming that these were not issues requiring a response. "Despite the references in the Request to directives on 'respect for human rights,' the Bank has no such directives."[40] Previously the Bank management had told the Inspection Panel that, "In evaluating the economic aspects of any project, human rights issues may be relevant to the Bank's work if they may have a significant direct economic effect on the project. Having carefully considered all aspects of this issue, Management's conclusion is that the Project can achieve its developmental objectives." But the Inspection Panel, having witnessed the difficulty of monitoring or accountability where rights are absent, did not find this position to be tenable. As it noted in its report: "If human rights have 'significant direct economic benefits' on a Bank financed project, they become a matter of concern to the Bank. Otherwise they don't."[41]

The World Bank refused to recognize the critical importance of governance and human rights in the pipeline project, claiming that these were not issues requiring a response. "Despite the references in the Request to directives on 'respect for human rights,' the Bank has no such directives," Bank staff said in response to an Inspection Panel report.

5.2 Managing Oil Revenues without Capacity

The most important test of the Chad-Cameroon experiment – how the massive amounts of new revenues will be used in Chad – will not come until the end of 2003 and the years following.[43] Yet the Chad revenue management plan is being widely considered as an example for other oil-exporters. But even under the best case scenario, if followed exactly as designed, the Chad-Cameroon project still has major flaws and gaps that need to be addressed if oil revenues are to benefit the people of these two countries. These problems center around Chad's revenue management law and the oversight committee established to monitor compliance with the law.

Oil profits must be used to meet the people's essential needs present and future, not to increase the riches of a few. . . (Those) invested with power must respect those whom God has entrusted to their care, and stop exploiting the powerless and the poor. (Oil is) a common good which could allow the country to guarantee itself a better economic future . . . do not use it for your own profit.

— Catholic Bishops of Chad, 2002[42]

5.2a A "Leaky" Revenue Management Law

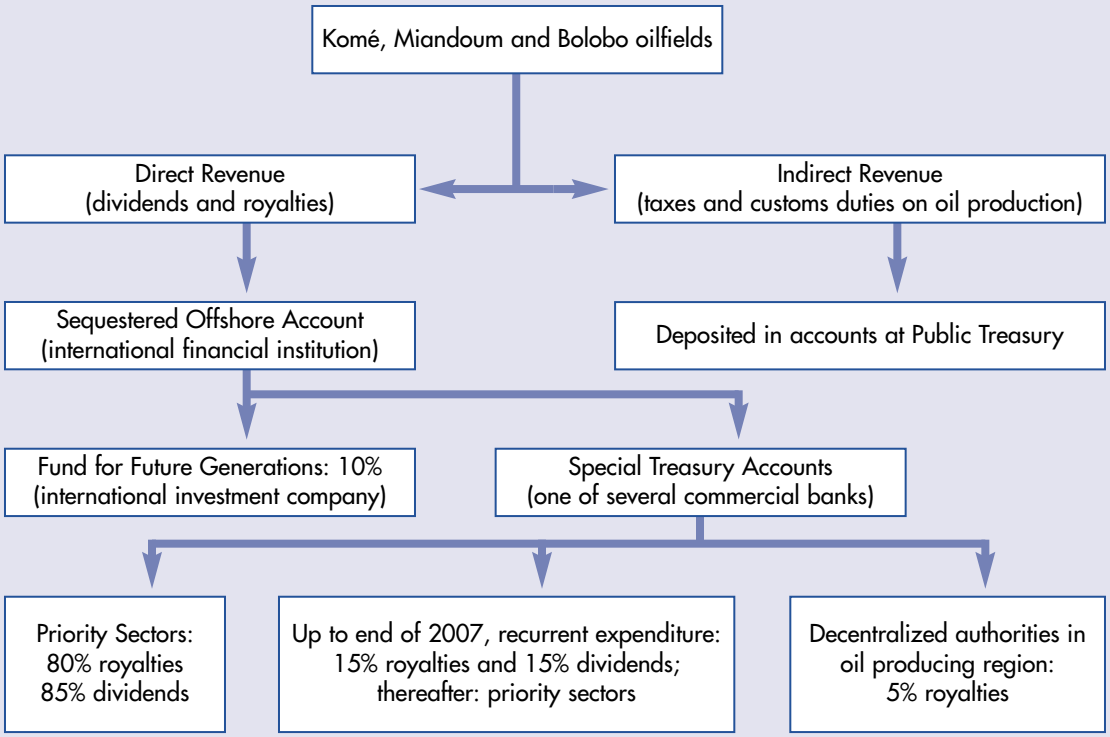
The World Bank, as a requirement for its participation, obliged the government of Chad to pass a new revenue management law. It provided the government with a $41 million loan to develop a revenue management and financial control system, including financial support to key institutions.

The new law was passed on December 30, 1998, after three hours of debate with 108 votes in favor and none in opposition.[44] It stipulates that 80 percent of petrodollar revenues will be devoted to expenditures in five priority sectors (education, health, rural development, infrastructure, and water and environmental resources), five percent to affected communities, and the rest is to be allocated according to a specific formula. **(See Box)**. The Law also establishes a Collège de Contrôle et de Surveillance des Ressources Pétrolières (CCSRP) or a Petroleum Revenue Oversight and Control Committee, ("Revenue Oversight Committee"), an independent government-civil society committee whose task is to "verify", "authorize" and "oversee" expenditure of oil revenues.

But as good as the revenue management law sounds on paper, there are very significant weaknesses in the design and practical application of the law. This was made painfully clear in late 2000 when the government announced that it had spent the first $4.5 million of

Allocation and Utilization of Oil Revenue

Chad Revenue Management Law



The Petroleum Revenue Management Law contains several significant provisions.[45]

- The law stipulates a division of direct revenues — net royalties and dividends (World Bank and other donor loan repayments are subtracted) — which will first be deposited in an offshore account opened with international banks.
- 10 percent will be deposited in an offshore account and invested in long-term external investments whose proceeds would be used for poverty reduction programs in a post-oil future (i.e. a "Fund for Future Generations").
- The remaining 90 percent will pass through Treasury "Special Petroleum Revenue Accounts" opened in Chadian banks and this will be divided in the following manner:
  - 80 percent will be devoted to expenditures in five priority sectors (education, health and social services, rural development, infrastructure, and environmental and water resources); the World Bank says this will be over and above a pre-oil revenue spending level in these sectors, using 2000 or 2001 spending as a baseline.
  - Five percent of royalties will be allocated as a supplement to the Doba oil-producing region to be programmed by local authorities.
  - Until the end of 2007, the remaining 15 percent can be used to finance recurrent government expenditures.

a $25 million signing bonus paid for by the oil consortium on military weapons rather than on any priority sectors. Embarrassed after having touted Chad's revenue management as a model, the World Bank noted that the revenue management plan technically did not cover such bonuses.[46] Nonetheless, in the wake of public outcry, the Bank and the IMF urged the government in October 2000 to establish the revenue oversight committee as soon as possible, freeze the remainder of the signing bonus, brief Parliament on the matter, and comply with existing budget procedures for all other revenues.[47] This was not just a suggestion. If the government did not comply, Chad would not be eligible for badly-needed debt relief funds.[48]

Still, critical weaknesses in the law remain. Taken together, these weaknesses mean that much of the state monies raised from the oil sector will be outside the control of the law and the oversight mechanisms established to monitor them. This potentially gives wide latitude for rent-seeking on the part of both the government and the private sector.

The first critical weakness is that *significant oil revenues fall outside of the scope of the Revenue Oversight Committee.* Fiscal control is only exercised over special accounts that correspond to direct revenues generated by royalties and dividends.[49] Other indirect revenues, such as taxes and custom duties generated by the oil project, are not covered and go into ordinary Treasury accounts and detailed in the national budget.[50] According to an analysis by the French official development aid agency, *Agence Française de Developpement,* these levies may represent as much as 45 percent over the life of the project.[51] A World Bank projection of the distribution of net revenues, using assumptions of 917 million barrels produced at an average of $25 per barrel, show that $3.3 billion would go to general budget expenditures, while only $1.6 billion would go to priority sectors, the Doba region, and the Future Generations Fund.[52]

Second, *The Law does not cover all of Chad's oil but only the three fields in Doba.* The Law specifically covers only the three Doba fields of Bolobo, Kome and Miandoum, even though there are high expectations of finding more oil. Thus very significant new revenues could fall outside of the revenue management system. This was known at the time because project designers have long foreseen that new finds could be transported through the pipeline.[53] That prediction is now becoming reality.[54] **(see box on page 71, More Oil Exploration for Chad and its Neighbors)** According to U.S. Ambassador to Chad, Christopher Goldthwaite, these potential revenues are a real concern. "This is the biggest danger. There is a lot of oil in this country that is not yet exploited. Depending on who you talk to, there is several times more than the proven reserves at Doba (roughly 900 million to 1 billion barrels)."[55]

Third, *the allocation of five percent to the oil-producing communities may be inadequate.* Oil communities bear the brunt of the impact of oil development, as witnessed in Nigeria and elsewhere, thus the figure allocated to the oil region has been strongly criticized. Bank management has said that the five-percent figure was arrived at "through an internal political process" in Chad. But given the human rights and security situation in southern Chad, flawed elections, and consultations in the presence of armed security forces, observers doubt that the people of the oil-producing region had much, if any, say in the selection of the five percent figure.

Fourth, *the law is vague regarding priority sector and regional spending.* While it stipulates sectors such as education and health, spending within these areas is wide open. There is no directive about whether money may be spent, for example, on primary health clinics in rural areas or state of the art hospitals in the capital. Regional allocations are also not specified. In a country with a history of ethnic and regional discrimination, this may sow seeds for future conflicts over the distribution of oil rents.

Fifth, *the Law, while creating a Fund for Future Generations, fails to create oil sterilization and stabilization funds.* According to project documents, oil windfalls –

revenues that can not be used immediately or efficiently for the objectives of the project or the spending of which would affect macroeconomic stability – are to be "sterilized under arrangements acceptable to the Bank." This arrangement is not spelled out in the law and, as of early 2003, negotiations for such an arrangement had not been concluded. The Inspection Panel Report noted that no provision for sterilization is in the Law or in the loan agreement documents for the petroleum revenue management program. Nor is a stabilization fund – to cushion a newly oil-dependent Chad against price fluctuations – spelled out.[56]

Finally, *the five percent allocation specified by the revenue law for the Doba oil-producing region can be changed by presidential decree five years after the passage of the law – which is just about when oil begins to flow.* The president of Chad, acting alone, will have the power to change these allocations. Furthermore, there is no effort to strengthen other branches of government that might serve as a counterweight to presidential decree, *thus institutions related to the judiciary or the rule of law are not earmarked as a priority sector.* This is troubling because, as the World Bank's Inspection Panel noted, the successful "translation of oil revenues into equitable, effective economic development and poverty reduction extends well beyond budget allocations and the auditing and control of public expenditure."[57] It also requires effective democratic institutions.

5.2b Monitoring with a Murky Mandate: The Petroleum Revenue Oversight Committee

The fundamental institution and key innovation in the Chad revenue management plan is the joint government-civil society Petroleum Revenue Oversight and Control Committee ("Revenue Oversight Committee").[72] The nine-member committee has five government members: two Senators from the National Assembly; the National Director of the Bank of Central African States, the Director of the Treasury, and a representative from the Supreme Court. Civil society is represented by positions for: local development NGOs; trade unions; human rights groups; and religious groups (Muslim, Catholic and Protestant on a rotating basis.)[73] Its fundamental mission as laid out in law is to verify the government's compliance with the revenue management law and account for and authorize the disbursement of funds from special accounts.

The success of the Doba project will be measured by poverty reduction rather than by barrels of oil produced or millions of dollars received by Chad from oil exports.

— World Bank project appraisal document[71]

The Committee has sought to establish itself as an independent and capable center of fiscal oversight, with technical assistance from the U.S. Treasury Department,[74] and it has had some success. It blocked demands for the disbursement of the balance of the signing bonus following the scandal from buying weapons, and it halted the release of 1 billion Franc CFA for an emergency cereal grain contract awarded without competitive tender. It has since approved six projects to be drawn from the bonus remainder.

But the Oversight Committee is operating with a murky mandate and unclear operational policies, and it still lacks sufficient financial resources to be effective. This has hindered its development on the eve of an oil windfall.

A Broad or Narrow Mandate?

Some observers worry that a narrow mandate for the oversight committee would straightjacket its activities, while others, including some World Bank staff, worry that the committee might "duplicate" existing government functions, e.g. the Ministry of Finance or the newly established Auditor General's office (part of the Supreme Court).[75] It is still unclear, for example, whether it should monitor revenue collection, management and expenditure, or only expenditure. Jérôme Chevalier of the World Bank in Chad argues that the committee needs "to have credibility, but should avoid getting its fingers everywhere. But if they see a problem, they should hit and hit hard."

More Oil Exploration for Chad and its Neighbors

World Bank support for the pipeline project is spurring exploration in Chad, Niger, Cameroon and the Central African Republic (C.A.R.). The consortium lead by ExxonMobil is looking for new oil in southern Chad and has reportedly found three new fields in the Doba area: Nyan, Badila and Mandouli.[58] Other companies exploring include the Canadian company EnCana.[59] Exploration is going on in the Salamat, Dosseo, Bongor basins, between Doba and Sarah areas.[60] Much of this is in the massive Permit H (430,000 sq. km and the size of Spain) in the southeast of the country. The Government of Chad recently renewed Permit H for exploration, but no information on Permit H has been made public. Encana plans to drill exploratory wells in 2003, reportedly investing up to $50 million in 2004. First oil could flow from this area by 2005. In the Doba area, proven reserves have reportedly increased by 15 percent since construction of the project started in late 2001. Some observers have said that, with the high transaction and transport costs, the relatively low quality of the oil and the added cost of implementing social programs, oil companies would not have entered into the project without a real chance of finding additional oil reserves. The pipeline has a capacity of 250,000 bpd and the initial Doba fields will decline in output relatively quickly, thereby freeing capacity for other finds.

World Bank staff have noted that the project loan agreement with Chad and Cameroon stipulates that any oil using the pipeline would have to follow the same procedures and safeguards on social and environmental issues, as well as information disclosure, as the three Doba fields. It is not apparent that any environmental impact studies are being done in relation to ongoing or planned exploration activities in Block H, as requested by civil society groups.[64] In addition, any new revenues would not fall under the existing revenue management law. Jérôme Chevalier, head of the oil-related projects for the World Bank in N'djamena told CRS that it is "clear that some seismic exploration is going on" but sought to downplay its importance by saying oil had not yet been struck and that there was not much extra capacity in the pipeline. "It has not yet been decided how new oil money would be used. . . there is a general understanding," Chevalier said. Asked if the World Bank would encourage an amendment to the revenue management law to include the new finds, he said that, "We have to see how the law will be implemented. My concern is immediate."

Outside of Chad, exploration is taking in an arc of reserves that stretches from Niger through the north of Cameroon to the C.A.R. In Niger, ExxonMobil and Petronas, already partners in Chad, are exploring in Niger in the Agadem concession. Blocks are being offered for exploration in northern Cameroon in the Logone Birni basin near Lake Chad. If oil is found, it can be exported through a feeder pipeline to the existing pipeline.[67] In the C.A.R., U.S.-based Grynberg Petroleum has secured a 13.7 million-acre concession in the Doba and Salamat basins.[68] C.A.R. officials have said that oil underlies the 2002 border clashes between Chad and the C.A.R. and that Chad backed out of a plan to jointly exploit the Doba fields.

Libyan troops protected former C.A.R. President Patties against mutinies in 2002, but he was overthrown in March 2003 by rebel forces reportedly backed by Chad, changing the oil exploration picture. Petronas, with good contacts in Chad, had sought concessions from the previous government, but should be in a good position to secure concessions in the Doba and Salamat basins on the C.A.R. side of the border. The government of new President Francois Bozize, who is protected by a contingent of Chadian troops, has said that the existing Grynberg concession would be honored. Grynberg has claimed up to 3 billion barrels exist in its C.A.R. concession, but exploratory drilling has been delayed because of hostilities in the border area.[69]

Oil found in Niger or the C.A.R. would most likely be transported through the Chad-Cameroon pipeline. According to *African Energy Intelligence*, the pipeline "offers free access to oil companies in the region."[70] Neither Niger, nor Cameroon or the C.A.R. have oil revenue management laws in place.

In light of the strong presidential system in Chad, the lack of independence of the judiciary, and the weakness of existing institutions, most observers outside Chad argue that it makes sense for the committee to have a more expansive, rather than narrow, mandate and for it to have the authority to weigh in at key moments. For example, on the revenue collection

side, the oversight committee should have the independent authority to monitor the amount of oil produced and verify or audit figures provided by the relevant ministries. In this way, the committee would be able to reconcile the amount declared by the government with the quantities actually produced and sold (a recurrent problem in Angola and elsewhere). An operational compromise will have to be developed between having a mandate that might appear too obstructionist and one that does not give committee members enough voice, especially on particular projects or violation of the principles of the revenue management plan.

The final mandate will be set out in the Operations Manual for the Committee, which is scheduled for finalization in June 2003. The US government and the World Bank had significant differences over key elements of the Committee's work, including its ability to conduct independent audits of oil revenues. The draft Operational Manual grants the authority to examine and audit any or all of the determinants of oil revenue, including price and volume of oil, exchange rate, royalties and dividends, taxes and customs duties related to oil production, and interest and commission rates.[76] It also will have the formal authority, at any time and at its own discretion, to audit the accounts of the oil companies if there is a presumption of non-payment of taxes or tax fraud. According to the draft, the oversight committee should also be able to examine sequestered offshore accounts, and domestic Special Treasury Accounts, and the Future Generations Fund. Finally, it grants the oversight committee the ability to exercise control over all stages of the allocation process – from the examination of the National Budget before it is sent to the National Assembly to the actual disbursement of funds to venders.

Searching for Political and Financial Support

If the Revenue Oversight Committee has too narrow a mandate, little political support and lacks resources, it could serve as little more than a hollow institution despite the best efforts of its members. This danger is especially great if it does its job too well. There are some indications that this might already be a problem. For example, committee members need to be able to "follow the money" and perform site visits to see, for example, that schools are actually built. They should also have the capacity to monitor procurement procedures, especially since these procedures have been singled out for criticism by the World Bank.[77] But even though the oversight committee has been promised "the full cooperation of the departments and agencies concerned" it cannot compel agencies to produce their documents and has no subpoena power.[78]

Furthermore, one of the most competent government representatives on the committee was summarily removed from his post, and this does not bode well for the effectiveness of this institution. In April 2003, Amine Ben Barka, the National Director for Chad of BEAC, the Bank for Central African States, (Chad's central bank is shared with neighboring states) was removed from his post, with no explanation given. Ben Barka was also the president of the Revenue Oversight Committee and his membership in the Committee was dependent on his holding the central bank post. Seen as competent, independent, technically skilled and widely respected, his removal, on the eve of first oil, may weaken the institution at a vital juncture.[79]

The weak financial base of the Revenue Oversight Committee is another reason for worry. A lack of financial and human resources to perform its job is a constant problem. Until late 2002, the committee lacked its own office space, furniture or vehicles.[80]

Ironically, the problem of financial support, at this stage, is primarily the responsibility of the World Bank. While, to the surprise of some committee members, Chadian government funds (100 million FCFA or $140,000) were released for their use last year, the 2002 World Bank funds (360 million FCFA or $500,000) from its capacity

building project had not been released, even by the end of 2002. In 2002, civil society members of the committee suspended their participation in the committee because of delays blamed on the World Bank, and the whole committee met to consider delays in World Bank disbursement procedures. Committee members also complain that the World Bank imposes its own consultants and suppliers for committee activities. The World Bank, in turn, says that delays in the disbursement of funds are the fault of the Chadian government, but the Bank funds the project unit that should allocate the money for the committee, and the coordinator was chosen with World Bank approval. Without increased funding, the committee will be unable to hire full time staff or perform its full duties in time for the arrival of first oil revenues. After finalization of the Operational Manual, the Committee will need to quickly hire staff and build its functional capacity. With proper domestic and international support, this institution can serve as a necessary complement to evolving government institutions, and it can raise a loud alarm when petrodollars go astray.

With proper domestic and international support, Chad's Petroleum Revenue Oversight Committee can serve as a necessary complement to evolving government institutions, and it can raise a loud alarm when petrodollars go astray.

5.3 Chad-Cameroon: A New Model for Oil-led Poverty Reduction?

"Everything depends on whether the law will be adhered to."

— Christopher Goldthwaite, U.S. Ambassador to Chad[81]

The World Bank effort on the Chad-Cameroon project is an innovative experiment, in the context of past development failures based on oil, and elements of the project could possibly be replicated elsewhere. Chad's Revenue Management Law and the Revenue Oversight Committee are novel institutions that could play a useful role if properly supported, and they could be adapted for other country contexts. The World Bank's Independent Advisory Group, with a strengthened mandate, could prove useful in other high profile, high-risk projects.

But the project is flawed in many ways and falls short of the "big push" necessary to change the development outcomes produced by oil dependence. Several problems especially stand out. First, the World Bank's involvement did not include bargaining over fair shares between multinational companies and the government, thus the take of Chad is relatively small, reflecting both the inexperience of new producers discussed in the previous chapter and the disproportionate power between the companies and African governments. Second, the revenue management law and the oversight committee are inadequate because significant revenues, even the majority of revenues, fall outside their rubric. In the future, such laws should cover all oil produced in the country; cover indirect and direct revenues; and include signing bonuses.

Most important, the experience of the Chad-Cameroon project to date shows that timing, sequencing, and governance are key. State capacity and good governance are not pipelines, and they cannot be built in the same time frame.

Most important, the experience of the Chad-Cameroon project to date shows that *timing, sequencing, and governance* are key. State capacity and good governance are not pipelines, and they cannot be built in the same time frame.

For all of the institutional design that has gone into the Chad-Cameroon project, there will be little but moral suasion to keep Chad from making the same oil revenue management mistakes as its neighbors. The spotlight will not remain on this government forever, and the World Bank's attention will shift. At several crucial points, the World Bank and IMF have used their leverage to get the revenue management law passed and amended, to develop the oversight committee, and to correct the misappropriation of the "signature bonus."[82] But once oil begins to flow, the leverage of these institutions, like in Angola and elsewhere, will be substantially diminished. Chad in 2003 is not Chad in 2004. As the World Bank itself has noted in its World Development Report, "If the history of development assistance teaches us anything, it is that external support can achieve little where the domestic will to reform is lacking."[83]

Technocratic fixes help, but they are not enough. Even with the efficient management of oil revenues and spending in priority areas, the obstacles to reducing poverty are largely political. For example, the government must quickly develop "allocative efficiency," but the experience of other petro-states shows that public contracts are often massively inflated as a politically desirable practice, the better to serve a political patronage system. Insiders close to the ruling circle establish enterprises to gain contracts funded through the allocation of oil wealth.[84] Thus the tightening and strengthening of procurement procedures requires political support.

"Good oil revenue management is the necessary but not sufficient condition for poverty alleviation. The environment must be made investor-friendly above all in order that the thousands of sustainable jobs needed for poverty alleviation can be created. Otherwise, the oil will come and go and the only difference will be a huge increase in the public sector wage bill. At present, Chad has one of the most investor-hostile environments."

— Tawfik Ramtoolah, U.S. Treasury Department Resident Advisor in Chad to the Revenue Oversight Committee

If allocative efficiency is not improved, this sets off problems of absorptive capacity as well as the Dutch Disease, in turn causing new problems. If spending is wasted, Chad could follow Angola and Congo-Brazzaville's example and rely on oil-backed loans, in part to finance military spending.[85] At the same time, other economic sectors could be harmed. As the World Bank foresaw before project approval, "the cotton and sugar sectors are the most valuable. Oil will be produced in the cotton region, and there is a real risk that farmers could leave their fields in the hope of finding employment in the oil sector."[86] These sectors form the backbone of the rural economy in southern Chad, employing hundreds of thousands of workers, while the oil sector, especially after the construction phase, will provide few jobs for Chadians. If they are destroyed, where will people work?

Resolving oil-related problems, big international players often argue, is a matter of political will. But this political will is created only when Africans have the capacity to monitor their authorities and the opportunity to hold them accountable for their actions. Thus the revenue management plan will be effective only when people from Chad and Cameroon are able to speak and publish freely, organize, and engage in civic debates in an atmosphere of respect for human rights and the rule of law. The oil business requires constant scrutiny – the scrutiny of organizations of ordinary citizens whose lives are affected daily. Only they will have the huge stake and the staying power to try to mitigate the "resource curse." **(see box on page 76 – Independent Monitoring of the Chad-Cameroon Pipeline)**

Once oil begins to flow, the leverage of the World Bank and IMF, like in Angola and elsewhere, will be substantially diminished. Chad in 2003 is not Chad in 2004.

Because the revenue management system is only a legal and technocratic framework, its ultimate success depends on the political support of those in power to make the model work and the ability of citizens to hold their government responsible for its action. Thus the refusal of the World Bank and other international financial institutions to address the fundamental issues of human rights and governance (unless they have a "direct economic impact") is self-defeating. In the end, only good governance and respect for human rights will determine whether the poor actually benefit from the largest private foreign investment project in sub-Saharan Africa.

The Chad-Cameroon Project: A Model?

Very special circumstances led to the Chad-Cameroon Project, and it is unlikely they will be replicated. Chad is landlocked, requiring massive investment to bring the oil to market. It is extremely poor, making the leverage of the World Bank particularly strong prior to the oil boom. Because of the criticism heaped on companies operating in Sudan during its war, foreign oil companies decided that they could not go forward in conflict-ridden Chad without World Bank participation and strong conditionalities. This is in stark contrast to Equatorial Guinea, where oil is offshore and the companies decided they did not need World Bank participation.[87] This combination of factors may not be seen again.

While certain institutional innovations, like the revenue management law and the oversight committee, are likely to be proposed in other oil settings, the project cannot yet be considered an example of "best practices" unless it delivers the hoped for results — concrete improvements in the lives of the poor. Although it has come closest

to the "big push" needed to address Africa's paradox of plenty, the Chad-Cameroon experiment is an evolutionary, rather than revolutionary, step forward in addressing the oil resource curse in Africa. It may prove to be a model for avoiding worst-case scenarios,

Recommendations for Petroleum Revenue Management in Chad and Cameroon

- The World Bank, in its country dialogue, should encourage an oil revenue management law and plan for Cameroon.
- The World Bank should encourage an amendment to the revenue management law to cover all oil exploited in Chad.
- Prior to the September 2003 approval of Chad's sixth Structural Adjustment Credit, the World Bank should insist on completion and adoption of the Revenue Oversight Committee operation manual, establishment of the sterilization mechanism and public disclosure of information of new oil exploration in Permit H and elsewhere.
- The World Bank, in haste to make up for lost time in the development of the Revenue Oversight Committee, should not substitute international consultants to essentially function for the committee in the early months of oil revenue inflows. Oil revenue should be temporarily sterilized and drawn down only when a capable Chadian institution, the Revenue Oversight Committee, is in place.
- Windfall revenues that can not be used immediately or efficiently for the objectives of the project should be sterilized by increased contributions to the Future Generations Fund rather than the creation of another sterilization mechanism.
- As described in the loan agreement between Chad and the World Bank, any oil using the pipeline must be developed using the same environmental and social safeguards as the three Doba fields. The World Bank must insist on this condition for new developments being pursued and require full disclosure by the government of the extent and nature of oil exploration activities in Chad.
- Measures should be developed for systematic and ongoing human rights monitoring in Chad, such as that done by the UN Office of the High Commissioner for Human Rights, to give international weight and support to ongoing human rights monitoring being done by local groups. The World Bank, the IMF and others should use human rights and governance criteria, in addition to economic criteria, in deciding on further support.

On the Revenue Oversight Committee:

- The Revenue Oversight Committee should have a flexible mandate, reflected in the operational manual, to allow it to monitor revenue collection, management and allocation, especially procurement, and intervene where necessary. It should also be allowed to play a major role in the setting up and monitoring of the Fund for Future Generations.
- Funds for the Revenue Oversight Committee should be released immediately from the World Bank loan for this purpose. The World Bank should make this a priority in its dialogue with the Chadian government. The committee should have resources and staff to carry out its mission effectively as soon as possible.
- In addition to having technically competent full-time Chadian staff working with the Revenue Oversight Committee, Committee members need training in oil revenue management, procurement and disbursement procedures.
- U.S. Treasury Department technical assistance to the Revenue Oversight Committee should continue and other external sources should consider support to this important body.
- Civil society members on the Revenue Oversight Committee should play an active role on the Committee and consult regularly with their constituents.

Community-Based Monitoring of Oil Projects: The Cameroon Independent Pipeline Monitoring Project

Members of the Independent Pipeline Monitoring Project, CRS staff, and African NGO visitors on the Chad-Cameroon pipeline route near Kribi, Cameroon. (Photo: Ian Gary, CRS)

CRS supports an independent pipeline monitoring project in Cameroon. The mission of the project is to ensure that the rights and dignity of Cameroonians are respected, the environment is preserved and the welfare of Cameroonians improves. The objectives of the project include operating an observation and data collection system; educating and informing the population about their rights; and developing advocacy materials. Working with grassroots community groups, three local NGOs – Center for Environment and Development (CED); Ecumenical Service for Peace/Service Ecuménique pour la Paix (SEP); and Environment-Research-Action – are monitoring along the geographic length of the pipeline construction route in Cameroon and bringing attention to problems in the implementation and construction of the project to local, national and international actors. A fourth local NGO, Cameroon Foundation for Rational Action by Women on the Environment (FOCARFE), synthesizes field data into periodic monitoring reports, publishes a free *Pipeline Journal* newspaper in French and English to inform the population about the project, and organizes briefings for local and international media.

The project has trained 80 community-based observation teams along the pipeline route who file monthly reports. The monitoring is grounded in the community and community concerns. The project combines participatory research, communication and advocacy from the local to the international levels. Project members have traveled to the World Summit on Sustainable Development in Johannesburg as well as to Washington to relay concerns regarding the project both before and after approval.

Prior to project approval, CRS-supported research provided an "alternative compensation table" that proposed more realistic compensation rates for the loss of productive assets, such as mango trees. Many of these rates were accepted by the oil consortium. The project has built its credibility over time. During the IAG visit to Cameroon in May 2002, the delegation was accompanied by a member of the independent monitoring project. The IAG has since said that a project member should accompany every delegation in Cameroon. The Government of Cameroon has also come to see the project as a significant actor, and dialogue between the Government and civil society has improved, with project members now called to meetings.

Credible and accurate information is a vital element in African oil advocacy. The Chad-Cameroon Independent Pipeline Monitoring project could be usefully replicated in other countries.

Reports of the Chad-Cameroon Pipeline Project are available at www.catholicrelief.org/africanoil.cfm

thanks to the intensive efforts by civil society organizations pushing the World Bank and others to improve the project. But until oil revenues start to flow, its real effects remain largely untested.

Conclusion: Beyond the Paradox of Plenty?

> *Thus oil will be a fuel, not for death, debt, violence, dictatorship, and civil war, but for the progress and well being of Congolese and Africans.*
>
> *— Catholic Bishops of Congo-Brazzaville, 2002*

The efforts being made on the Chad-Cameroon project, incipient and flawed as they are, show that international actors – oil companies, the World Bank and IMF, and Northern governments – are responding to pressure from civil society to address Africa's "paradox of plenty." But much more remains to be done to turn Africa's oil into fuel for the "progress and well being" of Africans across the continent.

The dramatic development failures that have characterized most other oil dependent countries warn that petrodollars have not helped developing countries to reduce poverty; in most cases, they have actually exacerbated it. Africa's older oil exporters – Nigeria, Gabon and Angola – confirm this trend while newer exporters, such as Equatorial Guinea, seem about to embark on the same course.

This is a critical moment for Africa and the poor who live in Africa's petro-states. The next decade will be one of phenomenal exploration activity, investment and growth in oil production. Well over $200 billion in revenues will accrue to Africa's old and new petro-states. How these revenues are managed and allocated will have real consequences for hundreds of millions of Africans.

A Dismal Scenario

One dismal scenario was succinctly described by a U.S. National Intelligence Council report in 2000. In Africa, it said, "the pattern of oil wealth fostering corruption rather than economic development will continue. The quality of governance, rather than resource endowments, will be the key determinant of development and differentiation among African states."[1] This prediction will come to pass if African governments, Northern governments, oil companies and International Financial Institutions maintain their current policies. "Business as usual" would mean, for example, that:

- African governments continue to lack accountability and treat key information about oil revenues as state secrets.
- Oil companies pursue their commercial and competitive objectives and seek only to keep cordial relations with host governments.
- The U.S. and other Northern governments prioritize commercial interests over transparency, human rights and democracy in their relations with African petro-states.
- The World Bank and IMF pursue continued engagement with African petro-states without sufficient attention to transparency, human rights and democracy.
- Civil society remains weak and lacks information and resources to hold governments to account.

In this scenario, popular anger at the mismanagement of oil wealth and the lack of visible improvements in the quality of life result. This anger at times boils over into sabotage, rebellion and conflict. Important new oil supplies, even those found offshore, are under threat, while tens of thousands may lose their lives in growing civil strife.

A Hopeful Scenario – The "Big Push" for Transparency and Accountability

A more hopeful scenario would see a concerted change in the incentive structure

surrounding the management of Africa's oil wealth. A sustained, coordinated and coherent effort among all relevant actors would increase the benefits and minimize the harm from oil development. In this "big push" scenario, actors within each sector and across sectors would work together rather than at cross-purposes.

This "big push" approach would mean, for example, that:

- Oil companies work collectively to address problems that threaten the reputation and sustainability of their business. Corporate "best practice" in the publication of revenue payments or other policies is not sacrificed on the altar of competitive pressure.
- Western governments work together to promote a common policy on transparency, governance and human rights. Rather than using diplomatic resources solely to expand market opportunities for oil companies operating in Africa, these governments would direct their export credit agencies to adopt common policies to promote transparency and accountability in oil projects.
- The World Bank and the IMF work with the common purpose of leveraging their influence to promote transparency and accountability in the management of oil wealth.
- Civil society groups in Africa and internationally work together, strengthened by better information, to improve the management of oil wealth for poverty reduction.

In this scenario, oil revenues become more transparent, democratic space increases and an empowered civil society helps to ensure that petroleum revenues are well managed to benefit the poor. African governments are encouraged through changed external incentive structures and demands from their own people to improve their management of oil wealth.

Only collective and coordinated action can make a difference. Actions within and between sectors will be reinforced or undermined depending on what others do. One oil company cannot step out in front of others without fear of losing business. The World Bank and IMF will not be successful in promoting reform efforts if the U.S. and other major powers do not support them. In bilateral relations, all Western governments will need to adopt the same policies towards African oil exporters. Only in this way will incentive structures change to promote transparency and accountability in the management of oil wealth.

The key to success at improving the management of Africa's oil resources and directing these resources towards poverty reduction is the long-term project of building democracies, protecting human rights and expanding space for free expression. This will have a greater long-term chance of success than externally imposed controls. But the promotion of transparency of oil revenues is an important first step. The objective of managing oil wealth well must fit into a transparent and participatory budget making and execution system – a system that focuses on poverty reduction and participatory development strategies. Governments, in turn, need more technical capacity to manage revenues, and civil society needs to be strengthened to perform its oversight and watchdog role. Finally, Africa's oil-based economies must develop economic diversification strategies to have hope for a viable post-oil future.

CRS believes that a "big push" for transparent oil revenue management in Africa is urgently required if future disasters are to be avoided in Africa. This "big push" is both achievable and vital. Many outsiders will benefit greatly from Africa's oil boom – oil companies will make large profits and Northern governments and consumers will secure new supplies, but these benefits cannot be at the expense of millions of Africans. The responsibility for ensuring that Africans themselves benefit is a

collective one. The successful management of the wealth created by Africa's oil boom is one of the major challenges facing the international community in its relations with Africa. The alternative will be much more than an opportunity lost, but a disaster for millions of Africans.

The issue of revenue management is not going away. It's not just pressure from NGOs, NEPAD (the New Partnership for African Development), the U.K. government; it's the communities themselves, among whom we operate.[2]

— Alan Detheridge, Vice President for External Relations, Shell

Recommendations

National Governments of Oil-Exporters:

Oil exporting governments should:

- Remove legal and extra-legal obstacles to transparent disclosure and monitoring of the oil sector. This would include removing non-disclosure clauses in production sharing agreements.
- Guarantee respect for human rights, including freedom of expression, association, and the press.
- Collaborate with citizen groups monitoring the management and allocation of oil wealth. This could include the development of revenue oversight mechanisms involving both government and civil society in the management and allocation of oil revenues.
- Publish the results of regular independent audits of national oil companies.
- Include oil revenues in the national budget.
- End the practice of oil-backed loans until effective measures for oil revenue and budget transparency are in place.
- Earmark revenues to priority social sectors, most especially education, health, and the development of capable institutions.
- Collectively consider the inclusion of oil revenue transparency as a key governance "deliverable" for good standing as members of the New Partnership for African Development (NEPAD).

International Oil Companies:

International oil companies should:

- Support the international "Publish What You Pay" campaign by publicly disclosing, in a disaggregated, regular and timely manner, all net taxes, fees, royalties and other payments made to the (African) states, at any level, or to local communities, including compensation payments and community development funding.
- Work collectively to support processes that will develop a "level playing field" for revenue disclosure.
- Observe universally accepted human rights standards as defined in the *Universal Declaration of Human Rights*. This is especially important in relation to the security of oil installations, treatment of workers and local populations and the protection of the environment.

The U.S. and other Northern Governments:

It is incumbent upon us as a nation to do all we can to see that this pattern of misuse and conflict surrounding African oil is broken . . . the practice of turning a blind eye as oil revenues are misused is not good for our country's strong interest in seeing the world's poorest continent develop; it's certainly not good for Africans; and ultimately it is bad business for energy companies.

— Rep. Ed Royce, U.S. House of Representatives Africa Subcommittee Chairman

The U.S. and other Northern governments should :

- Emphasize the respect of human rights, the promotion of good governance and democracy, and the transparent, fair, and accountable management of oil revenues in their bilateral relationships with African petro-states.
- The U.S. should work with other G8 countries to develop common positions regarding oil revenue transparency with African exporters.
- For the U.S. government – Include regular reporting on the state of oil revenue transparency and management in annual human rights reports on African oil producers.
- Support effective international efforts aimed at increased transparency of oil revenue payments by companies to developing countries. Such efforts should result in globally applied standards rather than piecemeal "pilot country" experiments.
- Use their influence to prioritize transparent, fair and accountable revenue management within the World Bank and IMF.
- Work with the international community to identify, freeze and eventually repatriate any looted oil revenue assets from African countries.
- Work together to harmonize environmental and social standards, as well as improve transparency and access to information regarding ECA financed projects.
- Through development assistance and other programs, support both the ability of governments to manage oil revenues and the ability of civil society organizations to monitor and hold their governments accountable.

The World Bank and IMF:

International Financial Institutions should:

- Demonstrate how their activities in the oil sector directly impact poverty reduction and use all of their leverage strategically to promote transparency, fair and accountable revenue management and allocation, and respect for human rights.
- Move beyond a narrow technocratic approach and include the democratic and human rights environment of borrower countries in its programs, practices and evaluations.
- Develop a coherent view of corporate responsibility and apply it consistently, so that companies meet minimum standards to participate in IFI projects.
- Dedicate all elements of their activities, including IFC investments and investment guarantees, IDA loans, IBRD market based loans, MIGA investment insurance, to eradicating poverty.
- Restrict future lending for oil projects in Africa to governments that make binding commitments to transparent oil revenue management targeting poverty reduction.
- Engage only with corporations on oil projects if they are transparent in their oil revenue payments to African governments.
    - The IFC should go further than endorsing the principle of transparency and condition projects on the adoption of this policy by companies benefiting from loans, risk insurance and other guarantees.

- The business-oriented operations of the IFC must fall fully in line with the World Bank mandate of poverty reduction and must show how its investments are reducing poverty, and not just increasing government revenues.

- Integrate oil company audits (both state-owned and foreign companies where possible) into their programs, e.g. Article IV consultations, Staff Monitored Programs, WB Country Assistance Strategies, and loan conditionalities.
- Make public all audits supported by the World Bank and IMF as well as other oil revenue data collected. These institutions should improve their own disclosure regarding dialogue and projects with African oil-producers. Results of IMF Article IV consultations should be disclosed with or without the consent of the member country.
- Work early-on with potential oil producers, – e.g. São Tomé and others – while their leverage is strongest, to put in place revenue management laws allocating funds to priority social sectors and including structures for government-civil society oversight and other mechanisms while their leverage is strongest. Credits for petroleum sector technical assistance (e.g. in Mauritania) must focus on transparency in revenues as a key objective.
- Require transparency in oil revenues and oil revenues in the national budget and regular audits of the national oil company in order for countries to receive HIPC debt relief or PRGF concessional loans.

Export Credit Agencies (ECAs):

Export Credit Agencies should:

- Require private sector companies wishing to access loans, guarantees and risk insurance to publicly disclose, in a disaggregated, regular and timely manner, all net taxes, fees, royalties and other payments made to African states.

United Nations

- The UNDP should ensure that its efforts to promote business partnerships with oil companies in African countries do not compromise the broader UN mission of promoting good governance, human rights and sustainable development. With offices across the region, UNDP and other agencies are well-placed to help turn rhetorical support for transparency and good governance into practical programs that work with civil society and others to improve transparency, fight corruption and reduce poverty.
- UNCTAD efforts to promote investment in the African oil and gas sector should be balanced by programs that build the capacity of governments to manage the sector and to channel revenues to poverty reduction.
- The UN High Commissioner for Human Rights should assign Special Rapporteurs to African oil exporters with systematic human rights problems. This body can assist in expanding political space for citizens to monitor oil revenues and human rights practices of their governments.

Civil Society:

International private humanitarian and development agencies and non-governmental organizations should:

- Lobby Northern governments, the World Bank and IMF, oil companies and other actors to support a "big push" for African oil revenue transparency.
- Strengthen and support the development of independent monitoring and information systems regarding oil activities and revenue management in Africa.
- Provide assistance to local groups to develop their capacity to generate credible, independent information on oil development projects and oil revenue management.
- Unite with CRS and other groups to support the "Publish What You Pay" campaign.
- Support systems to collect and disseminate accurate and credible information about the impact of oil development in Africa.
- Incorporate work on oil and poverty issues program activities where appropriate and encourage common cause between international and local groups that work on debt relief, budget monitoring, corruption and oil revenue transparency.
- Develop stronger links between Northern and African activists around shared objectives.
- Promote transparency, accountability and democratization as essential conditions for the fair and just use of oil revenues.

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Endnotes

Introduction

1. While projections of this nature are difficult to make given the variables involved — including the price oil will fetch on the world market, the amount national governments will receive through any future negotiations with oil companies and future levels of oil production – this figure serves to illustrate the magnitude of the revenues involved. This figure was derived by aggregating published estimates of 2002 government revenues for all of sub-Saharan Africa's oil producers. Declines in production from mature producers, e.g. Gabon or Cameroon, will be more than offset by large increases in production in Nigeria, Angola and Equatorial Guinea, as well as the arrival of new producers including Chad, possibly São Tomé and Principe and others. If anything, the figure of $200 billion will, in the end, prove to be far too low. *Sources include:* Economist Intelligence Unit and World Bank.
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Section 1: Africa's Oil Boom

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[4] Paul Maidment. "The Other Gulf," *Forbes*, March 10, 2003.

[5] In September 2002, the UN Conference on Trade and Development (UNCTAD) organized a pan-African oil and gas conference in Cameroon; in October 2002 Cape Town was the host for another pan-African oil conference; while in November 2002 the US-based Corporate Council on Africa hosted a West African oil conference in Houston.

[6] Norm Scheiber, "Where the Oil Is," *New York Times Magazine*, November 10, 2002, p. 26-28.

[7] Presentation by Jerry Kepes, Managing Director, Petroleum Finance Corporation, to Center for Strategic and International Studies, "US-Africa Security Interests," Senate Dirksen Building, December 5, 2002.

[8] Cambridge Energy Research Associates, Potential versus Reality: West African Oil and Gas to 2020. Cambridge, 2002.

[9] US Department of Energy, Energy Information Administration, International Energy Outlook 2002.

[10] "US moves to secure African oil supplies," Vanguard, Lagos, Nigeria, September 30, 2002.

[11] Paul Maidment, op. cit.

[12] Serena Parker, "West African Oil," Voice of America, October 25, 2002

[13] Kepes, op. cit.

[14] *The Offshore West Africa Report 2000-2005*, Canterbury, U.K.: Douglas-Westwood, Ltd.

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[16] Figures for Cameroon from IMF, "Cameroon: 2nd Review under the PRGF arrangement and request for waiver of performance criteria and for additional Fund HIPC Interim Assistance – Staff Report, 28 December 2002."

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[18] Barry Morgan, "Freetown Seeks Peace Dividend," *Upstream*, October 11, 2002.

[19] *The Economist*, "Sub-Saharan African Oil: Black Gold," October 24, 2002.

[20] Africa Upstream 2002 Conference, Cape Town, South Africa, October 2-4.

[21] A $2.6 billion bond issue, a record for an Asian company, was launched in May, 2002, to pay for expansion plans from "Chad to China". Bloomberg News, May 15, 200s.

[22] Darius Snieckus, "The Year of Spending Thriftily," *Offshore Engineer*, February 3, 2003.

[23] National Intelligence Council, National Foreign Intelligence Board, Global Trends 2015: A Dialogue about the Future With Non-Government Experts, December 2000.

[24] One Western oil industry source based in the Gulf of Guinea told the authors that these figures were low, *with the U.S. already receiving 21 percent of its oil from sub-Saharan Africa*, with this figure set to rise to 25 percent in the next three to five years. Interview in Congo-Brazzaville, September 19, 2002. The Corporate Council on Africa – with many oil company members – says the figure will be 25 percent by 2005.

[25] The Africa Oil Policy Initiative Group (AOPIG) was launched in 2002 by the Institute for Advanced Strategic and Political Studies (offices in Jerusalem and Washington) to promote African oil and lessen dependence on Middle Eastern oil. The AOPIG counts a number of oil companies and members of Congress among its backers. These include Africa Subcommittee Chairman Ed Royce (R-CA), House Energy and Commerce Committee Chairman Billy Tauzin (R-LA) and House Republican Conference

Chairman J.C. Watts (R-OK) and Rep. William Jefferson (D-LA). The U.S.-based Corporate Council on Africa is largely comprised of oil companies and has played an active role in encouraging investment..

[26] The Canadian Press, "America has its sights set on West Africa's Gulf of Guinea," September 21, 2002.

[27] Sustainable Energy and Economy Network, "The World Bank and Fossil Fuels: A Clear and Present Danger," Washington, September 2002. www.seen.org/PDFs/wb_brief_sept02.pdf

[28] The IFC's Annual Portfolio Performance Review for FY2000 showed that the oil, gas and mining sector had "by far the highest equity return" at 26.6%. See http://www.seen.org/pages/ifis/wb_leak2.shtml

[29] The World Bank Group recently merged staff from the IBRD and IFC to create an Oil, Gas and Chemicals Department that combines both public sector policy and project finance activities.

[30] For a useful examination of the World Bank's role in extractive industries in Africa, see, Pegg, Scott, *Poverty Reduction or Poverty Exacerbation: World Bank Support for Extractive Industries in Africa*, May 2003, a report co-sponsored by Oxfam America, Friends of the Earth-US, Environmental Defense, Catholic Relief Services and the Bank Information Center. Find the report at www.catholicrelief.org/africanoil.cfm.

[31] Rashad Kaldany, "World Bank Group: Financing African Oil and Gas Projects", presentation to African Gas 2001 conference, March 5, 2001.

[32] World Bank "Work in Low-Income Countries under Stress: A Task Force Report." September 2002.

[33] www.ifc.org/ogc

[34] Project description quotes found at www.ifc.org/ogc

[35] Anthony Boote and Doris C. Ross, *Official Financing for Developing Countries*, Wasington: International Monetary Fund, February 1998.

[36] Bruce Rich, Korina Horta and Aaron Goldzimer, *Export Credit Agencies in Africa*, Washington: Environmental Defense, 2001.

[37] Bruch Rich, et al, op. cit., pg. 5.

[38] African Export-Import Bank, *Annual Report 2001*, Cairo.

Section 2. The Paradox of Plenty: The Record, The Challenge

[1] From the January 25, 2002 symposium "African Oil: A Priority for U.S. National Security and African Development" sponsored by the Institute for Advanced Strategic and Political Studies, Washington, D.C. The full quote is: "It provides a revenue stream that should supply capital to grow African economies and to break the cycle of poverty that plagues the continent."

[2] Simon Robinson, "Black Gold," *Time*, Oct. 28, 2002/Vol. 160 No. 18

[3] Interview near Mboubissi, Congo-Brazzaville, September 20, 2002.

[4] Unless otherwise cited, the argument in this section and the statistics on the performance of oil exporting countries is from Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States* (Berkeley: University of California Press, 1997) or Terry Lynn Karl, "The Impact of Oil Booms on Oil-Exporting Countries: Reflections on *The Paradox of Plenty*," *in Fueling the 21st Century: The New Political Economy of Energy*, special edition of *The Journal of International Affairs*, vol. 53, no. 1 (fall 1999). These works should be consulted for a more complete explanation of the oil phenomenon described here.

[5] Indonesia was the only large less-developed oil exporter avoiding this pattern, but this too changed after 2000.

[6] In addition to works by cited above, see Richard M. Auty, *Sustaining Development in the Mineral Economies: The Resource Curse Thesis*, London: Routledge, 1993., Jeffrey Sachs and Andres Warner, *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no 517 (Cambridge: Harvard Institute for International Development 1995). Michael Ross, "Extractive Sectors and the Poor," An Oxfam America Report, 2001, Richard M. Auty and Alan G. Gelb, "Political Economy of Resource Abundant States," in Richard M. Auty (ed). *Resource Abundance and Economic Development*, (Oxford, University Press, 2001), 126-144, and , Paul Collier and Anke Hoeffler, *Greed and Grievance in Civil War*, Policy Research Working Paper 2355, Development Research Group, World Bank, May 2000.

[7] Ryszard Kapuscinski, p. 34-35, *Shah of Shahs*, New York: Harcourt, 1983.

[8] Witness also the positive impact of natural resource wealth on Canada, Australia, and the United States during the first wave of fossil fuel development But these countries had competitive manufacturing sectors prior to the development of their mineral resources, unlike oil exporters in less-developed countries where the sequence is reversed. And oil was not a primary export commodity; it was used internally. Finally, the leading export, in each of these cases, was not petroleum.

[9] Interview with Juan Pablo Perez Alfonzo, Caracas, Venezuela, summer, 1976.

[10] Oil companies are well-known for their ability to manipulate existing laws and create new laws in their own *interests. This practice is described in The Paradox of Plenty, chapter 4, and in Daniel Yergin, The Prize: The Epic Quest for Oil, Money and Power*, New York: Touchstone, 1992. For a classic study of oil company strategies, see Franklin Tugwell, *The Politics of Oil in Venezuela*, Stanford: Stanford University Press, 1975.

[11] Robert Baer, "The Fall of the House of Saud," Atlantic Monthly, May 2003, p. 55.

[12] Much of the information in this section is from Karl, *op.cit.*, and Jahangir Amuzegar, *Managing the Oil Wealth: OPEC's Windfalls and Pitfalls*, London: I.B. Tauris Publishers, 1999.

[13] This is the phrase used by economists. See, for example, Gobind Nankani, "Development Problems of Nonfuel Mineral Exporting Countries," *Finance and Development* 17, January 1980; Alan Gelb, *Oil Windfalls: Blessing or Curse*, New York: Oxford University Press, 1988; and Richard M. Auty, *Sustaining Development in the Mineral Economies: The Resource Curse Thesis*, London: Routledge, 1993. For more recent quantitative studies, see Ricahrd M. Auty, *Resource Abundance and Economic Development*, Helsinki: UNU world Institute for Development Economics Research, 1998 and Jeffrey Sachs and Andrew Warner, "Natural Resources and Economic Growth," revised version. Harvard Institute for International Development Discussion Paper, 1997.

[14] See Richard Auty, "Natural Resources, the State and Development Strategy," *Journal of International Development* (9,1997), pp.651-663.

[15] A comprehensive study by Harvard economists Jeffrey Sachs and Andres Warner demonstrates that countries whose natural resource exports composed a high percentage of gross domestic product had abnormally slow growth rates between 1971 and 1989 when compared to non-resource based development models Drawing on data from 97 developing countries, these researchers confirm that there is a negative relationship between a country's dependence on natural resource exports and their subsequent growth. Thus, countries that base their development on resources like petroleum grow more slowly than those that follow other development models. See *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no 517 (Cambridge: Harvard Institute for International Development 1995).

[16] See, for example, Carlos Leite and Jens Weidmann, " Does Mother Nature Corrupt? Natural Resources, Corruption, and Economic Growth," IMF Working Paper WP/99/85.

[17] See Alan Gelb, *Oil Windfalls: Blessing or Curse?* (World Bank, Oxford University Press, 1988).

[18] See Thorvadur Gylfason, "Nature, Power and Growth," and Carlos Leite and Jens Weidemann, "Does Mother Nature Corrupt? Natural Resources, Corruption and Economic Growth," IMF working Paper, WP/99/85.

[19] See Ricardo Hausmann and Michael Gavin, "Securing Stability and Growth in a Shock Prone Region: The Policy Challenge for Latin America," IDB , Working Paper 315, 1996; Garey Ramey and Valerie A. Ramey, "Cross-Country Evidence on the Link Between Volatility and Growth," *American Economic Review*, 85, 1995, 1138-1151; Karnit Flug, Antonio Spilimbergo and Eric Wachenheim, "Investment in Education: Do Economic volatility and Credit Constraints Matter?" *Journal of Development Economics*, vol. 55, no.2, 1999.

[20] See W.M. Corden and P.J. Neary, "Booming Sector and De-industrialization in a Small Open Economy," *Economic Journal 92*, December 1982 and Peter Neary and Sweder van Wijnbergen,eds., *Natural Resources and the Macro-Economy*, Cambridge: MIT Press, 1986.

[21] See Mohsen Fardmanesh, "Dutch Disease and the Oil Syndrome: An Empirical Study." *World Development* 19, no.6, 1991.

[22] See Paul Krugman, "The Narrowing Moving Band, the Dutch disease, and the Competitive Consequences of Mrs. Thatcher," *Journal of Development Economics*, 27, 1987, 41-55.

[23] For example, in Angola, a country of over 11 million people, fewer than 10,000 are employed in the oil industry, while the industry accounts for almost half of Angola's GDP. See Global Witness, *A Crude Awakening*, p.6.

[24] Both statistical work and case studies are clear on this point. See, for example, Paul Collier and Anke Hoeffler, *Greed and Grievance in Civil War*, Policy Research Working Paper 2355, Development Research Group, World Bank, May 2000. This study shows that states dependent on the export of oil and minerals face a risk of civil war of 23 percent for any five year period, compared to a risk of 0.5percent for a country with no natural resource exports.

[25] In some years, for example, subsidies in the Persian Gulf have run as high as 10 to 20 percent of GDP Amuzegar, *op.cit.*, 101.

[26] Where the average developing country spends about 12.5 percent of its budget on the military, Ecuador in contrast spends 20.3 percent, and Saudi Arabia spends a whopping 35.8 percent Ross, *ibid.*, 15..

[27] See Terry Lynn Karl, *op.cit.*, and Michael Ross, "Does Oil Hinder Democracy?" *World Politics* 53, (April 2001), 325-361.

[28] See Karl, *op.cit*; Richard M Auty, "Natural Resources, the State, and Development Strategy," *Journal of International Development*, 9, 1997, 651-663; and Richard M. Auty and Alan G. Gelb, "Political Economy of Resource Abundant States," in Richard M. Auty (ed). *Resource Abundance and Economic Development*, (Oxford, University Press, 2001), 126-144.

[29] Pipelines are the special focus of violence, as events in Burma, Indonesia and Colombia demonstrate.

[30] See James D. Fearon, "Why Do Some Civil Wars Last So Much Longer Than Others?" paper presented to 'Civil Wars and Post-Conflict Transition,' University of California, Irvine, May 18-20, 2001. This study includes data from 122 civil wars between 1945-1999.

Section 3: Africa's Petro-States

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[2] PFC Strategic Studies, August 2002 Presentation, "Sudan: Projected Oil Production and Revenues," copy on file.

[3] Mike Oduniyi , "NNPC Seeks Fund to Pay N26bn Cash Call Arrears," *This Day* (Lagos), November 18, 2002.

[4] An OPEC member, Nigeria produces well over 2 million bpd, and that figure is rapidly growing with hopes of 3 million bpd in the next decade. According to Nigerian officials, the country has an estimated 30 billion in proven reserves.

[5] Economist Intelligence Unit report on Nigeria, 2002, pg. 20.

[6] Human Development Report 2001, pages, 150 and 168.

[7] According to *Oxford Analytica Brief*, "the award of contracts for these export sales has been a notorious route of political patronage" involving an estimated forty-one companies in the last year of the Abacha presidency (9/7/1999).

[8] Fiscal revenues from the oil sector are mostly subject to the alternative fiscal regime applied to foreign companies known as "the Memorandum of Understanding". Oil and gas revenues consists of gross proceeds from NNPC's share of petroleum exports, petroleum profit tax (PPT), royalty, revenue from the sale of domestic crude (which was subsidized until recently) and from upstream gas. The PPT rate is 85 percent and royalties are 20 percent onshore and between zero and 18.5 percent offshore.

[9] The distribution formula is 48.5 percent for the Federal, 24 percent for the states, and 20 percent for the local governments. The remaining 7.5 percent is allocated to special funds. The Federal Government has agreed that oil proceeds in excess of $20 per barrel should be allocated to a special development account, but this requirement is not binding and has not been kept.

[10] Human Righs Watch, *No Democratic Dividend*, October 2002.

[11] Silverstein, Ken, "Oil Boom Enriches African Ruler," *Los Angeles Times*, January 20, 2003.

[12] According to a World Bank estimate, Nigeria's oil rents at $20/barrel would be $13.6 billion. These rents would jump or fall with a $10 per barrel rise or fall to $21.7 billion and $5.6 billion respectively. McPherson, Charles P., "Petroleum Revenue Management in Developing Countries," World Bank, 2002, www.ifc.org/ogc/publications

[13] Benn, Eifert, et al, "Managing Oil Wealth," *Finance and Development*, March 2003, Vol. 40, No. 1.

[14] UN Integrated Regional Information Network (IRIN), "Nigeria: Focus on shift towards offshore oil production," Lagos, 4 July 2002. Also, "Oil Theft Hits Nigeria," *Upstream*, May 16, 2003.

[15] BBC News, "Shell Nigeria closures continue," March 24, 2003. http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/2880955.stm

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[17] Of the 22 blocks on offer in early 2000, 11 were in deep offshore, seven in shallow waters and four onshore – there were no bids for the shallow or onshore concessions. Human Rights Watch, "Niger Delta: No Democratic Dividend," October 2002.

[18] Ibid.

[19] Associated Press, "Nigerian Parliament Approves Changes to Oil Revenue Sharing Law," October 25, 2002.

[20] These licenses were awarded without public competitive tendering: of the sixteen companies, only one (AMNI International) had any previous experience in oil production.

[21] Economist Intelligence Unit, Gabon and Equatorial Guinea Country Report, January 2003.

[22] "Gabon: Drop in Oil Revenue," *Africa Energy Intelligence*, No. 334, November 20, 2002.

[23] "Gabon: An Opening for Juniors," *Africa Energy Intelligence*, No.333, November 6, 2002.

[24] A signature bonus is paid to the government when a PSC is signed (according to Wood Mackenzie, this has averaged between $1 and 5 million). All fiscal terms of a PSC are negotiable. In Gabonese PSCs, royalties are charged (this was around 15 percent in the 1980s, but is now around 10 percent), mostly on a fixed rate but on some contracts according to a sliding scale according to production. After royalties are deducted, there is a split between "cost oil" revenue, which is then divided between the state and the contractor group to repay investments, and "profit oil" revenue, which is then divided between the state and the contractors on a sliding scale..

[25] Economist Intelligence Unit, Gabon/Equatorial Guinea Country Report, January 2003.

[26] This is a modified version of Law 15, adopted in 1962, which originally awarded individual concession agreements. Legislation in 1974 established public ownership of all resources.

[27] Until recently, for example, the state was entitled to 25 percent equity in any petroleum production venture, which could be raised to 60 percent through buying new shares. But due to reduced investor interest in the face of declining oil, conditions were made more attractive in the late 1990s: royalties were set at 5-15 percent (previously it was 20 percent) and minimum state participation was further reduced.

[28] Presently, in a pattern reminiscent of other oil-exporters, 70 percent of Gabonese citizens live in just three cities, Libreville, Port-Gentil and Franceville.

[29] Pourtier, Roland (1989) *Le Gabon*, 2 vols (Paris, Karthala), pg. 274.

[30] *Africa Research Bulletin*, Economic, Technical and Financial Series, January 16, 2000, 37 (1), pg. 14206.

[31] Africa Review World of Information 2002.

[32] IMF Review of April 2001 cite

[33] See Howard Schissel, "Champagne: Top of the Pops," *West Africa* 3 June 1985.

[34] The *Economist* points to the 199,000 mobile phone numbers (2002) in a country with only around one million inhabitants.

[35] President Bongo's marriage to Congo-Brazzaville's President Sassou Nguesso's daughter is but one of the intimate links that bind regional political relations.

[36] World Bank, "Gabon: Poverty in a Rent-based Economy," Washington, June 27, 1997.

[37] Social Development Notes No. 54, March 2001, World Bank, "Bottom-Up" Community-Based Development: Gabon Urban Development Project.

[38] Ibid. In 1994, public spending still reached US$337 per student at the primary and secondary levels.

[39] "Gabon Debt Suspensions," *Oxford Analytica Brief*, August 13, 2002.

[40] Due to its low population – just over 1 million – and consequent high GDP per capita, Gabon is considered a middle-income country and therefore does not does not qualify for the IMF's Poverty Reduction and Growth Facility (PRGF) funding or for debt write-offs under the Heavily Indebted Poor Countries (HIPC) initiative.

[41] Economist Intelligence Unit, Gabon and Equatorial Guinea Country Report, January 2003.

[42] PFC Strategic Studies, August 2002 Presentation, op. cit.

[43] Jeffrey, Paul, "Angolan Archbishop calls for increased transparency of government," Luanda, *Catholic News Service*, August 6, 2002.

[44] World Bank, "Making Petroleum Revenue Management Work for the Poor," op. cit

[45] Lawrence, Jessica. Department of State "Washington File," "Commerce Assistant Secretary for Energy Briefs Press From Angola," 04 December 2002

[46] Tony Hodges, (2001) , *Angola: From Afro-Stalinism to Petro-Diamond Capitalism*. Oxford: James Currey. Pg. 126.

[47] Production is nearing one million bpd, of which 325,000 bpd are sold to the U.S. Production is slated to reach 1.5 million bbd by 2005 and perhaps two million bpd by 2008.Martin Quinlan, "A Million Barrels a Day in Sight," *Petroleum Economist*, February 2003.

[48] Tony Hodges, op. sit.

[49] UN Integrated Regional Information Networks, November 19, 2002, Johannesburg

[50] U.S. Department of State, Angola Country Report on Human Rights Practices 2002, March 31, 2003.

[51] Human Rights Watch, "The Oil Diagnostic in Angola: An Update," March 2001.

[52] David Leigh, "Angolan oil millions paid into Jersey accounts," The Guardian (London) , November 4, 2002. Signing bonuses paid by Western oil companies to the government of Angola have allegedly been discovered going into secret offshore accounts in the Jersey Islands. The Angolan government has said that as far as it is aware, there is no missing money. The Finance Ministry has launched a public Web site, but critics remain skeptical. "It's not serious. It's an effort at propaganda. They are not really interested in transparency," said José Cerqueira, an economist at the Catholic University of Angola. Quoted in Henri Cauvin, "IMF Skewers Corruption in Angola", *New York Times*, November 30, 2002.

[53] The Angolan Minister of Finance, Julio Bessa, has denied corruption allegations and said a lack of resources had contributed to shortcomings in financial management. The ministry has launched a public Web site, but critics remain skeptical. "It's not serious. It's an effort at propaganda. They are not really interested in transparency," said José Cerqueira, an economist at the Catholic University of Angola. Quoted in Cauvin, op. cit.

[54] Rachel Swarns, "Angola Urged to Trace its Revenue from Oil," *New York Times*, May 14, 2002.

[55] "Angola to Assist São Tomé in Oil Negotiations with Nigeria," South African Press Agency, Luanda, 27 December 2002.

[56] Paul Collier, "The Market for Civil War," *Foreign Policy*, May/June 2003, p. 43.

[57] Sonangol subsidiaries include Mercury (telecommunications), SONAIR (an airline), the Houston-based Sonangol USA and the London-based Sonangol Ltd.

[58] Hodges, op. cit.

[59] Henri Cauvin, "IMF Skewers Corruption in Angola," *New York Times*, November 30, 2002.

[60] *Economist Intelligence Unit*, Angola Country Report, February 2003.

[61] See for example, Reuters, March 26, 2001, "Angola's Government has Refinanced a $450 million oil-backed loan"; *Financial Times*, "Angola secures loan from foreign banks"; March 23, 2001, and *African Energy*, "Bank Loan May Breach IMF Limits," April 2001.

[62] Cited in Human Rights Watch, "The Oil Diagnostic in Angola: An Update," March 2001.

[63] Cabinda produces two-thirds of Angola's oil. The armed rebel movement FLEC – Front for the Liberation of the Enclave of Angola – has been fighting the government for years. See Moor, Solomon, "Angolan Strife Threatens Key Source of U.S. Oil," *Los Angeles Times*, March 16, 2003.

[64] See Paul Collier, "The Market for Civil Wars," *Foreign Policy*, May/June 2003, pg. 42. Also, The Center for Public Integrity/International Consortium of Investigative Journalists, "Making a Killing: The Business of War", October 28, 2002. http://www.icij.org/dtaweb/icij_bow.asp.

[65] Catholic Bishops of the Republic of Congo (1999) Les Evêques du Congo parlent dans "Collection Sagesse" No. 18, "Et le pétrole?"

[66] Catholic Bishops of Sudan (2001) Statement on September 1, 2001, at conclusion of Plenary Meeting in Nairobi, Kenya.

[67] "Talisman Pulls out of Sudan," BBC News, March 10, 2003.

[68] "Sudan's Oil: Fuelling a fire," *The Economist*, September 2, 2000.
September 2, 2000

[69] PFC Strategic Studies, August 2002 presenation, "Sudan: Projected Oil Production and Revenues," on file with authors.

[70] Eric Reeves (2001) "Oil Development in Sudan," *Association of Concerned African Scholars Bulletin*, No. 60/61, Fall.

[71] Gagnon, Georgette and Ryle, John (2001) "Report of an Investigation into Oil Development, Conflict and Displacement in Western Upper Nile, Sudan" October 16, 2001.

[72] Interview with Cyri Mikola, Manager for External Relations, ChevronTexaco, Pointe Noire, Congo-Brazzaville, September 20, 2002.

[73] The Wood Mackenzie February 2002 Country Report contains the elements of a Congo-Brazzaville's Production-Sharing Model Contract (pp.28-31)

[74] Royalties are levied at a rate of 12 percent. They are levied in gross volumes (i.e., they are not subjected to deductions) and flow immediately after the start-up of production. The calculation of profit oil and its split between the government and companies is defined in the PSCs: generally speaking, "profit oil is derived from gross production by deducting allowable production costs (cost oil) and royalties.

[75] Wood Mackenzie claims that the Oil Ministry is the *de jure* regulator but that "much of the day-to-day regulatory work" is handled by SNPC.

[76] Energy Information Adminstration, Congo Country Brief, March 2002.

[77] *African Energy Intelligence*, "Fresh Oil-backed Loans?," July 4, 2002, No. 327. "Congo-B's SNPC has been drumming up loans against future production since the beginning of the year and is now negotiating another deal of the type with the Trafigura trading company and the French BNP bank. Since early this year, the national oil company has signed oil-backed loan accords with Societe Generale, Natexis, West LB, Warburg and Glencore for $200 million and then with KBC, Rand Merchant Bank and the Standard Chartered Bank for a further $300 million. In May, it re-negotiated the terms of a previous $250 million oil-backed loan from Société Générale. SNPC's frantic quest for funds is stirring concern in trading circles. To be sure, Congo-B's sluggish production level has fed fears among traders that it won't be able to honor its delivery commitments."

[78] World Bank, "Congo Poverty Assessment," 1996.

[79] Info-Zaire No. 11, Entraide Missionaire, Montreal, January 1996.

[80] World Bank, "Zaire - Issues and options in the energy sector," Sector Report No. 5837, May 31, 1986.

[81] Chevron Press Release, "Chevron to Boost Investment in Democratic Republic of Congo," Kinshasa, January 26, 2000.

[82] An excellent report on oil exploration in Uganda and D.R.C. is by Dominic Johnson, "Shifting Sands: Oil Exploration in the Rift Valley and the Congo Conflict," Pole Institute, Goma, DRC. Available at www.pole-institute.org

[83] US Dept. of State, Country Commericial Guide 2002, Democratic Republic of Congo.

[84] Quoted in John Murphy, "Promise of Wealth Untapped," Baltimore Sun, December 8, 2002.

[85] The U.S. had, until recently, a sufficiently detached rapport with Equatorial Guinea to allow it a fairly dispassionate look at internal politics: eventually, this critical engagement led to accusations of witchcraft being waged against the U.S. Ambassador in 1993. This was the last straw in regard to an unimportant backwater, and the Embassy was closed down in 1995. The decision would certainly not have been taken some weeks later, when the first truly substantial oil find was struck. The Bush Administration has operated, in consultation with oil companies, a shift in policy towards Equatorial Guinea, with increased engagement, approval for training of the country's coast guard, and the opening of a small embassy planned for 2003. The State Dept., though, with support from some members of Congress, has blocked a license for further training and advice programs to the government by U.S.-based private military contractor Military Professional Resources Incorporated (MPRI). Voice of America, "Washington Kills Plan by Equatorial Guinea to Obtain Military Aid from Private US Company," 19 Nov 2002.

[86] Houston Business Journal, "Oil Firms Flow to West Africa," November 22, 2002.

[87] Population statistics vary depending on estimate of in-migration attracted by the boom. The population may be up to one million by some measures.

[88] This is due to the use of previously tested technology and the lack of need for expensive terminal facilities.

[89] World Bank (2002), "Project Performance Assessment Report: Equatorial Guinea – Second Petroleum Technical Assistance Project," July 1, 2002, Report No.: 24430, Operations Evaluation Department

[90] World Bank (2002), "Project Performance Assessment Report: Equatorial Guinea – Second Petroleum Technical Assistance Project," July 1, 2002, Report No.: 24430, Operations Evaluation Department

[91] Robinson, op.cit

[92] United Nations IRIN, June 19, 2002. The report added: "The 13 June resolution said that since March, dozens of Nguema's opponents had been arbitrarily detained and condemned "the sentencing of 68 opposition leaders to terms ranging from 6 to 20 years [in] political trials that are unfair and in total disregard of the most fundamental rights of defense". Journalists covering the trials had faced insidious pressure on a daily basis, they added. Arrests of opposition leaders and some members of their families were detailed in the resolution. It said detainees were prevented from contacting their families or lawyers and subjected to brutal acts of torture and ill-treatment. The trial, the parliamentarians demanded, should be annulled and all the prisoners immediately released. "The hounding of members of the opposition parties and their families should cease,"

[93] Ken Silverstein, "U.S. Oil Politics in the 'Kuwait of Africa'," *The Nation*, April 22, 2002.

[94] To this should be added additional discovery bonuses, first production bonuses and a special bonus for 50,000 bpd production for 60 consecutive days.

[95] Also referred to as Petroguesa or PetroGuinea (EIA, 2002: 7).

[96] These include the Exploration Consultant Group, which had already organized Equatorial Guinea's 1998 bidding round for the country's offshore blocks, and the Anglo-Norwegian company InSeisTerra (*Africa Intelligence* 326, 10/7/2002).

[97] EIU (2002) Equatorial Guinea Country Profile 2002, *Economist Intelligence Unit*.

[98] World Bank, "Project Performance Assessment Report: Equatorial Guinea – Second Petroleum Technical Assistance Project, Report No: 24430," World Bank, July 1, 2002.

[99] U.S. Department of State, Country Report on Human Rights Practices for Equatorial Guinea, 2002, March 31, 2003.

[100] World Bank (1999) "Equatorial Guinea- the Challenge of Sudden Wealth: an economic strategy note for natural resource management" (Feb 26).

[101] Ken Silverstein "Oil Boom Enriches African Ruler," *Los Angeles Times*, January 20, 2003.

[102] The World Bank's Second Petroleum Technical Assistance Project (1992-97) prioritized the enhancement of energy sector institutions' efficiency and especially the "capacity of the Ministry of Mines and Hydrocarbons to monitor the activities of oil companies, and to evaluate the supply and pricing systems for petroleum products ."

[103] EIU (2002) Equatorial Guinea Country Profile 2002, *Economist Intelligence Unit*.

[104] World Bank, "Project Performance Assessment Report: Equatorial Guinea – Second Petroleum Technical Assistance Project, Report No: 24430," World Bank, July 1, 2002.

[105] http://www.worldbank.org/afr/gq2.htm

[106] *Financial Times*, March 23, 2001.

[107] EIA, 2002.

[108] Loans interest rates are usually at least 2 percent above Libor rates with maturities of five years or less.

[109] Africa Energy Intelligence, "Gulf of Guinea: Berlin Conference for Oil," September 11, 2002.

[110] See Ken Silverstein, "Sinking its Hopes into a Tiny Nation: Obscure Texas Oil Firm, Amid Claims of Bribery, Secures a deal with Poor São Tomé," *Los Angeles Times*, May 24, 2003 and Jon Lee Anderson, "Our New Best Friend: Who Needs Saudi Arabia When You've Got São Tomé ?," *The New Yorker*, October 7, 2002, 74-83.

[111] Africa Energy Intelligence, "Gulf of Guinea: Berlin Conference for Oil," September 11, 2002.

[112] In the same event, President Obasanjo of Nigeria called for the need to avert "the potential sources of conflicts generated by unhealthy competition that could arise between us". Agence France Presse, "Gulf of Guinea Leaders Meet on Peace, Stability, Oil" (19/11/99).

[113] Agence France Presse, "Nigeria, Equatorial Guinea resolve maritime border dispute" (1/9/00). See also *African Energy*, "Nigeria and São Tomé meet on common ground" (27/11/00). The ground was hardly "common," and mighty Nigeria ended up asserting itself vis-à-vis São Tomé by means of a Joint Development Zone favorable to Nigerian interests. Nonetheless, the result was the opening of yet another "oil frontier" to exploration.

Section 4: Africa's Oil: Addressing the Paradox of Plenty

[1] The Report notes on page 149: "The question of whether oil and minerals hinder the emergence of democratic institutions has been tested empirically and found to hold for a panel of 13 countries between 1971 and 1997 . . . Unsustained growth performance is closely associated with point-source natural resources, and conflict . . . Data on real per capita GDP show that developing countries with few natural resources grew 2-3 times faster between 1960 and 1990 than natural resource abundant countries . . . Where norms and rules are weak, greater endowments of natural resources lead to worse economic performance in the long run, compared with countries that have smaller resource endowments. Existing institutions are eroded, and the emergence of new institutions is hampered."

[2] World Bank News Release, March 27, 2003. "Angola: Transition Strategy, Technical Assistance and Post-Conflict Support." The program will include a "diagnostic study of the oil sector" and an "Economic Management Technical Assistance" project which will help "the government increase transparency in public resource management". This is a turnabout from the World Bank stance in 1999 when, frustrated with official corruption, the Bank did not replace an outgoing resident representative and halted its lending program.

[3] The World Bank's engagement with the country has been especially frustrating, according to staff. Madani Tall, the World Bank Resident Representative in Yaounde, Cameroon, who supervises relations with Equatorial Guinea, describes the dialogue with the government as "a bit difficult."

[4] Interview with Madani Tall, World Bank Resident Representative, Yaounde, Cameroon, September 25, 2002.

[5] According to UNCTAD, in many countries "the IMF and World Bank have set as a precondition for disbursement of credits, the liberalization of the oil sector and, in a number of cases, also the closure of refineries." UNCTAD, "Sub-Saharan Africa's Oil Sector: Situation, Developments and Prospects", Claudine Sigam, consultant, March 13, 1997.

[6] *Gulf of Guinea Oil: The Top 100 People*, Indigo Publications, Paris, April 2003.

[7] As *African Energy* noted in Equatorial Guinea, "In a rush to lure oil companies in the 1990s, Malabo awarded generous deals to companies including ExxonMobil, a pioneer of large-scale oil production in Equatorial Guinea . . . The terms were offered at a time when the country was keen to attract oil exploration in what was regarded as a frontier play." Clark, Martin, "Gulf of Guinea hotspot suffers growth strains," *Platts African Energy*, September 2002.

[8] For a good summary of the World Bank's role in the development of mineral sector codes, see Campbell, Bonnie. "African Mining Codes Questioned," *Mining Journal*, London, February 14, 2003.

[9] International Finance Corporation, "Building the Private Sector in Africa to Reduce Poverty and Improve People's Lives", Washington, 2001.

[10] Ibid.

[11] www.ifc.org/ogc

[12] The head of the IFC, Peter Woicke, has recently come out in support of increased transparency and publication of net taxes, fees, royalties, and other payments to host governments by extractive industry companies. "This level of transparency would in turn introduce a new level of accountability. The public at large would know just what governments have received. Governments would then have to address the issue of what they ultimately do with their revenues . . .Where governance is poor, there is little chance that sound policies will be implemented. Furthermore, in weak institutional environments, petroleum revenues are associated with the further erosion of governance." World Bank, "Making Petroleum Revenue Management Work for the Poor", op. cit.

[13] *"The World Bank Group has a clear role in helping the region attract foreign investment to the sector,* manage its resources efficiently, reduce waste, and deal with health, social and environmental problems resulting from these investments. The extractive industries cannot have an optimal impact on the local economies until these issues are addressed. IFC itself can play an important role, particularly in countries that have ongoing programs with the World Bank. *The Bank's presence and its assistance* to countries in areas such as public sector and general economic management, budgetary planning, and debt *management increase the likelihood that government revenues from projects in the sector will be put to prudent use."* (Emphasis added.) www.ifc.org/ogc

[14] Blanch Roseline Nkoli, "Bush veut le Pétrole, Nguesso a besoin d'argent, le FMI indexe la SNPC", *Le Defi Africain*, Brazzaville, No. 15, September 18, 2002, pg. 5.

[15] World Bank, "Technical Annex, Transparency and Governance Capacity Building Project", Report No. T 7502-COB, January 8, 2002.

[16] Minstere de l'economie, des finances et du budget (MEFB), Republic of Congo, Chronograme de l'audit financier de la SNPC, No. 198, September 3, 2002.

[17] Africa Energy Intelligence, "A First Look at SNPC's Accounts," March 19, 2003, No. 342.

[18] According to World Bank staff in Brazzaville, the principal companies have accepted the audit, while others will follow. Interview with Bienvenu Monthe Biyoudi, World Bank office, Congo-Brazzaville, September 18, 2002.

[19] Inteview with Antoine Delicat, Directeur de Cabinet, Minstry of Hydrocarbons, Brazzaville, September 17, 2002.

[20] World Bank (2002), "Project Performance Assessment Report: Equatorial Guinea – Second Petroleum Technical Assistance Project", July 1, 2002, Report No.: 24430, Operations Evaluation Department.

[21] World Bank, Equatorial Guinea Petroleum Sector Technical Assistance Project, Report and Recommendation to the President, Report No. P-3401-EG., November 8, 1982.

[22] World Bank, "Project Perfomance Assessment Report Equatorial Guinea", op. cit.

[23] See www.eireview.org for more information.

[24] "African Civil Society Position on World Bank Group Investments in Mining, Oil and Gas at the Africa Consultation of the Extractive Industries Review in Maputo Mozambique, 13-17 January 2003." www.bicusa.org/africa

[25] See Friends of the Earth's mid-term assessment of the EIR at http://www.foe.org/camps/intl/worldbank/eirmidterm.pdf

[26] Eligibility criteria for such loans include having a per capita income of $875. As of April 2003, the IMF

said that Angola, Cameroon, Chad, Congo-Brazzaville and Nigeria were eligible, while Equatorial Guinea and Gabon were not.

[27] "IMF economists visit the member country to collect data and hold discussions with government and central bank officials, and often private sector representatives, members of parliament, civil society, and labor unions as well. Upon its return, the mission submits a report to the IMF's Executive Board for discussion. The Board's views are subsequently summarized and transmitted to the country's authorities." IMF Surveillance: A Factsheet, April 2003.

[28] The IMF notes that the "ultimate objective of the code is to encourage a well-informed public debate about the design and results of fiscal policy, thereby making governments more accountable." Information on observance of these codes is published by the IMF, although only a report on Cameroon was available. A country's observance of internationally recognized standards and codes is examined by IMF and World Bank staff and summarized in Reports on the Observance of Standards and Codes (ROSCs). See www.imf.org/external/np/rosc/rosc.asp

[29] Economist Intelligence Unit, Angola Country Report, February 2003, p. 9. The best available reports on the Angolan diagnostic are by Arvind Ganesan, at Human Rights Watch, including "The Oil Diagnostic in Angola: An Update," March 2001.

[30] Henri Cauvin "I.M.F. Skewers Corruption in Angola", New York Times, Nov. 30, 2002.

[31] Their statement continues: *"Directors urged the authorities to refrain from extrabudgetary spending financed by borrowing against future oil revenue on nonconcessional terms, to fully disclose government bank accounts abroad, to transfer deposits in these accounts to the treasury account with the Bank of Central African States (BEAC), and to conduct independent external annual audits of the oil sector. Directors . . . underscored the need to contain nonpriority primary expenditures, including the wage bill, and to target spending on education, health, and infrastructure."* IMF, "IMF Concludes 2001 Article IV Consultation with Equatorial Guinea", Public Information Notice (PIN) No. 01/106, October 11, 2001

[32] Economist Intelligence Unit, Angola Country Report, February 2003, p. 9.

[33] Economist Intelligence Unit, Angola Country Report, May 2002, pg. 19.

[34] Analogies commonly picked up by pro-FGF voices are normally those of Norway and the State of Alaska; also, somewhat out of mineral resource context, that of the Tuvalu Fund. Recent FGF experience in Central Asia is conspicuously absent from most discussions.

[35] Governments bent on serial borrowing conceivably can use an FGF.as another source of collateral. The State Oil Fund of the Republic of Azerbaijan (SOFAR), established in 2000, stipulates that the Fund's asset may not be used either for lending to government bodies, public or private companies, or as collateral for debts, commitments, guarantees or other liabilities of any entity in the country.

[36] McPherson, Charles P., "Petroleum Revenue Management in Developing Countries," World Bank, 2002. www.ifc.org/ogc/publications

[37] This is the conclusion of the World Bank's Operations Evaluation Department's study, "Project Performance Assessment Report: Equatorial Guinea," cited above. In evaluating World Bank performance in Equatorial Guinea, it noted that the institution should have used its opportunity early in Equatorial Guinea's oil boom to extract policy reforms: "If the country is facing strong macro-economic constraints in the early stages of oil development, the Bank might consider supporting the adoption of policies and strategies leading to the proper management of oil wealth through adjustment or sector loans."

[38] World Bank, "Mauritania: Second Mining and Hydrocarbons Capacity Building Project", PID 11542, January 14, 2003.

[39] Material for this section is drawn from: World Bank, Nigeria-Delta Development Project, Project Appraisal Document, Project ID NGPE76754, August 1, 2002; Human Rights Watch, "The Niger Delta: No Democratic Dividend", October 2002;

[40] "The Oil and Gas Industry: From Rio to Johannesburg and Beyond, Contributing to Sustainable Development" The report can be found at www.ogp.org.uk

[41] Ibid.

[42] See www.chevrontexaco.com

[43] See for example, Nicholas Shaxson, "Angola's Leader's Must Grasp Angola's Last Chance for Peace", Reuters Alertnet, March 22, 2002.

[44] Filippo Nardin, "How to Combine Social Responsibility and Commercial Interests for Sustainable Human Development: The Activities of Citizens Energy in Angola from 1986 to 1996 and the Creation of the Catholic University in Luanda", January 18, 2001. (paper on file)

[45] In addition, since oil is an enclave industry creating few local jobs, some companies hire local "ghost workers" to meet community demand for jobs. Human Rights Watch, "The Nigeria Delta: No Democratic Dividend", op. cit.

[46] An independent audit of Shell projects 2001 found that less than a third of projects were meeting their development objectives The Economist, "Helping but not developing: Shell's Nigerian Development Projects", May 12, 2001.

[47] ChevronTexaco has partnered with USAID in Angola as part of USAID's new emphasis on private-public partnerships. The company has made a $10 million pledge to USAID, but will retain much formal power over how and where the money is spent. ChevronTexaco, "ChevronTexaco is to Partner with Government of Angola, US Agency for International Development and United Nations Program," press release, Luanda, Angola, Nov. 25, 2002.

[48] See www.undp.org/business

[49] The agreements are being developed by Sirkka Korpela, director of the Division of Business Partnerships.

[50] In Nigeria, the UNDP will manage community development projects using ChevronTexaco funds in the conflict-ridden Niger Delta., where ChevronTexaco has faced production disruptions because of community protests and occupation of its facilities. In Angola, the UNDP signed an agreement in late 2002 to work with ChevronTexaco on the Angolan Enterprise Fund, a $10 million effort promoting small business development. UNDP head Mark Malloch Brown hailed the agreement as a new model for private-public partnerships. ChevronTexaco, "ChevronTexaco to Partner with Government of Angola, U.S. Agency for International Development and United Nations Development Programme", press release, Luanda, Angola, Nov. 25, 2002.

[51] Mike Oduniyi, "Chevron, UNDP Sign Pact On Community Devt", This Day (Lagos), November 12, 2002

[52] Workshop report, "Cutting corruption in the oil, gas and mining sectors", 10th International Anti-Corruption Conference, Prague, Czech Republic, 7-11 October, 2001, www.10iacc.org

[53] Human Rights Watch, *No Democratic Dividend*, op. cit.

[54] Human Rights Watch, "The Oil Diagnostic in Angola: An Update", March 2001.

[55] The view of Jean-Pierre Cordier, chairman of Total's ethics committee, is typical. He says the company would reveal payments only if others did. "There are certain numbers that companies do not divulge for competitive reasons." Terrence Murray, "Congolese human rights group demands disclosure by French oil company", Catholic News Service, March 7, 2003.

[56] Charles Corey, "Asst. Sec. Kasteiner Reviews Recent African Trip", October 17, 2002, *Washington File*, International Information Programs, U.S. Department of State.

[57] Leslie Wayne. "America's For-Profit Secret Army," *The New York Times*, October 13, 2002.

[58] *Africa Energy Intelligence*, "ANGOLA/UNITED STATES Military Training in Return for Crude", November 6, 2002, N° 333

[59] Jim Lobe, "Pentagon's 'Footprint' Growing in Africa," (Silver City, NM & Washington, DC: Foreign Policy in Focus, May 12, 2003). www.fpif.org/commentary/2003/0305africa.html

[60] Comments by Janice Bay, Deputy Assistant Secretary for International Finance and Development, Department of State at Conference Sponsored by Catholic Relief Services, Oxfam America and Carnegie Council on Ethics and International Affairs, May 9, 2003, Carnegie Endowment for International Peace, Washington.

[61] *African Energy Intelligence*, Sept 11, 2002.

[62] Speaking to Congress in June 2002, Alan Larson, U.S. undersecretary for economic affairs in the Department of State, said, "Part of our engagement in Africa is to encourage transparency. We have a strong policy interest in assisting oil-producing countries to channel their energy resources into solid and sustainable economic development that will benefit their populations. Unfortunately, the record shows that when this does not happen, there is conflict and rampant corruption. That is why we are supporting the World Bank's monitoring role in the Chad-Cameroon pipeline and elsewhere." Statement before the House International Relations Committee, June 20, 2002, Federal Document Clearing House Congressional Testimony.

[63] Find these country reports at www.state.gov/g/drl/rls/hrrpt/2002

[64] For more in-depth analysis of church oil advocacy, see Ian Gary, "Africa's Churches Wake Up to Oil's Problems and Possibilities", *Review of African Political Economy*, Vol. 29, No. 91, March 2002, p. 177-183.

[65] Association des Conferences Episcopales de la Region de l'Afrique Central (2002) "L'eglise et la pauvrete en Afrique Centrale: le cas due petrole." Malabo, Equatorial Guinea, July 2002. See also, UN IRIN News, "Few benefit from oil wealth, bishops say." Abidjan, 18 Jul 2002.

[66] See for example, UN IRIN News, "CONGO: Church calls for proper management of oil revenue," Brazzaville, 16 Jul 2002.

[67] Thalia Griffiths, "Church weighs into Gulf of Guinea oil debate," *African Energy*, No. 53, August 2002.

[68] Archbishop Zacarias Kamwenho, acceptance speech to the European Parliament for the Andrei Sakharov Human Rights Prize, 11 December 2001. www.europarl.eu.int/presentation/default_en.htm

[69] African Energy Intelligence, "Bishops Speak Their Mind on Oil," No. 327, July 7, 2002.

Section 5: The Chad-Cameroon Oil Experiment – Rhetoric and Reality

[1] Interview with report team, Mohamedu Diop, Central Africa Resident Representative, IFC, Yaounde, Cameroon, September 25, 2002.

[2] The World Bank's IBRD arm – non-concessional lending – provided loans of $39.5 million to Chad and $53.4 million to Cameroon to finance the two governments' minority holdings in the joint-venture pipeline companies, TOTCO in Chad and COTCO in Cameroon.

[3] An excellent source for more detailed information on the critique of the project is published by Environmental Defense, "The Chad-Cameroon Oil and Pipeline Project," June 2002, Washington, D.C.

[4] Although exploitable oil reserves have been known to exist in Chad since the 1970s, civil wars and protracted negotiations among oil companies, the governments of Chad and Cameroon, and the World Bank delayed exploitation, but it is now moving ahead at full speed.

[5] ExxonMobil document, "Tapping into a new frontier oil province," October 1998, www.esso.com/eaff/essochad/news/press_oct98/main.html.

[6] Chad/Cameroon Petroleum Development and Pipeline Project, Project Appraisal Document (PAD), April 13, 2000.

[7] International Development Association/World Bank, "Proposed Fifth Structural Adjustment Credit to the Republic of Chad," February 13, 2003. Report No. P7555-CD. Revenue scenario variables include total yield of three fields (predicted to be ca. 1 billion barrels), and world oil market price averages ($3.8 billion figure uses $25 bbl).

[8] Chad's take is estimated at around 10 percent, while Sudan, with a similar project – reserve size, pipeline length, country risk – receives a 50 percent take.

[9] According to the World Bank, per capita income is less than $200/day, life expectancy is 49 years and one in five children die before the age of five.

[10] World Bank, Management of the Petroleum Economoy PAD (Credit No. 3316-CD), p. 3.

[11] U.S. Dept. of State, Country Report on Human Rights Practices for Chad, 2002, March 31, 2003. The State Department Human Rights Report 2001 also notes that "In May 2000, the President and the National Assembly appointed 15 members of the High Court of Justice, despite a law providing for their election. The Supreme Court began full operations in October 2000. The Constitution mandates an independent judiciary; however, the judiciary was ineffective, underfunded, overburdened, and subject to executive interference."

[12] State Dept. Bureau of African Affairs, January 2002, Background note on Chad, U.S. Dept. of State; Amnesty International AI-Index: AFR 20/004/1997 01/03/1997. "The Logone prefectures are where the oil project is located. "AI regularly drew the attention of the Chadian authorities and of international opinion to the systematic use of summary and extrajudicial execution against unarmed civilians. During the past four years, the security forces have carried out such executions on several occasions among the civilian population of the Ouaddaï and Logone Occidental and Logone Oriental regions. During the last quarter of 1996 and early 1997, Amnesty International received new information according to which the security forces are continuing to carry out summary and extrajudicial executions. Amnesty International believes that the periodic recurrence of massacres of civilians in Chad is due in large part to the impunity enjoyed by the perpetrators of such atrocities. Neither the massacre of civilians in Ouaddaï in 1994 and in the two Logone prefectures in 1994 and 1995 nor the extrajudicial execution of Bichara Digui in August 1996 brought any official condemnation or independent and impartial inquiries. Hundreds of civilians have been killed and not one perpetrator of these violations has been brought to justice."

[13] U.S. Dept. of State, Country Report on Human Rights Practices for Chad, 2002, March 31, 2003. Amnesty International reported that in May 2001 the government banned gatherings of more than 20 people. Amesty International, 12 June 2001, AI Index AFR 20/001/2001 - News Service Nr. 102, "Chad: Violent crackdown on peaceful protesters," Amnesty International is deeply concerned about the safety of members and supporters of the political opposition as well as of human rights defenders in Chad, following a violent crackdown by the Chadian security forces in the wake of a disputed presidential election. In the most recent incident, a peaceful demonstration on 11 June by around 100 women in front of the French embassy in the capital, N'Djamena, was violently dispersed by police. The women had intended to deliver a petition to the French Ambassador protesting the conduct of the presidential election. Those injured included Jacqueline Moudeina, a lawyer and member of the *Association Tchadienne pour la Promotion et la Défense des Droits de l'Homme* (ATPDH), Chadian Association for the Promotion and Defence of Human Rights.

[14] U.S. Dept. of State, Country Report on Human Rights Practices for Cameroon, 2002, March 31, 2003.

[15] Catholic and Protestant Bishops of Cameroon (1999) Translated excerpts from the "Point de Vue des Chretiens du Cameroun sur le Projet Petrolier Tchad-Cameroun (Point of View of Christians Concerning the Chad-Cameroon Pipeline Project)" issued in Yaoundé, 25 October 1999.

[16] World Bank, Cameroon Country Assistance Strategy, January 24, 2001.

[17] Ibid.

[18] Interview with report team, Yaounde, Cameroon, September 26, 2002.

[19] Ibid.

[20] IMF, "Report on the Observance of Standards and Codes: Cameroon — Fiscal Transparency," June 21, 2000.

[21] IMF, "IMF Completes Review Under Cameroon's PRGF Arrangement," News Brief No. 02/8, January 30, 2002.

[22] World Bank, Project Appraisal Document, Chad-Cameroon Oil and Pipeline Project, pg. 22.

[23] http://www.exim.gov/press/jun1400c.html

[24] PAD, p. 121. Cahad-Cameroon of.cit.

[25] Interview with Madani Tall, Yaounde, September 25, 2002.

[26] Interview with report team, Jérôme Chevalier, World Bank manager of oil-related projects in Chad, N'djamena, Chad, September 30, 2002.

[27] All IAG documents are available in English and French at www.gic-iag.org

[28] The oil consortium had 112 professional staff in its environmental group in both countries, according to ExxonMobil staff. As of September, 2002, 4,120 individuals had received compensation, 24 claims were outstanding and 266 villages were in the process of receiving regional compensation. According to staff, transaction costs have exceeded payment costs. Interview with Ed Caldwell and Bruce Hayes, Yaounde, Cameroon, September 25, 2002.

[29] There is a large literature establishing this. For recent work, see, for example, UNCTAD, September 2002, *Economic Development in Africa: From Adjustment to Poverty Reduction: What is New?,* "There should be no illusions about the pace at which institutions can improve . . . the idea that fighting corruption by diminishing government resources and responsibilities will bring the desired improvements is off target . . institutions emerge through long and, at times, painful historical processes" p. 52

[30] The Petroleum Environment Capacity Enhancement Project in Cameroon, effective March 28, 2001 and, in Chad, the Management of the Petroleum Economy Project, September 22, 2000, and the Petroleum Sector Management Capacity Building Project, March 23, 2001.

[31] International Advisory Group (2001) "Chad-Cameroon Petroleum Development and Pipeline Project: Report of Mission to Cameroon and Chad, November 14-25, 2001." December 21, 2001, Montreal. All IAG reports can be found at www.gic-iag.org. Before project approval, USAID opposed the capacity building projects as presented, saying they should be timed to "develop confirmed management capacity first, followed by oil development." USAID: MDB Proposals: Africa, www.usaid.gov/pubs/mdb/africa.html

[32] See, for example, "A Call for Accountability," June 2002, published by Environmental Defense, Association Tchadienne pour la Promotion et la Defense des Droits de l'Homme and Center for Environment and Development, Cameroon; reports by the IAG and ECMG (available at www.worldbank.org/afr/ccproj/); and reports by the Groupe de Recherches Alternatives et de Monitoring du Projet Pétrole Tchad-Cameroun (GRAMP/TC), N'djamena. Report No. 2, November, 2002 (available at www.eireview.org)

[33] In its June 2002, the IAG reported 14 schools in the Doba region of Chad had closed due to teachers and students leaving to look for oil-related employment. The oil consortium disputed this and said only one school had closed. The higher number is corraborated by a report filed by a government school inspector for Logone Oriental province, May 3, 2002. Report on file with authors.

[34] See for example reports by the Independent Monitoring Project for the Chad-Cameroon Pipeline Project, including the January-June 2002 report, available at www.catholicrelief.org/africanoil.cfm; "Broken Promises" published by Friends of the Earth and Centre for Environment and Development, Cameroon, www.foei.org; and reports by the IAG and ECMG.

[35] Interview with Jérôme Chevalier, World Bank offices, N'djamena, September 30, 2002.

[36] These violations occurred after losing to President Déby in the May 2001 presidential elections. The Inspection Panel was created in 1993 by the World Bank Board of Directors to serve as an independent mechanism, which would ensure accountability in Bank operations with respect to its policies and procedures. Two or more citizens who believe that they or their interests have been or could be harmed by Bank activities can present their concerns through a Request for Inspection.

[37] *Africa Confidential*, "Chad: Digging a Hole," 30 August 2002. Members of the Inspection Panel visited Yorongar in a Paris hospital in April 2001 and saw scars of previous torture.

[38] The Inspection Panel Report and the Management Response can be found at at www.worldbank.org/afr/ccproj.

[39] Inspection Panel Investigation Report, July 17, 2002, p. 63.

[40] Management Report and Recommendation in Response to the Inspection Panel Investigation Report, Report No. 24667, August 21, 2002.

[41] Inspection Panel Report, p. 61.

[42] Catholic Bishops of Chad (2000) "The Year 2000, a new era for a new life" Christmas/New Year Appeal. N'djamena: January 2000.

[43] The Inspection Panel notes that first oil will flow in June 2003. This was confirmed by several sources in Chad, with first revenues arriving roughly in November 2003.

[44] Loi No. 001/PR/99, was promulgated on January 11, 1999; see also Genoveva Hernandez Uriz, "To Lend or Not to Lend: Oil, Human Rights, and the World Bank's Internal Contradictions," *The Harvard Environmental Law Review*, Spring 2001.

[45] Loi No. 001/PR/99. Text of the law can be found at www.ccsrp.td

[46] African Energy, September 2002.

[47] World Bank, "Note on the Use of the Petroleum Bonus," June 2001, http://www.worldbank.org/afr/ccproj/project/bonus.pdf

[48] The IMF insisted on an audit of the bonus and the revenue oversight committee, with the public backing of President Déby, has subsequently played a role in approving the allocation of the remainder. Africa Energy Intelligence, "Fresh Look at Oil Bonus," November 6, 2002, No. 333. "At the behest of the International Monetary Fund, Chad has been working for over a year on an audit of expenditure flowing from a $25 million front-end bonus paid by ExxonMobil and Petronas for the Doba-Kribi pipeline project which has been partially funded by the World Bank. The IMF disbursed a $7 million loan to Chad in late October. One condition was that Chad complete the audit and publish the findings by the end of the year. Modest compared to other bonuses paid by oil companies, the sum triggered an outcry in late 2000 because part of the money - $5 million - was immediately used by the government to buy military equipment. The transaction came despite all the mechanisms set up by the World Bank to control and verify how countries use oil revenue. The reason is simply that such mechanisms don't cover bonuses."

[49] See project appraisal documents.

[50] International Development Association / World Bank, "Program Document for a Proposed Fifth Structural Adjustment Credit (SAC V) to the Republic of Chad," February 13, 2003, Report No. P7555-CD, page 12.

[51] Agence Française de Développement, "Analyses et perspectives macroéconomiques du Tchad," Paris, September 2002. Also reported in African Energy Intelligence No. 332, October 23, 2002.

[52] World Bank, "Chad/Cameroon Petroleum Development and Pipeline Project: Fifth Semi-Annual Report to the Executive Directors," February 14, 2003, pg. 38.

[53] In 1998, an ExxonMobil document said the project was "expected to spur new exploration in little examined, but prospective, areas in central and northern Chad. The strong potential exists for finding added commercial reserves in the Doba, Dosseo and Salamat basins. If proved, oil from new fields in southern Chad could be exported via the Chad-Cameroon pipeline." ExxonMobil document, "Tapping into a new frontier oil province," October 1998, www.esso.com/eaff/essochad/news/press_oct98/main.html

[54] This is noted in the Inspection Panel report, confirmed in oil industry press and by interviews in September 2002 in N'djamena.

[55] Interview with Amb. Goldthwaite, N'djamena, September 30, 2002.

[56] The Inspection Panel says that Bank management should have addressed "this serious risk to poverty reduction objectives in a more definite manner."

[57] Chad Inspection Panel Investigation Report, September 17 ,2002. Reports can be found at www.inspectionpanel.org

[58] Statement by Mahamat Nasser Hassane, Director of Petrole, Government of Chad, in *Tchad et Culture* No. 209, September/October 2002, N'djamena, p. 48. Exxon exploration activities confirmed at meeting with International Fianance Corporations staff on April 16, 2003, in Washington. Exxon has drilled exploratory wells along eastern periphery of Doba fields, near Sahr.

[59] Triton Energy Press Release, Houston, October 1, 2002. See also World Bank, "Chad/Cameroon Petroleum Development and Pipeline Project: Fifth Semi-Annual Report to the Executive Directors," February 14, 2003, pg. 37.

[60] See for example, "Exploration Petroliere: Apres Doba, le bassin de Dosséo?," *Tchad et Culture* No. 209, September/October 2002, N'djamena, p. 42. Local reports say that the Western Atlas company is conducting seismic exploration work.

[61] World Bank, "Chad/Cameroon Petroleum Development and Pipeline Project: Fifth Semi-Annual Report to the Executive Directors," February 14, 2003, pg. 34.

[62] Triton Energy Press Release, Houston, October 1, 2002.

[63] Philippe Benoit, Workshop on Petroleum Revenue Management, World Bank, Washington, October 24, 2002. Also, e-mail from Ron Anderson, International Finance Corporation, January 8, 2003, quotes Bank Loan Section 4.10 with Chad: "Borrower shall ensure that any oil developed outside the Doba Basin Oil Fields which is proposed to be transported through any part of the Transportation System [pipeline] in Chad is developed in accordance with the principles set forth in the EMP (Environmental Management Plan) with respect to environmental analysis and protection, consultation, information disclosure, resettlement and compensation and with the equivalent legal and adminstrative approval processes and information disclosure as applied with respect to the oil developed in the Doba Basin Oil Fields."

[64] Groupe de Recherches Alternatives et de Monitoring du Projet Pétrole Tchad-Cameroun (GRAMP/TC), N'djamena. Report No. 2, November, 2002, p. 9.

[65] Interview with Jérôme Chevalier, World Bank offices, N'djamena, September 30, 2002.

[66] "Big Guns in Jungle Hunt," *Upstream*, Jan. 31, 2002

[67] IMF resident representative in Yaounde, Werner Keller, said that there is a "contractual option" for feeder pipelines in Cameroon. Interview, September 24, 2002.

[68] Barry Morgan. "Bangui set to get E&P on track," Upstream, May 16, 2003. See also, "Central African Republic: Outlook Brightens for Grynberg," *African Energy Intelligence*, No. 343, April 2, 2003.

[69] Ibid.

[70] "Niger: Petronas Quietly at Work," *African Energy Intelligence*, No. 340, February 19, 2003.

[71] Management of the Petroleum Economy PAD, Credit No. 3316-CD.

[72] This section is informed, in part, by interviews with two members of the committee: Thérèse Mekombe, vice-chair and representing development NGOs and Michel Barka, secretary of the committee, representing trade unions. See also Rapport Annuel 2001, College de Controle et de Surveillance des Resourcess Petrolieres, N'djamena.

[73] The committee was chaired until April 2003 by Amine Ben Barka, national director of the Bank of Central African States (BEAC) and also includes a member of the Supreme Court, two members of parliament and the director of the treasury. The civil society members as of November 2002 are Therese Mekombe, chairperson of the World Association of Women Lawyers, representing development associations and vice-chair of the committee; Michel Barka, who represents unions; Dobian Assingar, chairman of Chad's Human Rights Association, representing human rights groups; and the representative of religious faiths, the imam from the N'Djamena mosque, who is also a military officer. As is the case of the other members, expect for National Director of the Central Bank and the Director of the Treasury, his mandate will be extended for a final three-year period. If the College is divided on an issue, the vote of its chairman carries the day.

[74] Membership of the body was specified in an amendment to the revenue management law in July 2000, and further guidance on the organization and functioning of the committee – essentially establishing the committee – was issued by presidential decree in March 2001, but not made public until July 2001. See Law No. 01/6/PR/2000 and Decree No. 168/PR/2001.

[75] Interview with Jérôme Chevalier, World Bank offices, N'Djamena, September 30, 2002.

[76] English Summary of Operations Manual, February 2003, on file with authors.

[77] International Development Association / World Bank, "Program Document for a Proposed Fifth Structural Adjustment Credit (SAC V) to the Republic of Chad," February 13, 2003, Report No. P7555-CD.

[78] Rosenblum, Peter, "Analysis of Chad's Revenue Management Law," in Environmental Defense, "A Call for Accountability," op. cit.

[79] See Barry Morgan, "Chad Move Stirs Up Oil Cash Fears," *Upstream*, May 2, 2003.

[80] Committee members had to rent an office space in September 2002 to meet with the CRS research team.

[81] Interview, N'Djamena, September 30, 2002.

[82] The project documents note that the "Borrower shall not amend or waive the Petroleum Revenue Management Law so as to materially and adversely affect the implementation of the Program or set out

the flow of funds generated by the Project," and Bank staff say deviation from the plan will affect Chad's relations with the IFIs Pipeline PAD, Annex II, p.105.

83 Cited in "Managing Oil Revenues in Chad: Legal Deficiencies and Institutional Weakenesses," Report of the Human Rights Clinical Program, Harvard Law School, October 13, 1999.

84 Michael J. Watts, "Petro-Violence: Some Thoughts on Community, Extraction and Ecology," Berkeley Workshop on Environmental Politics, WP 99-1, Institute of International Studies, University of California, Berkeley. "The public contracts/tender – always massively inflated in a way that cost-overruns are politically desirable (the more costly the better) – becomes the metric of political choice."

85 Bank staff were increasingly worried in 2002 about the possibility of increases in military spending and the increased rebel activity in the north of Chad and on the border with the C.A.R. Interview with Jerome Chevalier, N'Djamena, September 30, 2002 and presentations by Ali Khadr and Philippe Benoit, World Bank staff, at Petroleum Revenue Management Workshop, October 24, 2002, Washington, D.C.

86 Management of the Petroleum Economy PAD, Credit No. 3316-CD.

87 Finally, some oil companies themselves are questioning the business case for the Chad-Cameroon project, with the added expense of transporting the oil 1,000 kms. and paying for millions of dollars worth of environmental and social studies, staff, projects and compensation and the scrutiny of the IAG, the World Bank and civil society. Interview with Ed Caldwell, COTCO/ExxonMobil, Manager, Environmental Management Plan Implementation, Yaounde, Septemer 25, 2002, who says: "There is still debate within Exxon on whether it is a good return on investment."

Conclusions and Recomendations

1 National Intelligence Council, National Foreign Intelligence Board, Global Trends 2015: A Dialogue About the Future With Nongovernment Experts, December 2000.

2 World Bank, "Making Petroleum Revenue Management Work for the Poor," op. cit.

3 James Dao, "In Quietly Courting Africa, U.S. Likes the Dowry: Oil," *The New York Times*, September 18, 2002.

Catholic Relief Services in Africa (country program offices and project support)

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Back cover photo: Along its route, the Chad-Cameroon pipeline crosses major rivers 17 times and cuts into the country's sensitive Atlantic littoral forest. Pipeline construction cuts a 30-meter wide right of way through vegetation and the pipeline is buried 3 feet below ground. (Photo: Ian Gary, CRS)

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