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Ways of Using the African Oil Boom for Sustainable Development

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Ways of Using the African Oil Boom for Sustainable Development

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Abstract

Sub-Saharan-Africa is considered the fastest-growing oil-producing region worldwide. Production has risen by 36 percent in the past ten years (as against 16 percent worldwide). Within 2005 alone, the revenue of the eight largest oil countries of sub-Saharan Africa will be about US\$35 billion. The oil revenues can give rise to a rent-seeking mentality. Political decision-makers may focus on distributing the income on the basis of private interests and not so much on putting it to use for productive development purposes. This paper reviews ways the African oil boom can be used for sustainable development of the continent.

Résumé

L'Afrique sub-saharienne est la région du monde pour laquelle la croissance de la production pétrolière est la plus élevée. La production a augmenté de 36 pourcent au cours des dix dernières années (comparé à 16 pour cent dans le reste du monde). En 2005, les seuls revenus des huit principaux producteurs de pétrole en Afrique subsaharienne auraient avoisiné 35 milliards de dollars. Les revenus pétroliers peuvent donner lieu à un esprit de recherche de rentes. Les dirigeants politiques de ces pays peuvent se concentrer sur la distribution des revenus en fonction de leurs intérêts privés plutôt que par le développement effectif de leur pays. Cet article passe en revue les façons dont les revenus pétroliers peuvent être utilisés pour le développement durable du continent.

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Chapter I: Introduction

The rapid growth in the oil-exporting countries in the Gulf of Guinea would allow these countries to finance large portions of their development budgets themselves. According to calculations by Warner (2005), the major oil countries of the region will reap a combined financing surplus, over and above their own Millennium Development Goal (MDG) investment needs and recurrent public expenditure, of US\$22 billion in 2006, increasing to an annual US\$35 billion by 2015. This amount is equivalent to about 50 percent of the calculated MDG financing gap. Yet, excluding the benefits to small powerful elites, resource booms on the African continent have generally not contributed to sustainable development.

The challenge of making greater use of the growing self-financing capacity of sub-Saharan African countries implies, firstly, a need for building the requisite technical expertise for responsible management of cash flows that rise rapidly within short periods, and, secondly, a need for responding to the government's radically changing financial situation by commensurate enhancement of overall political accountability. This means that institutional mechanisms must be put in place or enhanced which ensure that authority over the control and utilization of resources is exerted on the basis of mandatory democratic accountability and with a view to attaining goals that enjoy democratic legitimacy. What is ultimately decisive in determining whether oil-based development progress succeeds or fails, turns out to be a curse or a blessing, is whether the principles of good governance are respected throughout government and society.

Furthermore, in view of the financing gap to achieve the MDGs in the non-oil producing countries, economic and political reasons dictate that ways should be found of using the African oil boom for sustainable development across of the continent, benefiting societies at large in both oil exporting and oil importing countries. This paper reviews ways the African oil boom can be used for sustainable development of the continent. It is structured into 5 sections. Following this introduction, the next section provides some background on the oil production in selected African countries. Section 3 reviews the key implications of vast natural resource reserves. The fourth section makes suggestions on how development cooperation can put rentier income resulting from the oil boom to use, before the last section provides some conclusions and recommendations.

Chapter II: Background

The old rule of thumb that 20 percent of humankind in Europe, North America and Japan are using more than 80 percent of all extracted resources is no longer valid. A structural change has occurred: China, India and others have been added to the bill, which means that more than half of the global population now forms the substantial part of the demand for resources. In the long term, this will result in significant structural changes not only in the economies of oil-importing countries but also in oil-exporting countries.

Largely due to the increase in world demand, the price for a barrel of crude oil rose from US\$18 in December 2001 to more than US\$65 in September 2005. Assuming that demand for oil will continue to rise, oil prices are likely to continue to rise in the next few years. Given the importance oil plays in many of the African oil producing countries, this will have large impacts on revenues of these countries. It is estimated that in 2005 alone, the revenue of the eight largest oil countries of sub-Saharan Africa¹ was about US\$35 billion or about 24 percent in terms of GDP. For Angola, a ten-dollar increase in oil prices per barrel is equivalent to a 30 percent increase in GDP; see World Bank (2005).

The largest oil producer in sub-Saharan Africa is Nigeria, with an estimated production volume of 2.7 million barrel/day. This makes it the world's sixth largest producer. Production is expected to rise to 4 million barrel/day by 2010. Projections suggest that national oil revenues will be at least 30 percent higher in 2008 than they were in 2005 (estimated at US\$22 billion), even after allowing for a downturn in world prices. Notwithstanding its wealth of oil reserves, Nigeria is forced to import about 70 percent of its oil products. The significance of Nigeria as an oil producer is further put into perspective if one looks at per capita oil production figures. With its population of 124 million, the country only ranks 37th in a 56-country list, far behind Equatorial Guinea (6th), Gabon (13th), Rep. of Congo (20th) and Angola (21st); see Myers (2005) for details.

The second largest oil producer in sub-Saharan Africa is Angola, which produces 1.09 million barrel/day. Its production is expected to rise to 2.5 million barrel by 2008. Just like in Nigeria, oil accounts for a large proportion of the country's exports. According to the Angolan National Bank, the country exported oil and oil derivatives valued at US\$5.8 billion in 2001, which is equivalent to almost 90 percent of Angola's exports.

Very recently, Equatorial Guinea joined the group of oil-exporting countries, after large oil reserves were discovered in the early nineties. Between 1996 and 2002, production rose from 20,000 barrel/day to 265,000 barrel/day. As a consequence, vast foreign investment, particularly from the United States, flowed into the country. It even saw the establishment of a direct flight between its capital (Malabo) and Houston. The oil boom has resulted in a tremendous increase in this small country's GDP. In 1997 alone, it rose by 93 percent, and average annual growth between 1998 and 2002 was a respectable 30 percent. Government revenue grew by more than 1,200 percent between 1994 and 2000.

The oil production of the Republic of Congo has quadrupled over the past decades, from 65,000 barrel/day in 1980 to an average of 285,000 in 2005. The majority of Congolese crude production is located offshore and is heavily reliant on foreign personnel and technology. Elf-Congo, Total S.A. (France) is the leading oil producer and foreign investor in Congo, producing approximately two-thirds of all Congolese oil output. Because the Congolese Government is frequently accused of misusing oil revenues, the IMF has urged the country to enforce transparency and improve public finance.

¹ See Table 1.

Gabon is Sub-Saharan Africa's fifth largest producer of crude oil and has proven oil reserves of 2.5 billion barrels. Contrasted with Gabon's 1997 peak of 371,000 barrel/day, 2005 oil production has declined 37 percent. This coming post-petroleum period will present a major economic challenge for Gabon, because the country has largely failed to use its abundant oil revenues to diversify into other forms of activity.

Oil production was non-existent in landlocked Chad prior to 2003, but with the completion of the Chad-Cameroon pipeline in July 2003, the country began producing oil. Since then, Chad's production levels have climbed steadily. Cameroon's production has fallen over the same period. In 2005, Chad and Cameroon were easily able to meet their total combined oil demand of 25,000 barrel/day from domestic production.

Sao Tomé and Príncipe's oil sector and its overall national governing system operate very much in the shadow of Nigerian influence. It is unknown how much offshore oil wealth Sao Tomé and Príncipe possesses: estimates vary between 4 and 10 billion barrels. Regardless of what the actual level turns out to be, the country will remain a coir target of adventurers, and the management of wealth streams will remain a formidable internal challenge.

Table 1: Key Data on Oil Production in Selected African Countries

Country	Population (million) (2003)	Per capita GDP (\$) (2003)	Beginning of oil production	Barrel of oil per capita (2003)	Oil production (1,000 barrel/day)			Share (percent) of oil production		
					2001	2005 (est.)	2015 (est.)	GDP (2001/02)	Budget (2001/02)	Exports (2001/02)
Nigeria	124.0	471	1963	7.1	2,083	2,719	3,729	40	70	92
Angola	13.6	1015	1956	24.0	740	1,098	2,549	54	85	89
Equatorial Guinea	0.5	6026	1992	197.3	195	400	653		82	77
Sudan	33.6	529	1992	2.7	230	310				
Rep. of Congo	3.7	957	1957	24.7	273	285	314	39	68	92
Gabon	1.3	4566	1961	73.5	259	250	100	41	64	81
Chad	8.6	307	2004		0	230	80			0
Cameroon	16.0	862	1978	1.6	107	84	66			43
DR Congo	52.8	108			24	30	30			
Côte d'Ivoire	16.6	845		1.2	12	43	83			13
Sao Tome and Principe	0.2	370	2005		0	0	150			0

Sources: African Development Bank and Development Centre of the Organisation for Economic Co-operation and Development (OECD) (2005), Appendix Table 1 for data on Population and GDP per capita; Basedau (2005) for Beginning of oil production; Economist Intelligence Unit, Country Profiles for Barrel of oil per capita; KfW Bankengruppe (2004) for Oil production and Share of oil production.

In 1992, Sudan began exporting crude oil. At present, Sudan's oil sector produces 310,000 barrels/day, with the majority coming from the Muglad basin fields in southern Sudan. Increased future production will be driven by exploration, which is dependent on the progress of the peace process and an increase in operator safety. Without exploration, production will decline rapidly after 2007; or if there is successful exploration and

discoveries are followed by significant capital investments, production could plateau at approximately 450,000 b/d for the next 15 years.² As the largest source of revenue, oil is the decisive factor in the implementation of the comprehensive peace accord, signed in 2005.

Overall, oil production in the Gulf of Guinea has risen by 36 percent in the past ten years. By contrast, it has risen by an average of 16 percent in the rest of the world. In total, the region produces 4 percent of all oil worldwide. It is expected that this share will rise to 5.9 percent by 2007. According to estimates (see Goldwyn and Morrison, 2004), the region's total oil deposits amount to 7.4 percent of global reserves. The significance of the region will continue to grow once the existing gas deposits, which are large as well, are no longer treated as a secondary product and flared as is common practice now, but rather put to commercial use in a targeted way.

West Africa is considered to be the fastest-growing oil-producing region worldwide. In total, it is expected that some US\$50 billion in investments will flow to Africa's oil fields over the next ten years – the largest investment in the continent's history. Africa's crude oil deposits are of particular importance for Europe and the United States due to their location and quality. First, the largest oil reserves (24 billion barrel) are to be found offshore, that is, outside the immediate reach of various conflicting parties. Second, most of the oil is located on the West African coast of the Atlantic, that is, directly across from the U.S. East Coast. Third, African oil meets high purity standards thanks to its low sulfur content.

An unmistakable indication of the oil boom that must be expected in the coming years is the growing number of companies that are active in the region. While in the past it was three large companies that controlled the sector, namely, Shell, Total (Fina-Elf), and Chevron, which still accounted for some 75 percent of production in 1999; additional players have entered the market more recently, particularly a number of Asian companies such as Petronas (Malaysia), ONGC Videsh (India), and Chinese National Oil Company. The appearance of these new "partners" in traditional developing countries is paralleled by the respective governments' increasingly shedding their previous ties with donors. A completely new balance of power is emerging, especially as a result of China's investment policy, which is based primarily on national interest. Tull (2005) concludes, among other things, that Beijing has become a trading partner for Africa that presents an alternative to Western countries. However, Tull also notes that China's vehement defense of the principle of national sovereignty is a factor of political significance which helps to broaden the scope for action available to authoritarian regimes. He says that this is of central importance for future cooperation with developing countries, as the premises of Chinese foreign policy run counter to efforts to foster democracy, conflict prevention and transparency.

² See Skorupski (2004).

Chapter III: Implications of Vast Natural Resource Reserves

Vast natural resource reserves have many implications. They affect not only socioeconomic and political developments in the countries that own them, but also have implications for the countries that are dependent on these natural resources. They usually also have considerable environmental implications. While natural resource reserves (oil and other mineral resources) constitute a potential blessing for the country that owns them, they turn out to be a curse in most cases. This chapter first summarizes the main elements of the so-called resource curse, looks then at the actual experiences of the African oil exporters, and closes with some positive examples.

III.1. Resource Curse

The resource curse, which is also referred to as the paradox of plenty, is not new. Some of the seminal contributions have been van Wijnbergen (1984) and Sachs and Warner (1995). While the early literature concentrated mainly on economic implications (especially the impact of natural resources on economic growth and the exchange rate), the more recent contributions have centered on the relationship of natural resources and civil conflict (see for example Collier and Hoeffler, 2004) and the relationship between natural resources and political institutions (see for example Mehlum, Moene and Torvik, 2006). Based on the large resource curse literature, the list of negative effects of natural resource reserves is long, but involves mainly the following eight problem areas:

- trickle-down effect fails to materialize (absence of downstream sector);
- agricultural sector is neglected, leading to an impoverishment of the rural population;
- low tax ratios and high consumption expenditures (typically on imported goods) reinforce inflationary tendencies;
- displacement/disenfranchisement of indigenous people, conflicts over land use rights, and environmental degradation;
- strong causal links between abundance of resources and violent conflict, including the encouragement of separatist movements (Nigeria: Biafra, Angola: Cabinda);
- currency overvaluation and Dutch disease effects;
- strong tendency towards corruption; and
- diminishing willingness of governments to pursue reforms.

Some of the dominant explanations that have been provided for some of these negative effects are that the enormous revenue flow renders the establishment of a functioning tax system obsolete. As a consequence, the general public and civil society have rather little interest in the way these revenues, to which they do not contribute, are used. Pertinent checks and balances remain underdeveloped, or the government is able to undermine them. With regard to expenditure, no use is made of openings for diversifying the economy, enhancing infrastructure or expanding education systems. There is virtually no transfer of knowledge to local enterprises, and only minimal employment in the domestic labor market is created. At the same time, the booming oil revenues give rise to a rent-seeking mentality on the part of governing elites that is extremely detrimental for the country's development. Governing elites enjoy ownership and/or control of oil reserves without having to pay for them. The resulting revenue that accrues to them fosters

corruption and cronyism and strengthens authoritarian regimes. The goal of these elites is no longer to make productive use of oil revenue but to redistribute it to their greatest possible benefit and to stabilize their own power.

III.2. Experiences of African Oil Exporters

The experiences of African oil exporters has been that hardly any improvements have materialized for the people of the countries concerned, neither in economic and social nor in political terms. In five of the nine oil-producing countries examined (see Table 2), average life expectancy is below fifty years, and all nine countries are well in the bottom third of the UNDP's Human Development Index. Oil revenue in Africa corrodes government institutions and threatens democracy. The Freedom House indicator of civil and political liberties is accordingly poor in all countries examined (see Table 2).

One partial explanation for these negative political developments is related to the fact that the character of African oil production continues to be that of a colonial-style exclave economy, geared towards the needs of the world market rather than the needs of sustainable development. Most of the negative economic implications are summarized by so-called Dutch disease effects: the large volume of oil exports and their swift growth are causing an overvaluation of the national currency, while simultaneously imports surge, resulting in major declines in production and export capacity in other industries.

In Nigeria, which has reaped an estimated US\$600 billion in oil revenue since 1960, 70 percent of the people live on less than a dollar a day. As Global Witness (2004, p. 4) states: "In Angola, new evidence from IMF documents and elsewhere confirm previous allegations made by Global Witness that over US\$1 billion per year of the country's oil revenues – about a quarter of the state's yearly income – has gone unaccounted for since 1996." Global Witness (2004) also points out that the Democratic Republic of Congo has been treated like a colony by the French state oil company Elf Aquitaine (now Total). The government is bought, payment flows from oil production are not published, and none of the profits reach the government budget.

Gabon, one of the most long-standing oil producers in the region, reached the peak of its production in 1996, 365,000 barrel/day. Simultaneously, it had the highest per capita consumption of champagne worldwide in that year. Now oil production stands at 250,000 barrel/day and is expected to drop to approx. 100,000 barrel/day in 2012. This decline of production has been paralleled by a dramatic fall in GNP because the country failed to diversify its production structure and make its economy independent from oil. In fact, agricultural production has been almost completely abandoned over the years, with only one percent of the area still being under cultivation, so that the country is almost completely dependent on imports. As Yates (2005, p. 187) has pointed out, "the champagne days are over, and they must learn how to earn money, not just spend it."

In view of this rather discouraging experience, many ask whether abundant oil reserves are suited as a tool for poverty reduction at all and whether they might not, on the contrary, further worsen the situation. The debate focuses particularly on the World Bank, including IFC and MIGA, which in the period since the beginning of the nineties

alone has made available some US\$2.75 billion in credits and guarantees for relevant projects in Africa, without any clear resultant development progress being evident in the countries concerned. For example, Pegg (2003, p. 25) concludes that "[T]he Bank has produced little concrete evidence to demonstrate that its support for extractive sectors has actually reduced poverty and achieved positive development outcomes in these countries."

Table 2: Socioeconomic and Political Profile of Oil Producers

Country	Average annual GDP growth 1997-2003 (percent)	Average population growth 1997-2003 (percent)	Life expectancy at birth (2004) (years)	Human Development Index 2003 (out of 177)	Corruption Index 2004 (out of 145)	Freedom House Index		
						PR	CL	Status
Nigeria	3.7	2.7	51.3	158	144	4	4	PF
Angola	6.0	2.9	40.2	160	133	6	5	NF
Equatorial Guinea	33.5	2.7	49.2	121		7	6	NF
Gabon	0.4	2.3	57.4	123	74	5	4	PF
Cameroon	4.6	2.2	45.1	148	129	6	6	NF
Rep. of Congo	2.5	2.9	48.9	142	114	5	4	PF
Sudan	7.5	2.3	55.6	141	122	7	7	NF
Sao Tome and Principe	3.0	2.6	70.4	126		2	2	F
Chad	6.5	3.1	45.4	173	142	6	5	NF

Sources: *African Economic Outlook 2005/2006* (Average annual GDP growth, 1997-2003; Average population growth 1997-20023, and Life expectancy at birth, 2004); *Human Development Report 2005* (Human Development Index 2003); and *Global Corruption Report 2005* (Corruption Index 2004 and Freedom House Index).

Notes: "PR" stands for "Political Rights"; "CL" stands for "Civil Liberties"; and "Status" is the Freedom Status (where "F", "PF", and "NF", respectively, stand for "Free", "Partly Free", and "Not Free"); Political Rights and Civil Liberties are measured on a one-to-seven scale, with one representing the highest degree of freedom and seven the lowest.

III.3. Positive Examples

The positive examples of Norway, the United Kingdom and a number of Gulf states are evidence that abundant oil resources do not necessarily constitute a natural and inevitable evil but that, on the contrary, this negative phenomenon is homemade, and can definitely be changed as it is the result of egotistical action on the part of a small elite that is subject to insufficient checks.

Another example of a functioning resource monitoring mechanism that is frequently cited is the Kimberley Process created in 2002 for the diamond sector. The related certification process has succeeded in all but draining the market for what are called "blood diamonds". However, Paes (2005) notes that the market situation for diamonds differs dramatically from that for crude oil as diamonds lack the strategic significance of oil. They are mainly marketed to individuals, who are potentially capable of organizing consumer boycotts as 70 percent of all diamonds are marketed by a single company (De Beers).

Chapter IV: How Can Development Cooperation Put Rentier Income to Use?

In view of the scarcity of donor funding mentioned above, the MDG funding gap, the income boom in oil-producing countries and the seemingly anti-development effects of rentier income, development policy is faced with the challenge of preventing damage to the economies concerned and developing a way of using increased rentier income that is conducive to development. The relevant levels for action are not only the national/bilateral level but also, given the global scope of action of the parties involved, the international/multilateral arena. This chapter therefore reviews the Extractive Industries Transparency Initiative (EITI), the Publish What You Pay (PWYP) campaign, the Publish What You Earn (PWYE) principle, and the experiences of national and international oil funds.

IV.1. The Extractive Industries Transparency Initiative (EITI)

The EITI was originally an initiative of British Prime Minister Tony Blair, who presented it at the 2002 World Summit on Sustainable Development in Johannesburg. Among others, the EITI received support at the 2003 G8 Summit in Evian, at which a resolution on corruption control and enhanced transparency was adopted. One essential characteristic of the EITI is that government's membership is voluntary. This sets the EITI apart from the "Publish What You Pay" NGO campaign. However, the principle of voluntary membership means that the principles are not being implemented precisely in those countries where this would be most urgent, as is evident from the situation in Angola and the Republic of Congo. So far, 20 resource-exporting countries have made a commitment to participate in the EITI, including 12 African countries. Of the latter group, the Republic of the Congo, Ghana, Nigeria and Sao Tome & Principe have announced specific actions they will take. However, very little real progress has been made so far apart from declamatory acts.

Both the World Bank and the IMF have publicly recognized the importance of the EITI process and have addressed its implementation in their own internal operational policies. For instance, the IMF (2005) has produced a Resource Revenue Transparency Guide, while a World Bank (2003) Operation Evaluation Department (OED) report on *Extractive Industries and Sustainable Development* calls on the Bank to "pursue country- and industry-wide disclosure of government revenues from extractive industries (EI) and related contractual arrangements [...]. The Bank should work toward and support disclosure of EI revenues and their use in resource-rich countries." [Note: We will need the exact page numbers if using quotations.] The World Bank responded to this evaluation by setting up an Extractive Industries Advisory Group. The World Bank has also declared its intention to only support investment in the extractive industry sector from now on if the transparency of revenues has been ensured in line with the terms of EITI. In addition, wherever the economic situation allows such an approach, government cooperation with the EITI should explicitly be made a mandatory integral element of the PRSP process. Furthermore, a World Bank-led Multi-Donor EITI Trust Fund has been

established, to which the three main contributions came from Germany (€500,000), Norway (£60,000), and the United Kingdom (£1 million). The UN Millennium Project (2005) report also regards the EITI as a contribution towards conflict prevention in resource-dependent countries.

However, the decisive breakthrough towards more development-oriented resource management cannot be brought about by an increased range of persuasive measures in the good governance sphere alone. Ultimately, one crucial factor determining the conduct of African oil elites is the standards and regulations which oil-importing countries define for themselves and for the oil companies situated in their territory (transparency guidelines for companies listed on the stock market, monitoring of capital transfers, bank secrecy, foreign trade guarantees, etc.). As long as there are no internationally valid and internationally applied regulations, each individual international oil consortium that would be willing to join one of the initiatives would be faced with cut-throat competition based on worst practice.

To that end, a further supportive measure would be needed, namely, an International Financial Reporting Standard (IFRS) as demanded by Global Witness (2005). A UN Resolution to that effect could lend added legitimacy to the process. If the initiative enjoys no such legitimacy and has no generally binding character, there is a risk that voluntary disclosure of relevant information may create a "risk of producing an 'unlevel playing field' in data supply, which could be manipulated for the advantage, and possible disadvantage, of those choosing to make such voluntary disclosure" (see Global Witness, 2005, p. 6).

IV.2. Publish What You Pay (PWYP)

The Publish What You Pay (PWYP) campaign was founded by Global Witness, CAFOD, Oxfam, Save the Children UK, Transparency International UK and George Soros (Chairman of the Open Society Institute). It preceded the EITI and is supported by an international coalition of over 280 NGOs aiming to increase revenue transparency in the extractive industries. It goes beyond the EITI approach in that it also pursues the goal of making it binding for all oil companies listed on stock markets to disclose all information about payments (taxes, fees, royalties and other transactions) made to governments and/or public institutions with regard to all products in every country in which they operate.

IV.3. Publish What You Earn (PWYE)

Capacity for greater transparency in the oil sector is not only a political issue but also a technical one. Highly complex arrangements, be they in the form of concessions or of contracts between governments, national energy agencies, public extraction companies, etc., on the one hand and international extraction consortia on the other, often make it extremely difficult to distinguish between payments from lease revenues, mining royalties, bonuses, taxes, etc., and to list them properly. This is true, in particular, if the government in question benefits from oil proceeds not exclusively based on payment flows but owns part of the oil production itself and markets it independently (as is the case with production sharing agreements). In such cases, it is not sufficient that

enterprises implement the Publish What You Pay principle. Rather, in the interest of comprehensive transparency, this must be complemented by the Publish What You Earn principle for governments. This means that unlike with EITI and PWYP, all resource-based revenues must be disclosed on a comprehensive scale.

Another oil-related income source that must be disclosed is the government's commercial borrowing backed by future oil revenue. This form of financing is a popular means of all kleptocratic elites to get hold of financial resources within the period of their being in government., For instance, the Angolan government's share in oil production over the next three to five years has largely been tied up for interest payments on past borrowings. Applying the PWYP principle in such a constellation would mean that the lending banks would have to disclose payments in those cases where oil-backed contracts are concerned. Simultaneously, they would need to require the borrower, in this case, the oil-exporting country, to disclose the way in which the funds from the loans are used.

IV.4. Establishment of Oil Funds

In the past, there have been a variety of initiatives, especially in the area of national funds, with the goal of remedying time lags or regional disparity caused by highly volatile revenue. One reference model of such oil revenue management for the benefit of the people can be found in Norway, where the net proceeds of global oil sales have been channeled to the government oil fund since 1990. This has prevented the economy from being flooded with and destabilized by foreign exchange from oil revenue. Simultaneously, Norway's approach ensures reliable funding for the country's old-age pension and health system. Other examples of national mechanisms outside of Africa include the Alaska Oil Trust and the Iraqi National Oil Trust.

In the African context, the Mineral Fund in Ghana and the fund for future generations in Equatorial Guinea were set up as a result of national initiatives, though the little experience that has been gained with these funds so far has mostly been unsatisfactory.³ Regardless of the significant problems the Chad-Cameroon Petroleum Development and Pipeline Project pipeline project currently experiences, its approach and general structure should be regarded as a useful pilot effort to ensure that benefits from current resource extractions are properly shared. The project implied to connect the Doba oil fields in southern Chad with an offshore oil-loading facility near the Atlantic port of Kribi, Cameroon, by means of a 1,070 km pipeline. According to Africa Live, Chad and Cameroon are expected to receive an annual US\$2 billion and US\$500 million, respectively, in revenue over the next 25 years from the pipeline. The pipeline was financed by a consortium consisting of the US oil companies ExxonMobil and Chevron and the Malaysian Petronas corporation, though the governments of Chad and Cameroon as well as the World Bank were also involved. The World Bank has shouldered 3 percent of the US\$3.7 billion investment, after the adoption of a comprehensive environmental impact assessment and the adoption of a law on the use of oil revenue in Chad. According to this law, 10 percent of the revenues were to be transferred to a fund for future generations. Of the remaining 90 percent, 80 percent were supposed to be used for

³ The KfW Bankengruppe (2004) characterized the situation by too little budgetary discipline, insufficient payments into the funds, funds being used as a gravy train by those controlling the money, etc.

spending in health, education, rural development and infrastructure sectors. Another outcome of the World Bank's involvement was the establishment of an International Advisory Group (IAG). The Group's general mandate is to monitor compliance with all arrangements involved in the project. The Group visits the two countries every six months and its reports are published on the internet.

As part of the World Bank's accompanying measures the Fonds d'Actions Concertées d'Initiatives Locales (FACIL) had been set up. This decentralized development fund for the oil region, in which local civil society, too, was involved, was meant, among other things, to channel part of the oil revenue (5 percent of the revenue) back to the oil region. However, due to red tape and lack of ownership, the outcome of FACIL's work was disappointing. Today, FACIL is no longer in existence as the Chadian side explicitly stated that it no longer needed support in this regard, even though there are obvious capacity constraints. Furthermore, in view of its general poor budget situation, the government of Chad has requested the World Bank to agree to an amendment of the relevant law. Proposed amendments include increasing the share of oil revenue to be channeled into the general budget by 15 percent, to 30 percent, eliminating the fund for future generations, and broadening the definition of priority sectors. The government cites the high expectations of the people of Chad as a reason for the amendments.

At the international level, the establishment of the International Fund for Agricultural Development (IFAD) can serve as a historical model for such a solidarity-based contribution towards putting windfall profits to use for development. The Fund was created in 1976 by a joint decision of industrialized and OPEC countries. The balance-of-payment surpluses of OPEC, which were enormous at the time, were to be combined with funds from industrialized countries to increase food production and enhance the nutrition status of rural people in the poorest countries of the world. IFAD is a specialized agency of the United Nations and is organized along the lines of a development bank. In this case, too, the experience gained over 30 years has certainly been mixed.

In December 2005, the IMF has set up an Exogenous Shocks Facility (ESF) which provides policy support and financial assistance to low-income countries facing exogenous shocks, like from increasing oil prices. It is available to countries eligible for the Poverty Reduction and Growth Facility (PRGF) but that do not have a PRGF program in place. Financing terms are equivalent to a PRGF arrangement and more concessional than under other IMF emergency lending facilities.

Chapter V: Conclusions and Recommendations

The goal of ensuring the sustainable, pro-development utilization of rentier economies through development cooperation can only be reached if the classic range of addressees, namely, oil-exporting developing countries, is broadened to include all those players who are responsible, both at the regional and at the international level, for determining the rules governing the national and international financial sector and national and international trade. However, in order to make progress in this field there is a need for

political commitment across policy fields to mainstream this goal and achieve coherent action in international bodies, across individual ministries.

This implies an approach based on concentric circles, starting by improving the general technical and political environment (management advice and promotion of good governance) at the national level, strengthening regulatory and monitoring capacity at the regional level (economic communities, African Union), and, at the international level, revising the set of standards that determine the overall framework (European Union, United Nations, International Financial Institutions). Each of these concentric circles is vital to success on the goal of achieving a higher share of funding being provided by the countries of sub-Saharan Africa themselves, but while each of them constitutes a necessary condition, only action on all of them will lead to success. The following points are thus very closely interrelated, and success on one hinges on success on the others and vice versa.

V.1. Improving Sustainable Oil Profit Management

In all countries, the transparency and control of payment flows from extractive industry to the public sector are of central importance. So as a matter of priority, development cooperation should support EITI and PWYP. One focal area of services offered under development cooperation in this regard should be advice to policymakers (energy and transport ministries) with a view to the sustainable management of oil profits. In that way, development cooperation could help partner countries draw up the requisite legislation and build the necessary capacity for monitoring and controlling, thus contributing to the enhanced integration of the EITI approach into national reform processes. This would simultaneously foster the goal of strengthening the relevant governments with regard to their ability to negotiate with oil companies. The capacity gap in this field gives rise to a risk of highly unequal contracts to the detriment of oil-exporting countries. In the case of Chad, it is estimated that a mere 12.5 percent of oil revenues goes to the state. This figure is far below international standards. Other projects of vital significance in this context involve advice on tax reform, budget preparation, expenditure planning, and auditing.

V.2. Fostering Good Governance

If it is to be ensured that the governments of the countries concerned discharge their responsibility, vast improvements with regard to good governance are needed within these countries. This means strengthening all levels of government, both with regard to the legislative and the executive branch; fostering decentralization; strengthening the rights of civil society; and reinforcing the fight against corruption. The overall goal of these measures is the creation of a political consensus, based on democratic principles, on the need for development. Without this good governance aspect, it will not be possible for the national government to prioritize, in a responsible manner, the development goals to be defined.

In view of this political culture, which is developing very slowly, it is often not the absence of technical management capacity or of a suitable set of standards and regulations that is the problem but the application and implementation of such capacity

and regulations at the political level by local elites. This means that technical cooperation projects providing advice on good governance will only be successful to the extent that they explicitly include market mechanisms that make it good sense for players, even from a purely economic-benefit point of view, to comply with good governance standards that are rooted in ethical considerations.

V.3. Enhancing International Standards and Guidelines

Policymakers should actively work for the establishment of regulations for payment flow disclosure and appeal to the relevant institutions and organizations to take suitable initiatives. Relevant openings include the rules governing international capital transactions (e.g., considering the introduction of an International Financial Reporting Standard), the transparency guidelines for international stock exchanges, and the adjustment of ODA eligibility criteria in line with EITI. The goal of efforts should be to create a level playing field for all players involved which would make it formally impossible to have a race to the bottom for the lowest standards in the course of the implementation of concrete projects. Yet, any policy that seeks to achieve a breakthrough for the pro-development approach will have to take account of "pragmatic" geo-strategic interests.⁴ This means that the development policy dialogue must not only be pursued with the African countries concerned but also, and particularly, with their trading partners. Hence, efforts need to be undertaken to enter into a dialogue with Asian countries in order to prevent them from undermining the joint efforts for fostering democracy, conflict prevention, and transparency. Without such a global perspective, all efforts will only be addressing the symptoms.

V.4. Intensifying Cooperation with International Organizations

The feasibility of activities under development cooperation also depends on whether there is any scope for official cooperation with a given oil-producing country. For example, except for the problematic case of Cameroon, none of the oil-exporting countries in sub-Saharan Africa are priority partner countries for German development policy. This is resulting in the paradoxical situation that no direct influence can be brought to bear precisely on those countries where the negative impacts of the oil boom are strongest. However, the existence of regional economic organizations and communities offers an opportunity to establish guidelines and quality standards across countries which would then also be applied in those countries to where bilateral development cooperation may not have immediate access because of these countries' status. Official development cooperation can also intervene if oil-producing countries have to comply with conditionalities imposed by the World Bank and/or the IMF, for example, due to high indebtedness.

⁴ For example, when the United States labeled Sudan a rogue state and forced all American oil companies to withdraw, China immediately took over. Sudan now ships 60 percent of its production to China. China is currently building a 1,500 km pipeline from the fields in southern Sudan to the Red Sea port of Port Sudan. China justifies its conduct by citing the respective partner countries' right to govern their internal affairs. With this type of pragmatism, the Chinese government is undermining all efforts to help root pro-development action in Sudan as well as in an ever growing number of other resource-exporting African countries. China's growing dependence on the world's resource markets seems to leave it no choice. In 2004, China imported 31.3 percent more oil than in the previous year and thus became the third largest importer of oil after the United States and Japan.

V.5. African Oil Fund

The additional costs arising to oil-importing developing countries as a result of the rising prices of the past few years have now reached a level that is higher than total international official development assistance. This means that generally speaking, the impact of factors that impede development is now probably greater than that of factors that are conducive to development. This might easily result in further economic destabilization and in a considerable increase in the potential for political conflict. Oil-exporting countries cannot be interested in such an exacerbation of risks resulting from increasing regional disparity. So it should be in the enlightened self-interest of oil-producing countries to share their wealth with their "poor" neighbors through a regional solidarity or equalization mechanism, especially as many African oil-exporting countries are expected to soon reach the limit of their absorptive capacity for investments.⁵ In order to capture such funds and put them to use for development, players should therefore actively call for, and support, not only the establishment of national funds but also, in particular, the idea of multi-country oil funds with a view to spreading the financial benefits and making a solidarity-based contribution to equitable regional development.

While oil-exporting countries have been asked to contribute to the IMF's External Shock Facility, it is unlikely that many African oil-exporting countries will contribute to such a global fund. Hence, another attempt should be made to tie up the windfall profits accruing in the Africa, and especially in the Gulf of Guinea, via an African fund that would make them available to the entire region and/or to future generations. This would visibly strengthen cooperation in the region, decrease resource-based development disparity, and reduce the potential for conflicts between countries. However, if such oil funds are to function properly, there is a need not only for the oil countries to be politically willing to shoulder more regional responsibility but also for the fund to be managed in a professional manner that is largely free from vested interests. With a view to African ownership, the inclusion of the African Development Bank should therefore be supported. The Bank could act as a trustee in setting up and managing such a fund.

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⁵ Calculations by Warner (2005) show that oil-exporting countries are expected to soon reach the limit of their absorptive capacity for investments even if capital exports continue at a high pace. If these countries succeed in reducing clandestine capital exports, the problem will be exacerbated.

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