Report 2004-065

West Africa's oil resources - curse or blessing?

Part IV: Country briefs

ECON-Report no. 2004-065, Project no. 41360 Public
ISSN: 0803-5113, ISBN 82-7645-719-3
LLU/MOL/HIH/PSW/KVR/GWE/cjo, THA, 14. September 2004

Part IV: Country briefs

ECON Analysis AS
P.O.Box 5, 0051 Oslo, Norway. Phone: + 47 45 40 50 00, Fax: + 47 22 42 00 40, http://www.econ.no

Table of Contents:

1 Nigeria

Highlights

- Nigeria is West Africa's oil giant. The country is sub-Sahara's largest oil producer, and belongs to the top five global producers, ranking only behind Saudi Arabia, Venezuela, Iran and the United Arab Emirates.
- The country is highly dependent on the petroleum sector oil, which accounts for 95 per cent of export earnings and 51.4 per cent of GDP.
- The country still has significant resources left, and government oil revenue from 2002 to 2019 is estimated to over 200 billion USD. Today most of the oil is found in the Niger Delta, but production is likely to shift towards deepwater.
- Nigeria has a poor record of management of oil. The estimated 340 billion USD earned since the 1960s have not done much to reduce poverty. In the same period GDP per capita remained roughly the same: 224 USD in 1960 and 250 USD in 1999. Meanwhile, the number of poor people in Nigeria rose from 19 million in 1970 to a staggering 90 million in 2000.
- A Recent IMF assessment (2003) concludes that oil has hampered economic growth and eroded institutional quality in Nigeria. Oil has also contributed to civil war, rent-seeking and corruption, not to mention stirring up regional tension and conflicts. In the Niger Delta people continue to be kidnapped and killed over disputes over oil. An wealthy and corrupt elite has grown extremely rich, while the majority of the population lives in abject poverty.
- With the return of democracy and the election of president Obasanjo in 1999, there are reasons for temperate optimism. Obasanjo and his government seems committed to serious reform, but still has to prove his case.
- Nigeria's relations to the West have improved significantly with Obasanjo in power. One notable step towards greater transparency is the commitment to a Nigerian Extractive Industries Transparency Initiative.
- Norwegian companies in Nigeria are still few, but the number of oil and service companies is increasing, reflecting Nigeria's key strategic role as a regional oil giant. Norway maintains a small embassy in Abuja, runs a (annual) 2 million USD governance-oriented aid programme, and has just launched a framework agreement for institutional cooperation in support of improved oil sector management (2 million USD over three years). Norway's leverage vis-à-vis Nigeria is limited, but successful oil management legacy and increasing commercial presence makes Norway stand out.

Key facts

- **Oil production:** 3.5 million barrels per day
- **Oil and gas reserves:** 32 billion barrels oil (2003) and 3.5 trillion cubic meters gas
- **Oil and gas dependence:** 95 per cent of export earnings and 51.4 per cent of GDP
- **Main international oil companies:** Shell, ChevronTexaco, Total, ExxonMobil and ENI/Agip
- **President:** Olusegun Obasanjo (since 1999)
- **Population:** 116,9 million
- **GDP per capita:** 290 USD in 2002
- **Ranking in UNDP's 2003 Human Development Index:** 151 of 174
- **Ranking in TI Corruption Perceptions Index 2003:** 132 of 133
- **National oil company:** The Nigerian National Oil Company (NNPC)

1.1 A challenging background

1.1.1 From military rule to democracy

After 15 years of military rule, Olusegun Obasanjo was democratically elected in 1999. Since then Nigeria has taken steps to reduce crime, increase transparency and improve the livelihood of its people. However, progress has been limited to date. The political situation remains unstable, with regional, religious and ethnic rivalry threatening stability. Progress on challenges such as corruption is slower than many had hoped for.

Decades of military rule

Nigeria gained independence from British rule in the late 1950s. Soon after independence tension between ethnic and regional groups increased and civil war broke out in 1967. The two and a half year war killed an estimated 1 million people, and oil was one of the drivers of the war. Even in the absence of war, instability continued with several coups and military rule characterising the 1970s and 1980s. Between 1985 and 1999, under the rule of various Generals, several attempts to promote democracy failed.

Under General Abacha (1993-1998) Nigeria was notorious for its human rights violations, with the most prominent symbol of this being the killing of a minority-rights campaigner Ken Saro-Wiwa and eight others from the oil producing Ogoni area. The controversial trial and subsequent execution not only brought world attention to Nigeria, it also gave a major impetus to the Corporate Social Responsibility (CSR) movement, given Shell's alleged involvement in the case. Following Abacha's death in 1998, the pro-democracy movement gained momentum, culminating in the election in February 1999 of Obasanjo who subsequently brought a formal end to military rule in May 1999.

A new opportunity for democracy

Nigeria is a US-style federal republic, with 36 states and 774 local government areas. There are 250 separate ethnic groups and just as many languages. A new constitution was introduced in 1999, causing a degree of tension with critics claiming that too much power was concentrated in the central government. Soon after his election, Obasanjo also embarked on an extensive shake up of key institutions, including the compulsory retirement of over 100 senior army officers. In principle, the federal government is responsible for defence, international relations and national infrastructure with states responsible for education and health, while local governments are supposed to provide local infrastructure services, such as water and sanitation. However, in many cases the states and local governments have been unable to provide for these services often, due to inadequate governance of revenues, resulting in poor service delivery (Ahmad & Mottu, 2002). This tension between the three layers of government is discussed in 1.4.

When Olusegun Obsanjo was re-elected in April 2003, about 100 people died in violence related to the election with some observers claiming that the election was marked by fraud. Despite these tensions, the governing party, the People's Democratic Party (PDP), remains dominant, controlling much of the federal legislature and state governorship in addition to a majority in the National

Assembly. Obasanjo has yet to prove his case, but is generally regarded as having taken several important steps towards reducing poverty and promoting transparency, particularly after the last election in 2003. The next election is scheduled for 2007.

Disturbing human rights record and weak rule of law

Nigeria's human rights record is poor. Successive military regimes have violated human rights, with the Abacha regime known to be particularly ruthless. With civilian rule, there have been fewer violations of freedom of expression and, even when the government has sought to act in this area, its response has been less violent than that of previous military regimes. But in spite of Obasanjo's re-election, some NGOs continue to claim that his regime has not brought the expected improvement in the protection of human rights. (HRW, 2002 & 2003).

In the Niger Delta – an important oil producing area – despite a general improvement in the protection of human rights, there is still widespread deployment of army, navy and paramilitary police, with new abuses continuing to be committed (HRW, EIU 2003). Years of military rule have damaged the rule of law and the authority of the judiciary. The legal system is not powerful, or impartial, enough to act as an effective constraint on corruption and other forms of crime. The conditions have improved with civil rule, but the judiciary is still undermined by corruption and under funding. (EIU, 2003).

The constitution allows for Sharia (Islamic law) for consenting Muslims. In January 2000 the North-Western state Samfara introduced Sharia, followed by 11 other predominantly Muslim states in the North. Sharia law has caused much debate, not to mention violent conflicts, discussed in 1.4.

Nigeria – a regional power

Nigeria is an important regional power, with commercial interests in many countries, the bulk of the region's oil resources and its largest army. Obasanjo is seeking to lead the promotion of the New Partnership for Africa's Development (NEPAD) and Nigeria was instrumental in the creation of the Economic Community of West African States (ECOWAS) in 1975. ECOWAS - with a Nigerian dominated military force - has exerted its influence through its intervention in Liberia during its civil war in both 1990 and 2003, as well as Sierra Leone (1997) and Guinea-Bissau (1998).

Towards greater international acceptance

There is little doubt that Nigeria's relations with the international community have improved since the election of Obasanjo. EU sanctions, imposed under General Abacha have been lifted and Nigeria has been readmitted to the Commonwealth.

President Obasanjo is aware of the potential influence that Nigeria can have on the rest of (West) Africa. Having aimed to push reform in almost all parts of the Nigerian public sector, Obasanjo hopes to seal his legacy as someone who managed to reverse the fortunes of Nigeria. President Bush visited Nigeria in 2003. Both Britain's Prime Minister, Tony Blair, and World Bank president James Wolfensohn have publicly endorsed Obasanjo's ambitious reforms.

The World Bank has committed 1.1 billion USD to Nigeria since 1999, making its Nigerian lending programme one of the fastest growing in Africa. Recently, the Bank expressed the willingness to further lend Nigeria up to 1 billion USD over the next two years. Although it does not receive IMF financing, the IMF does provide some technical assistance and emphasises a continuous dialogue with the Nigerian government. In the absence of a formal IMF restructuring programme, the country has embarked on its own, home-grown reform programme, the National Economic Empowerment and Development Strategy (NEEDS), described in 1.1.2. Obasanjo advocates a write-off of the country's external debt. However, it is unlikely that the Paris Club of sovereign creditors - which accounts for more than 80 per cent of Nigeria's debt - will provide debt relief without a formal IMF agreement.

The international community pays increasing attention to case for getting Nigeria (and other petro states) into the IMF fold, on the assumption that this can provide vital impetus for governance reform. In theory, there is a window of opportunity right now, because the deep offshore projects that will bring Nigeria major revenue flows are in a "cost recovery" phase in 2004-2005, implying that Nigeria currently transfer considerable payments to international oil companies. From 2006 and onwards, government revenue will increase rapidly. On balance, this is likely to reduce the potential for external influence over Nigeria.

Although the country's membership of OPEC has provided Nigeria with increased global influence, it has been tainted by the requirement to conform to OPEC quota restrictions. Thus, Nigeria has not had the freedom to develop its reserves – and additional revenue streams – in the way that Obasanjo may have liked. As a result, Nigeria continues to be the subject of continued speculation – and diplomatic pressure (particularly from the UK and the US) - about its continued membership of OPEC.

The US is Nigeria's main trading partner. 40 per cent of its export goes to the US, which, in turn, provides Nigeria with a significant amount of imports. Nigeria's traditional links with Europe, and the UK in particular, remain strong. Imports from the EU make up 50 per cent of its total imports. Given its energy production potential, Nigeria has considerable strategic importance, particularly in the context of the EU's growing import requirements. Similarly, in 2002, Nigeria was the 5th largest supplier of crude oil to the United States. This alone, means that Nigeria has significant geo-political importance.

1.1.2 Poor economic conditions

Nigeria has one of the slowest growing economies in the world, on a per capita basis. The country is heavily indebted and has difficulty in servicing its obligations. There is massive spatial and sectoral unevenness in terms of the share of GDP and growth performance, although unemployment remains high throughout Nigeria. Macro economic volatility has been both a cause and consequence of poor economic management.

Nigeria's economy is vulnerable to changes in oil prices. Changes in its OPEC quota have affected GDP growth; going up with higher quota and down with tighter controls (however, the changes in the OPEC quota are largely a reflection of changes in oil prices, meaning that revenues also would have been unpredictable outside OPEC). As a result of strong growth in the agriculture and oil sector, real GDP growth was 4.1 per cent in 2003. The Economist Intelligence Unit forecasts a GDP growth in 2004 of 3,8 per cent and 3,2 per cent in 2008. Whilst beating its recent past – these figures are not sufficient to make a difference to Nigeria's high levels of poverty, and the figures don't reflect the corruption problem and the highly distorted patters of income distribution.

The trade balance is largely driven by changes in oil exports. A record high trade surplus was reported in 2000, while exports fell in 2001 and 2002, as oil prices went down. High levels of imports also contributed to a weakening trade balance in 2003, although the current-account was still in surplus, with 2.7 per cent of GDP in 2003. The forecast for the current-account in 2004 is 2 per cent of GDP, while a sharp reduction is expected in 2005 (a current account deficit of 4,5 per cent of GDP), mainly owing to an expected fall in oil prices. (EIU, 2004)

Fiscal and monetary policies have been loose since 1999, and expenditures have risen rapidly. The official forecast for 2004 is a budget deficit of 2 per cent of GDP, while the EIU (2004) is more pessimistic, with an estimated deficit of 3 per cent of GDP. Inflation has remained high since 1999, at 13,6 per cent in 2002 and 13,5 per cent in 2003 (EIU, 2004). The Central Bank of Nigeria (CBN) has not been ready to raise interest rates, but the president continues put pressure on the CBN to do so.

Nigeria's debt burden is a serious problem. The external debt burden is unsustainable and, at the same time, domestic public sector debt is on the rise. Paris Club bilateral loans account for 80 per cent of Nigeria's external debt burden, the remaining external debt burden is owed to multilateral institutions (9 per cent), commercial institutions (11 per cent) and countries not in the Paris Club (0,3 per cent) (IMF, 2003).

President Olusegun Obasanjo's government appears to be committed to fiscal reforms, although it is too early to assess their efficacy. The government is set to create a liberal, market-oriented economy, while at the same time seeking to ensure adequate public services in order to fight poverty. In the absence of an IMF deal, Nigeria has introduced the National Economic Empowerment and Development Strategy (NEEDS). This is Nigeria's home- grown poverty reduction strategy (PRSP) and, according to the government, it builds on earlier efforts to produce the interim PRSP (I-PRSP), and the wide consultative and participatory processes associated with it. NEEDS focuses on the country's long-term goals of poverty reduction, wealth creation and employment generation. It includes job cuts in ministries, privatisation of key sectors like electricity and oil refining, cutting back on corruption and reducing government subsidies. The aim is for 5 per cent economic growth in 2005 and 7 per cent in the years to follow. Six sectors are identified as engines for growth: oil, gas, agriculture, solid minerals, manufacturing and tourism.

Whilst encouraging steps have been taken, according to the EIU (2003): "despite the rhetoric, the civilian government's record for sticking to agreed reforms has been little better than that of its military predecessors". Slow progress in reform could be a reflection of a weak civil service and tensions between the federal, state and local levels of government. However, after his re-election in April 2003, Obasanjo has shown greater determination in pushing ahead with reforms. The

NEEDS strategy is seen as a positive step and Obasanjo has gathered an economic team that appears to be committed to the reform of Nigeria's economy, particularly with the appointment of a former World Bank official, Ngozi Iwela, as the country's new finance minister.

1.1.3 Poor social conditions

Poverty is endemic in Nigeria. According to the UNDP's Human Development Index, Nigeria ranks in the low human development category – 151st out of 174 countries for which UNDP has data, and 22nd out of 45 African countries. Poverty is widespread. The proportion of the population which lives on less than a dollar a day is at least 50 per cent, and may be as high as 70 per cent (in 1996 it was estimated to be 66 per cent). However, the country has made some progress in fighting poverty, particularly in the fight against hunger. The proportion of undernourished people fell from 13 per cent in 1990-92 to 7 per cent in 1998-2000.

Nigeria infrastructure is poorly developed and the capacity to deliver public services is weak. Education standards have deteriorated, largely due to lack of funding; the literacy rate is only 57 per cent. Healthcare is also experiencing problems, and according to the EIU, is deteriorating. In 2002 there was only one hospital bed per 2230 people, compared to one bed per 1000 in 1999. The US National Intelligence Council has estimated that by 2010, 10 to 15 million Nigerians (18-26 per cent of adults) will be infected with HIV. The virus has already spread significantly, and could have a negative effect on economic development as well as bringing added strain to an already weak public health sector.

Corruption is widespread throughout the country. Nigeria is ranked second to last of the 133 countries in Transparency International's 2003 Corruption Perception Index. Mismanagement and rent-seeking have made Nigeria synonymous with corruption (Christian Aid, 2003). A report by Catholic Relief Services concludes that "..he capture of oil monies is the only big game in town". (Gary & Karl, 2003). There have been several corruption scandals in the National Assembly, forcing leading members to resign. The government is currently running an anti-corruption campaign, resulting, for example, in the president sacking his labour minister over bribery allegations in early 2004.

Organised crime, such s drug-trafficking, prostitution, money laundering, is also a big concern. Although Obasanjo has set out to fight crime, progress has been slow. A big problem is criminals who "bunker" oil flows in the Niger Delta. "Bunkering" is a term used to describe the process of filling a ship with oil after tapping into the oil pipelines. There is some uncertainty as to how much oil has been stolen, but a valid estimate would be in the range of 100 million and 250 millions of barrels of crude oil each year (Legaloil, 2003). This translates to the loss of hundreds of millions of dollars each year.

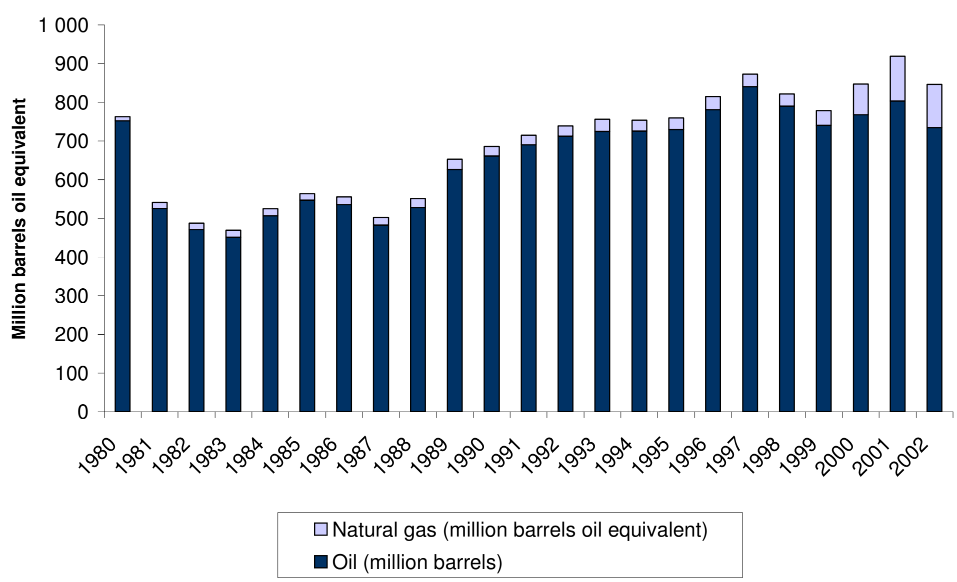
1.2 Important energy industry

1.2.1 Major oil producer, with gas becoming more important

Nigeria is one of the world's largest oil producers and exporters. Total oil reserves have been estimated at 50 billion barrels (PFC 2004), of which 23 billion barrels have been produced to date. It has the 7th largest proven reserves of gas in the world, and the largest in Africa. In energy terms, the reserves of natural gas in Nigeria are at least of the same order as the reserves of crude oil. The success of the Nigerian oil industry can be explained by two main factors: high quality resources, relatively cheap oil, and a favourable location for supply to the North American markets.

Oil exploration began in 1937 (although deposits were not found until 1956) with production beginning in 1958. Production fell drastically in the 1980s, with OPEC members losing out not least to North Sea production. After a steady rise production dipped again in the late 1990s due to cuts in OPEC quotas and trouble in the Niger Delta. Despite more problems Nigerian production rose to 2,09 million barrels per day in 2003. Nigeria aims to increase production significantly in the near future, with unrest in the Delta area and its OPEC quota likely to be key constraints on growth. Figure 1.1 illustrates Nigeria's oil and gas production on a yearly basis.

Figure 1.1 Nigeria's yearly oil and gas production



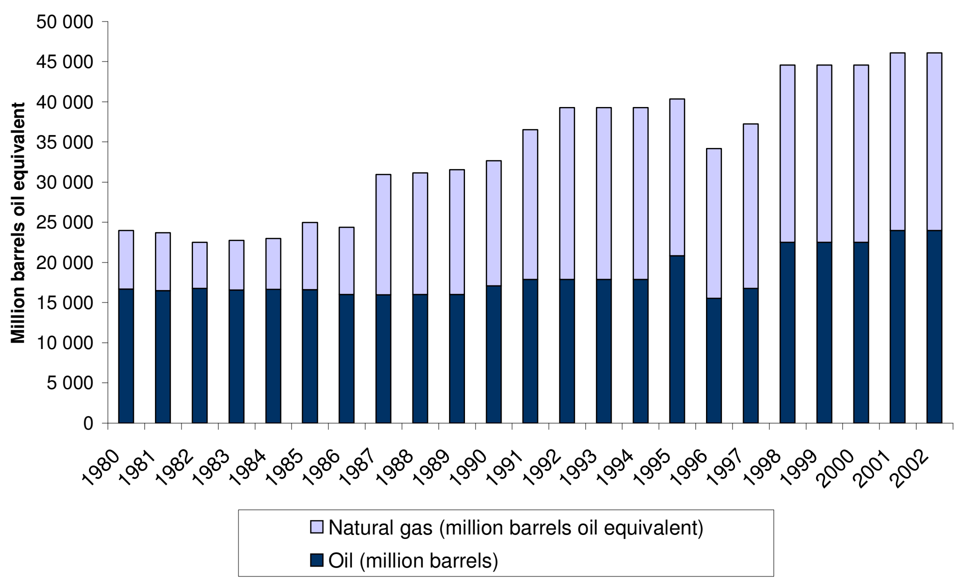
Source: BP Statistical Review of World Energy (2003)

As discussed in 1.1.1 Nigeria's OPEC membership is a constraint on its oil production. If Nigeria can produce more oil than OPEC permits it has two alternatives. The first is to refrain from selling its own share of produced oil - reducing government revenues and mitigating costs. The second is to require producers to hold back production - delaying further investment. Each company is obliged by the contracts to take a share of a cutback, but in the long term companies will not invest in production that greatly exceeds Nigeria's quota without some assurance that it will be permitted to sell the oil. (Goldwyn & Morrison, 2004).

Most of Nigeria's oil is found onshore, in the troubled Niger Delta, but offshore production is rising and will account for an increasing share of revenue. Despite higher exploration and production (E&P) costs, IOCs seem keen on offshore development, given the high quality of oil found off-shore, as well as increased levels of security (especially in comparison with the Niger Delta). In offshore production, it is currently the blocks awarded in 1993 that drive production, including Shell's Bonga field, ChevronTexaco's Agbami field and ExxonMobil's Erha field.

Earnings from gas are likely to exceed earnings from oil over the longer term (IMF; 2003). Proven gas reserves are estimated to about 3,5 trillion cubic metres, one of the largest in the world. Even though, Figure 1.2 shows that the gas production is low compared to oil, Figure 1.2 shows that gas accounts for an increasing share of the proven reserves, almost half in 2002. Thus in the future gas will become more important in petroleum production – and hence revenue.

Figure 1.2 Nigeria's proven petroleum reserves



Source: BP Statistical Review of World Energy (2003)

Almost half of Nigeria's gas was flared in 2002. However, this is a significant reduction from more the 98 per cent flared in the 1970s (EIU, 2003). Environmental concerns of gas flaring have led Nigeria to force companies to attempt to monetise this gas. The goal is zero gas flaring by 2008. Nigeria began exporting LNG following the completion of the Nigeria Liquid Natural Gas plant, in 1999. The LNG plant is a Joint Venture between the NNPC (49 per cent), Shell (25,6 per cent), Total (15 per cent) and Agip (10,4 per cent). A more ambitious plan is the Chevron-Texaco led West Africa Gas Pipeline, which could make Nigeria a regional supplier of gas to Togo, Benin, and Ghana (Goldwyn & Morrison, 2004).

1.2.2 A dual regime for managing the oil and gas sector

Three government agencies share responsibility for the governance of the sector:

- The National Petroleum Investment Management Services (NAPIMS) - a subsidiary of the Nigerian National Petroleum Corporation (NNPC), holding the major equity interest in the Joint Ventures;
- The Department of Petroleum Resources (DPR) – responsible for awarding licences, royalty administration, and gas flaring projects; and
- The Federal Inland Revenue Services (FIRS) – responsible for taxes.

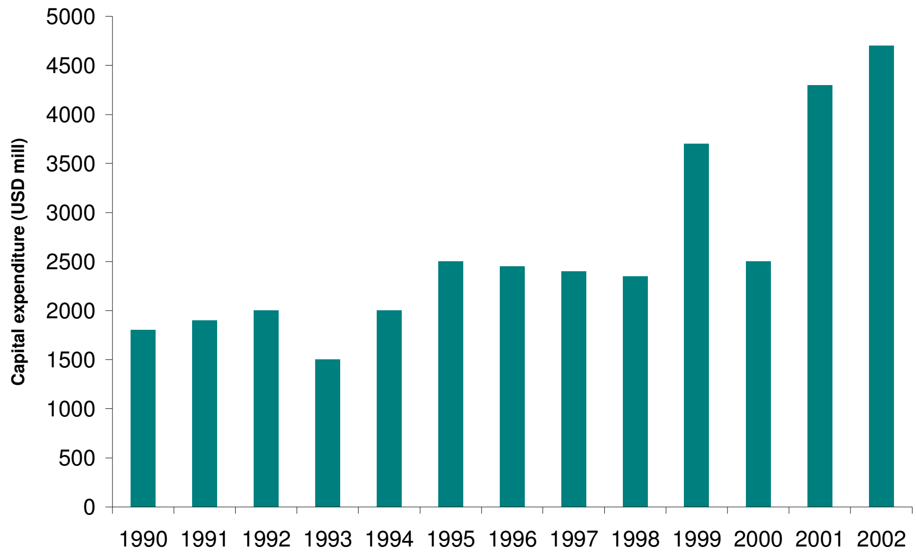
Nigeria manages its oil and gas sector through *two different regimes*. One is based on Joint Ventures, where oil companies are liable for a government take, comprising petroleum profit tax and royalty payments. The other is the Production Sharing Agreement (PSA) model, where investment in exploration and development of new fields are recovered as "cost oil" when production starts, and then give the government little revenue until cost oil has been fully recovered.

Joint Ventures were the norm for many years and still continue to be the dominant regime. Following the establishment of the Nigerian National Petroleum Corporation (NNPC) in 1977 the government set out to acquire greater control of the oil industry, through Joint Ventures between NNPC and the IOCs. While foreign companies remained operators, NNPC's stake steadily increased - up to 80 per cent. In addition, in 1979 all of BP's assets in Nigeria were nationalised. Due to financial constraints, the NNPC reduced its share to between 55–60 per cent in the late 1980s/early 1990s.

The introduction of the PSA model in 1993 was driven by NNPC's lack of possibility to participate in new developments in the industry. NNPC's financial constraints combined with more expensive offshore development encouraged this development. Historically, NNPC has not met its full financial obligation, forcing IOCs to carry the capital burden for a substantial part of oil projects' lifetime. The PSA model means that oil companies fully cover the financial risk of exploration and production. The companies are then entitled to recoup the costs and, after cost are recovered, to share profits (in cash or in oil) with the governments. The PSA model led to a significant increase in drilling, especially in deep waters in the mid-1990s. Figure 1.3 shows the rising capital expenditure over the last decade, particularly owning to the growing role of deep-water activities.

Currently virtually all oil production is under the Joint Venture model. In the short-term, most of the oil revenues will be collected under this regime. However, it is expected that IOCs will gradually shift to PSAs – along with more offshore production – and therefore PSA terms will determine a greater proportion of the government's revenues. The IMF has pointed to several challenges facing Nigeria as it makes the transformation from production based on Joint Ventures to production based on a PSA model. The precise impact is difficult to predict, but perhaps the most significant potential change is the likelihood of a reduction in government revenue – as much as 21 per cent lower in 2007 - with royalty payments and taxes going down. However, when the companies' costs in the PSA model are recovered, revenue is likely to increase again. (IMF, 2003).

Figure 1.3 Development in capital expenditure in Nigeria



Source: Kon-Kraft (2003)

Clearly, NNPC lies at the heart of the Nigerian oil industry - and the Nigerian economy – and represents the Nigerian government in both the upstream and downstream oil industries of the country. NNPC was formed through the merger of the Nigerian National Oil Corporation and the Ministry of Petroleum Resources. NNPC is involved with oil and gas exploration and production, refining and petrochemicals. It is active in the transport and marketing of crude oil and its derivatives, and also has a role in natural gas processing. The Corporation also comprises a group of self-contained companies, which are active in a wide variety of productive and service areas.

NNPC lacks systems for internal control. Whilst undergoing annual audits, the quality of these audits has been questioned. Until 2002 the NNPC lacked an independent Board of Directors and the degree of independence from the government of the current Board is uncertain. (Gary & Karl, 2003)

NNPC's difficulty in meeting its financial obligations in the Joint Ventures has slowed down investment and delayed important projects in the industry. The government has made attempts to help NNPC financially. Both in 2001, 2002 and 2003 NNPC received extra funding, with a 3.5 billion USD allocation in 2003. Early in 2004 the government turned down NNPC's full funding request of 4.9 billion USD, allowing it just 3.2 billion USD (Afroil, 2004). IOCs have voiced concerns that the NNPC's financial difficulties could affect key projects. In a recent deal (April 2004), NNPC has reverted to crude oil swaps, which involves borrowing money from its joint venture partners, while maintaining the existing equity arrangement. This arrangement was also used in the late 1990s when NNPC was stripped for cash, threatening new developments in the industry.

On average, the Nigerian government is set to retain 78 per cent of production revenues (Goldwyn & Morrison). In the second half of the 1990s the deepwater PSAs included relatively attractive profit sharing terms for the IOCs, with an initial low government share of 20 per cent, and only increasing once contract areas have produced several hundred million barrels. However, the licensing round in 2000/2001 offered less favourable terms, resulting in lower bonus bids from IOCs. (Kon-Kraft, 2003)

1.2.3 NNPC and Shell in the driving seat

Alongside a heavy government presence in the Nigerian energy sector, there is also a significant international presence, particularly in the exploration and production of oil. Nigeria has offered a favourable package of taxes, royalties, and other fiscal terms that enable IOCs to earn, on average, a 15 per cent rate of return on their investment (Goldwyn & Morrison, 2004).

Shell dominates the IOC scene

As mentioned in 1.2.2, the traditional fiscal regime for IOCs is based around six Joint Ventures with NNPC. Table 1.1 lists these.

Table 1.1 Nigeria's Joint Venture Companies

Joint Venture	Shareholders	Market share (of oil production – barrels per day)
Shell Petroleum Development Company of Nigeria Limited (SPDC)	NNPC (55 per cent) Shell (30 per cent) Total (10 per cent) ENI/Agip (5 per cent).	41 per cent
Mobil Producing Nigeria Unlimited	NNPC (60 per cent) ExxonMobil (40 per cent)	24 per cent
Chevron Nigeria Limited	NNPC (60 per cent) ChevronTexaco (40 per cent)	19 per cent
Nigerian Agip Oil Company (NAOC)	NNPC (60 per cent) ENI/Agip (20 per cent) ConocoPhillips (20 per cent)	7 per cent
Elf Petroleum Nigeria Limited	NNPC (60 per cent) Total (40 per cent)	6 per cent
Texaco Overseas Petroleum Company Nigeria Unlimited	ChevronTexaco (40 per cent) NNPC (60 per cent)	4 per cent

Source: http://www.nigerianoil-gas.com/

Shell Petroleum Development Company (SPDC) – where Shell owns the majority of the remaining share – is the dominant company in Nigeria, alone accounting for around 40 per cent of production. Other Shell companies include: Shell Nigeria Exploration and Production Company (SNEPCO) – with a focus on deepwater; Shell Nigeria Gas (SNG); Shell Nigeria Oil Products Limited (SNOP); and Nigerian Liquefied Natural Gas (NLNG). Shell has been operating in Nigeria for over 60 years and employs more than 10.000 people, 95 per cent of whom are Nigerian. Shell's strong position in Nigeria is illustrated by the fact that the company has proven more than 50 per cent of the country's oil and gas reserves.
The others major IOCs present in Nigeria are ExxonMobil, ChevronTexaco, ENI/Agip and Total. Statoil is the only Norwegian oil company active in Nigeria, although Hydro is also considering entering. Statoil has been in Nigeria since mid

1990s, but is not yet producing oil. The company has drilled six exploration wells off Nigeria since 1995, without making any commercial find. Statoil is operator for the exploration operations on blocks 217 and 218, with a 54 per cent stake. Two discoveries have turned out to be on the same structure as discoveries on neighbouring blocks. The licensees are presently (2004) assessing whether these discoveries (one oil and one gas) are commercial.
In spite of a number of challenges and constraints discussed above, Nigeria is set to remain West Africa's key oil and gas nation for decades to come, and as such provides a key strategic platform for IOCc and oil service companies seeking a presence in the region.

All IOCs invest in Corporate Social Responsibility

Since so much of Nigeria's oil is today found onshore, IOCs are often directly exposed to communities adjacent to major oil fields within which they operate, such as the Niger Delta. This exposure therefore places a premium on IOCs' community development projects.

Nigeria's largest international investor, Shell, is prominent in the Niger Delta and has invested considerable resources in CSR. Shell states on its website that the company spent 50 million USD in 2001 on social projects, while some industry sources set the number for 2003 at 210 million USD, including all CSR activities both through its Joint Ventures and through the Niger Delta Development Commission (NDDC). According to Shell, their "community development programme in the Niger Delta region is based on the principles of sustainable development and best global practice" (Shell's website). Despite this, Shell continues to come under heavy pressure from a range of stakeholders, particularly the NGO community, for its exploration and production activities in Nigeria. For instance, a recent report by Christian Aid accused Shell of failing to clean up oil spills and run "community development projects that are frequently ineffective and which sometimes divide communities living around oilfields" (Christian Aid, 2003).

Although Statoil is not present in the Niger Delta, the company has invested in a community in the Delta called Akassa. This 30.000 people community had a poor public service delivery and virtually non-existing local governance structure. The Akassa Community Development Program (ACDP) has a reputation of being one of the more successful community development projects in the region. The main reason for its apparent success is that it has been perceived to have focused on 'enabling' community development, rather then, for instance, merely short-term construction projects – a much vaunted criticism of CSR. In 1997, the Akassa Development Program Foundation (ADF) – a trust fund - was established in order to secure and retain a sound financial basis. In 2003, it had received about 480.000 USD, with the largest contribution of 350.000 USD from Statoil Nigeria Ltd. An NGO, Pro-Natura International (Nigeria) has acted as a programme advisor, but their role is expected to be reduced over the years. ADF funds a number of projects and activities, all run by various Akassa institutions, such as the Akassa Clan Women's Association, which has established self-help schools.

A further key CSR issue in Nigeria is human rights. The role and responsibilities of the major multinational IOCs in respect of human rights violations has been a major issue of debate inside and outside Nigeria since the death of Ken Saro-Wiwa in 1995. The Niger Delta – so far the largest source of Nigerian oil production - has for some years been the site of major confrontations between local people and the Nigerian government security forces, resulting in extra-judicial executions, arbitrary detentions, and restrictions on the rights to freedom of expression and association. These violations of civil and political rights have been committed principally in response to protests about the activities of the multinational companies that produce Nigeria's oil. Human rights is one of Statoil's focus areas in CSR and this is also reflected in its CSR work in Nigeria. The company is supporting three Nigerian human rights organisations, which support prisoners and develop capacity building within the legal system.

The tension in the Niger Delta and the continued calls to ensure that more of Nigeria's oil revenues deliver benefit to the locals led to the establishment of the Niger Delta Development Commission (NDDC) in 1999. NNDC requires companies to pool resources together for CSR activities. The Commission insists that all companies operating in the Niger Delta to pay 3 per cent of their total annual budget to the NDDC. This money is then supplemented by further funding from the federal government. With IOCs represented on the board of the Commission, the NDDC has invested in a number of projects, including the building of 40 roads, 90 water projects and 129 electrification projects. However, it has to be noted that the NDDC has been the subject of recent criticism, not least from the World Bank, following allegations of corruption. The government has also expressed concern, and now appears to be willing to work to ensure that the NNDC actually delivers benefits to the Nigerian community, motivated, in part, by the need to reduce tension in the Delta.

Over the last year, Nigeria has witnessed a flurry of activity on behalf of a range of organisations, each of whom have recognised that cooperation with IOCs is fundamental to the economic and social recovery of Nigeria. The World Bank plans to launch its first programme in the Niger Delta while the UNDP is also considering cooperating with Shell on social development projects. The moves follow a recent visit to Nigeria by World Bank president James Wolfensohn, and underlines continued international concern about the failure of Nigeria's oil wealth to bring better living conditions for Nigerians. The Bank is also considering how to improve the performance of the Niger Delta Development Commission as well as a separate cassava production project with the Nigerian Agriculture Ministry and Shell.

1.2.4 Big international suppliers, and some Norwegians

Big international contractors have dominated the supply and service industry in Nigeria for many years. These companies have mostly used imported finished goods, with few factories, manufacturing plants or R&D centres in Nigeria.

25 Norwegian companies in total are present in Nigeria. Several of them are supplier/service companies, with significant activity in Nigeria, such as Stolt Offshore and ABB. The Norwegian based ABB was awarded the subsea installation contract for Shell's Bonga Project offshore Nigeria. The contract was worth 180 million USD. In 2002 Stolt Offshore won a contract for supplying flow-lines and risers on the Erha field offshore Nigeria. Stolt Offshore is now committed to performing a significant amount of work in Nigeria, including, construction engineering, assembly, coating and installation. More recently, in April 2004, Stolt Offshore won a 150 million USD contract for a water injection

platform at Warri in Nigeria. There are also several Norwegian based high-tech companies in Nigeria, such as ClampOn, delivering sensors to the Bonga Project.

Nigeria has traditionally been an important country for the Norwegian shipping industry. Bergesen has secured a deal for LNG transport with Nigeria LNG Ltd. With four new ships, this will give Nigeria an important position in Bergesen's portfolio. The company has been present in Lagos since 2002. In addition, Norwegian shipping companies, such as Eidesvik, run supply boats to the offshore installations. The company emphasises training and competence building of local crew and has initiated environmental improvements and an anti-corruption profile.

Accordingly, in addition to the core activities of Statoil and (to come) Hydro, core Norwegian competence in demand in Nigeria lies in the fields of transportation, logistics and advanced technology – all of which are areas of increased potential knowledge transfer.

1.2.5 The quest for local content

Since 1999, the government has made several attempts to encourage the use of indigenous suppliers. As with other major oil producers in West Africa, local content nears the top of the agenda in Nigerian/foreign oil interfaces. According to Mr Ogiemwonyi, a key Nigerian oil industry figure, the extent to which IOC's can commit to local content will become a critical determinant of contract awards in the industry. Nigeria has the oil resources but needs investments and technical expertise. Bringing investment to the country and boost technology transfer is expected to be part of the deal for IOCs, not to mention the international supplier- and service industry.

Official estimates show that the extent of local content, or local participation, in the oil industry is growing. From a very low base of approximately 5 per cent in 1999, to around 10 per cent between 2001-2004, the NNPC hopes to achieve 40 per cent local contract in the upstream sector by 2005 and 60 per cent by 2010. While most observers agree that the historical figures are scandalously low, reflecting IOC neglect of their responsibility to contribute to local spin-off effects, the present ambitions of Nigeria's government is considered "wishful thinking".

The picture is further complicated by the defining what local content really is, not to mention how to measure it. Some IOCs who claim a high local content are not necessarily using local suppliers that add value to the Nigerian society. For example, the Department of Petroleum Resources (DPR) has registered over 2000 Nigerian contractors. Analysis carried out by SNF (Norway) has shown that 50 per cent of contractors were majority owned by Nigerians, or what could be called indigenous companies. However, the bulk of them appeared to be foreign owned agents or traders with little local value contribution. Only 20 per cent appeared to add value to the Nigerian industry, and in this group two thirds were Nigerian owned and one third foreign owned. Thus only 12 per cent of the companies can be considered to be indigenous businesses adding value to the Nigerian economy. (Heum, et. al., 2003). Add to this the more fundamental concern that the current major drive to enhance local content provides a strong protectionist impulse, stifling economic efficiency. And corruption is no less of a challenge in a national content-bent oil sector management regime.

In addition to sponsoring the cited SNF study, the Norwegian oil industry promotion body INTSOK has engaged in various initiatives to focus on local content. It has contracted Det Norske Veritas (DNV) to perform a first phase of a Quality Management Program. The idea is that DNV in the first phase selects 10-15 Nigerian fabricators. If the program continues into the next phase, these companies will receive training in quality management, to qualify as contractors for the petroleum and/or supplier industry. The budget for the first phase is about 100.000 USD, while the actual program is expected to cost about 1 million USD.

1.3 Oil revenues – so far, a curse

Nigeria holds as much as 60 per cent of West Africa’s oil wealth, and will continue to receive the largest revenues. However, so far this has not generated much wealth for the people.

1.3.1 Where does the money go?

Nigeria has a poor record of oil management. The estimated 340 billion USD earned since the 1960s have not done much to stimulate growth nor reduce poverty. In the same period GDP per capita remained roughly the same: 224 USD in 1960 and 250 USD in 1999 (IMF, 2003). Revenues have definitely not gone to spending on health, which accounted for 0.5 per cent of GDP in 2002 - nor education, which accounted for 0.9 per cent of GDP in 1990 (UNDP, 2003).

A large part of Nigeria’s revenues is spent on debt servicing. The debt service as a per centage of consolidated government revenue was estimated at 17 per cent in 2002, and debt constitutes 71 per cent of GDP that same year (IMF, 2003). Because Nigeria has accumulated (largely oil sector-generated) debt for over 20 years, it is now unable to service a large proportion of it. Oil has definitely contributed to this situation. Most of Nigeria’s debt was contracted in the 1980s, in periods when oil prices where low. Although Obasanjo has worked to reach agreements with various creditors, in the absence of further rescheduling Nigeria it is likely that Nigeria will have continued difficulties over the medium term

The actual distribution of oil revenues across Nigeria has begun to change in recent years. Before 1999, it is estimated that 8 per cent of oil revenues went back to the states from which the oil originated. The new 1999 constitution revised this figure to 13 per cent, which is taken out of the Federation Account, along with a share of revenues for certain national level projects. State and local governments are very much dependent on this revenue-sharing: in 1999, 75 per cent of the state revenue and 94 per cent of the local government revenue came from the redistributed revenue from the federal government. Most of this came from oil. (Ahmad & Mottu, 2002). The basic shares of revenues from the Federation Account (after the 13 per cent is deducted) is 48.5 per cent to the federal government, 24 per cent to the states and 20 per cent to the local governments. However, the state and local governments have not been able to meet the needed public service delivery in areas such as health, education and local infrastructure.

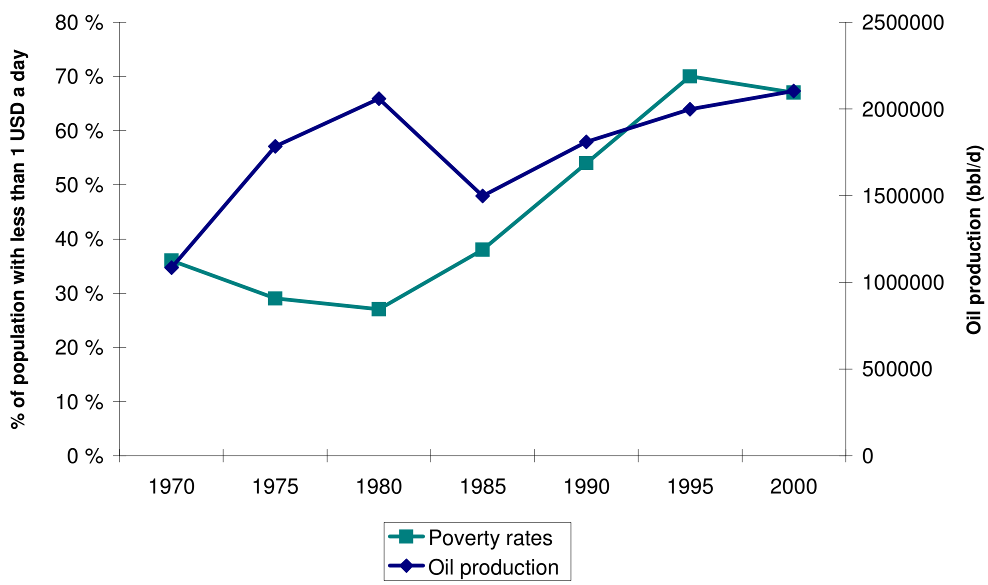
Oil money will continue to flow in to Nigeria. Estimates show that between 2004 and 2010 the Nigerian government’s oil earnings will likely exceed 110 billion USD. On a per capita basis these revenue gains will translate into 820 USD.

(Goldwyn & Morrison, 2004). To stretch the outlook even further: from 2002 and 2019 PFC Energy has estimated that Nigerian government will receive a staggering 205 billion USD in oil revenues. In the same period IOCs will take home 54 billions USD (PFC, 2003).

1.3.2 A classic example of the "paradox of plenty"

Nigeria is a telling example of a country experiencing the negative effects of oil. While oil production doubled between 1981 and 1999 – raising 228 billion USD in oil revenue – the number of people defined as poor rose. In 1970, 36 per cent of the population were defined as poor Figure 1.4 By 2000, that figure had risen to 70 per cent. By 2002, over 80 million Nigerians were defined as poor.

Figure 1.4 Nigeria's poverty



Source: Martin & Subramanian (2003) and BP Statistical Review of World Energy (2003)

Evidence also shows that Nigerian society is becoming polarised: the gap between rich and poor has been growing. While more and more people have been pushed into poverty – despite growing national oil wealth – a growing number of people are moving into extreme wealth. According to IMF (2003), while it in 1970 took the income of the bottom 17 per cent of the population to match that of the 2 richest per cent, in 2000 the top two per cent had the same income as the bottom 55 per cent.

In many ways, Nigeria is a dual economy: split between a modern, international energy industry alongside a traditional agricultural and trading sector. After Nigeria became independent in 1960, agriculture accounted for over half of GDP and was the main source of Nigeria's revenue. Today the oil sector accounts for 70-80 per cent of federal government revenue and about 95 per cent of export earnings. Agriculture has at the same time declined to about 40 per cent of GDP. (EIU, 2003)

Dependence on a volatile oil sector means that GDP growth has been volatile. When non-OPEC members squeezed oil production in the early 1980s, real GDP fell in Nigeria. When oil production caught up again in 1995-97 the economy picked up. The fall in oil prices in 1998 combined with tightening of OPEC quotas and trouble in the Niger Delta pushed GDP growth down to 1,5 per cent. With much better oil prices growth has been at around 3-4 per cent the last couple of years, with 3,3 per cent in 2002 (EIU, 2003).

Fluctuating oil revenues has meant that sectors dependent on foreign exchange, such as manufacturing, have suffered. Agriculture has to some extent proved an exception to this picture in recent years. It has seen growth in recent years, with an average of growth in the crop production of 3,4 per cent in 1998-2001, aided by supportive measures made by the president. Food imports have fallen to only 11,6 per cent of total imports in 2001.

Given the clear distortion in Nigeria’s economy, an imbalance between a thriving oil industry alongside poorly performing remaining sectors, it will be vital that Nigeria diversifies its economy in order to promote widespread growth. According to the World Bank: “Poverty in Nigeria will not be reduced without substantial acceleration of growth in the non-oil, non-government sectors” (World Bank, 2002). This will require annual growth of at least around five per cent in the agriculture sector, and a greater focus on the needs of non-oil sectors of the economy, which needs to see growth (from low levels) of about. The need for growth in non-oil sector is quite obvious; the question is how to achieve that goal, a question that not least institutions such as the IMF and the World Bank currently strive to push up the Nigerian government’s agenda.

1.3.3 Lack of transparency and accountability, but some promising initiatives

Obasanjo’s government has declared its commitment to increase transparency of oil revenues. Indeed, of all West African states, so far, Nigeria has been most committed to reform although Nigeria will have to make more tangible progress in order for the reality to match Obasanjo’s rhetoric.

One of the key issues in promoting good governance of the oil and gas sector is ensuring a transparent accounting of all revenue flowing between oil companies and the Federation Account. Since governance of the oil sector involves so many agents and organisations, it will be extremely demanding to get an accurate picture of oil revenue flows. IMF and the World Bank on their side have pointed to gaps in accounting for the revenues. The IMF states that “these differences do not necessarily point to deliberate misreporting of data. Nevertheless, they are likely to raise doubts about the transparency of the oil sector in Nigeria” (IMF; 2003). According to the IMF, governance of the oil sector can be strengthened in two key areas: (1) improved institutional capacity and (2) greater clarity in operating guidelines (licensing, taxes and contracts) (IMF, 2003).

The EITI was established in September 2002. Its aim is to increase transparency of payments by companies to governments and government-linked entities, as well as transparency of revenues by host country governments. Importantly, the initiative was established with the help of a wide range of IOCs who worked together to support its launch. In Nigeria, a great deal of progress has been made on rolling out EITI, and Nigeria has recently committed to being a pilot country for EITI (although not necessarily accepting to be a pilot country in a formal sense). President Obasanjo announced in November 2003 that the government would publish its revenues from oil and will require companies to do likewise. In February 2004, the president also announced the formation of a 27-member Stakeholder Working Group to guide the development of EITI in Nigeria.

According to Nigeria's government economic team, the objectives of the Nigerian EITI:

- Bring transparency to the oil and gas industry
- Open the black box, to facilitate public scrutiny of the sector
- Proper accounting for oil revenue inflows
- Publication of revenue disposal to all tiers of government
- Audit of sector's financial operations, including value-for-money-audit

In order to achieve these objectives, the Nigerian EITI will: undertake systems reviews of upstream operations, diagnostic studies, inspections and assessments of general operations; carry out investigations, audits and review data submitted by oil companies; analyse joint venture agreements to ensure terms are being adhered to; and assess and collect all revenues from hydrocarbons and verify costs claimed. An auditing firm is supposed to be engaged, to start work in June/July 2004.

According to the government, Nigeria has recently established an Oil and Gas Accounts Unit in the Finance Minister's office. The purpose of this office is to monitor the sector and support the work of EITI. One aim is to reconcile the revenue accounts in various agencies (NNPC, the Central Bank of Nigeria and the Office of the Accountant General) as well as help building long-term capacity in the Ministry.

However, despite these positive steps, several challenges remain. According to a 2004 report from CSIS "the government has not yet taken concrete steps to reform procurement, reveal the size of signing bonuses and new contracts, eliminate corruption in the concession and licensing process, or create accurate and complete accounts of government revenue and expenditure" (Goldwyn & Morrison, 2004).

1.4 Serious national conflicts

Since Obasanjo gained power in 1999, various ethnic and religious conflicts have resulted in approximately 10.000 deaths and 800.000 people becoming homeless. The fact that this happens in Africa's largest democracy both testifies to the uniqueness of Obasanjo's achievement in holding the country together, as well as it is an indication of the systemic and dangerous threats to Nigeria's secular and democratic rule.

However, the risk of renewed military rule does not seem very high. According to the Economist Intelligence Unit: "A military takeover is unlikely to occur as it would lack popular support and would probably be resisted by civil and labour organisations" (EIU, 2004). Neither is there a significant risk of conflict with other countries, despite some recent territorial disputes.

Conflicts in the Niger Delta driving out IOCs

Notwithstanding the end of formal hostilities in Nigeria, and the establishment of democracy, violence in the Niger Delta continues to increase the risks facing IOC's. Foreign workers have been held hostage and the sabotage of oil pipelines has killed hundreds of Nigerians. Militants have targeted both the State and IOCs. Not surprisingly, there have been significant economic consequences. A major strike in March 2003 knocked 800.000 barrels per day off the market and production was disturbed for months. In August 1999, Texaco was forced to stop operations in the Niger Delta due to large-scale community protests. Estimates of the costs of these stoppages have been as high as 30 million USD per day.

The failure to distribute oil revenues fairly has been a source of conflict in Nigeria from the early days of its oil adventure. The inability and incapacity of local and state governments to draw on these revenues and provide adequate services, has resulted in a disenfranchised population. Some Nigerian states are also concerned about the revenue from offshore oil, which has not been included in the revenue-sharing model, described earlier (about 40 per cent of total revenue). The trouble in the Warri district in the Niger Delta was largely a result of this tension. After a Federal Court decision in April 2003, which determined that offshore production is a 'national asset', and therefore not subject to the 13 per cent rule, there was an outbreak of conflict. The conflict was driven by Ijaw militants and resulted in the death of six people (from both CevronTexaco and Total) (Cesarz, et. al., 2003).

Illegal oil "bunkering" is one of the most important drivers of conflict in the Niger Delta. In addition to cash, oil is exchanged for drugs and weapons, contributing to a dangerous local "arms race" in the Delta. Bunkering practices also exacerbates corruption and societal disintegration. Criminals have become increasingly violent and Nigeria's ill-equipped police force has been ineffective in providing an adequate response. Some police and soldiers have also participated in organised crime, further deteriorating the picture. Perhaps not surprisingly, there is increasing evidence of IOCs now seeking to move their operations out of the troubled Delta area in favour of developing off-shore operations.

Militant nationalists

Tension in Nigeria goes beyond those areas with a heavy IOC presence. There has been tension across Nigeria over the last couple of years, often driven by militants fuelling dissatisfaction with the increasingly dominant central government. Each of the 36 states has their own elected government and state legislation, often with powerful governors. However, the election of Obasanjo and the development of a new constitution in May 1999 reduced the power of the states, resulting in protest from people hoping for a looser federation. Worryingly, many of the militant groups – e.g. the Yoruba separatist movement, the Oodua People's Congress, the Ijaw Egbesu in the Niger Delta, the Bakassi Boys in the South East and the Arewa People's Congress in the North – are well armed.

The introduction of Sharia law in 12 states has spurred some of the worst fighting between Christians and Muslims. Moreover, grass-root discontent with the secular government has been exploited by radical Islamic groups in the north. Over 2000 people were killed in 2000 in clashes in Kaduna over plans to introduce Sharia in a state with a large Christian minority. .

Terrorist threat?

Terrorist attacks are increasingly perceived as a threat in Nigeria. CSIS reports have referred to the existence of militant Islamic groups in Nigeria and Osama bin Laden has publicly urged his followers to make Nigeria a global priority in 2003. In part, this is explained by Nigeria's Muslim/Christian fault line, and the fact that a large proportion of Nigeria's wealth is tied to Western capital. (Goldwyn & Morrison, 2004). The upspring by a small band of radical Islamists at New Year 2003/2004 highlighted this danger.

Some cross-boundary tension

As mentioned earlier oil has sparked territorial disputes with Cameroon, Equatorial Guinea and São Tomé e Príncipe. The conflict with Cameroon over the oil-rich Bakassi Pensinsula is not resolved. According to the EIU (2003), this conflict is the most serious external threat facing Nigeria. However, progress has been made in bilateral discussions. Nigeria has been slow to withdraw its troops, despite a 2002 ruling of the International Court of Justice in The Hague that Bakassi should revert to Cameroonian sovereignty. A failure to reach settlement on Bakassi will also have repercussions for Equatorial Guinea's border dispute with Cameroon, which is still subject to changes in some areas.

Overall, there are reasons to believe that not least the urge to keep oil production on stream and foreign companies happy will remain strong disciplining factors for all countries involved in potential oil-fuelled conflict.

References

Afroil (2004): Africa Oil and Gas Monitor. 27 April 2004. Issue 37. Published by NewsBase.

Ahmad & Mottu (2002): Ahmad, Ehtisham & Mottu, Eric. “Oil Revenue Assignments: Country Experiences and Issues”. IMF Working Paper. WP/02/03. International Monetary Fund. 2002 (http://www.gtzsfdm.or.id/documents/library/on_dec/Assignments per cent20of per cent20Oil per cent20Revenues_IMF2003.pdf).

Ahmad & Singh (2002): Ahmad, Ehtisham, and Raju Singh. 2002. “Political economy of oil revenue-sharing in a developing country: Illustrations from Nigeria”. IMF. Washington, D.C. http://www.imf.org/external/pubs/ft/wp/2003/wp0316.pdf.

BP Statistical Review of World Energy (2003). (http://www.bp.com/subsection.do?categoryId=95&contentId=2006480).

Cesarz, et. al. (2003): Cesarz, Esther et. al. ”Alienation and Militancy in Nigeria’s Niger Delta”. CSIS. Africa Notes. Number 16. May 2003. (http://www.csis.org/africa/ANotes/ANotes_016.pdf).

Christian Aid (2003): “Behind the mask – The real face of corporate social responsibility”. Christian Aid. London. 2003. (http://www.christian-aid.org.uk/news/media/pressrel/040121p.htm).

Economist Intelligence Unit (EIU). Country Profile Nigeria. 2003.

Economist Intelligence Unit (EIU). Country Profile Nigeria. 2004.

Gary, Ian and Karl, Terry Lynn. (2003): “Bottom of the Barrel – Africa’s Oil Boom and the Poor”. Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm).

Goldwyn & Morrison (2004): David L. Goldwyn & J. Stephen Morrison. “Promoting Transparency in the African Oil Sector”. A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa. March 2004. (http://www.csis.org/africa/GoldwynAfricanOilSector.pdf)

Human Rights Watch (HRW). (2002): “The Niger Delta: No Democratic Dividend” Vol. 14, No. 17 (A). October 2002. Human Rights Watch. (http://www.hrw.org/reports/2002/nigeria3/).

Human Rights Watch (HRW). (2003): “Nigeria: Renewed crackdown on freedom of expression”. Human Rights Watch. December 2003. Vol. 15. No. 19 (A). (http://www.hrw.org/reports/2003/nigeria1203/).

IMF (2003): "Nigeria: Selected Issues and Statistical Appendix". IMF Country Report No. 03/60. March 2003. International Monetary Fund. (http://www.imf.org/external/pubs/cat/longres.cfm?sk=16397.0).

Kon-Kraft (2003): "Utredninger 1 – Norsk Petroleumsvirksomhet ved et veiskille". August 2003.

Legaloil (2003): Legaloil.com. Information Paper No. 1. Oil Theft Overview. October 2003. (http://www.legaloil.com/LibraryItems/CertifiedOilInformationPaper1.pdf)

Martin & Subramanian (2003): Martin, Xavier Sala & Subramanian, Arvind. "Addressing the Natural Resource Curse: An Illustration from Nigeria". IMF Working Paper. WP/03/119. International Monetary Fund. (http://www.imf.org/external/pubs/ft/wp/2003/wp03139.pdf).

NIGERIA: National Economic Empowerment and Development Strategy (NEEDS). March 2004. Draft.

Heum, et. al. (2003): Heum, Per, et. al. "Enhancement of Local Content in the Upstream Oil and Gas Industry in Nigeria". SNF Report No. 25/03.

PFC (2003): "West Africa Petroleum Sector – Oil Value Forecast and Distribution". PFC Energy. December 2003. (http://www.csis.org/africa/040330_rodgers.pdf).

World Bank (2002): "Memorandum of the President of the International Development Association and the International Finance Corporation to the Executive Directors on an Interim Strategy Update for the Federal Republic of Nigeria". Report No. 23633-UNI. February 13, 2002. The World Bank.

UNDP (2003): "Human Development Report 2003 - Millennium Development Goals: A compact among nations to end human poverty". UNDP. 2003. (http://hdr.undp.org/reports/global/2003/).

2 Angola

Highlights

- Angola is sub-Sahara’s second largest oil producer, after Nigeria. With a high commercial success rate, the country is regarded as the most promising oil exploration venue outside OPEC.
- The country still has significant resources left, and Government revenue from 2002 to 2019 is estimated to approach 100 billion USD.
- The Angolan Government’s commitment to reform is perceived by many to be ambiguous. However, some IMF-inspired reform measures have been taken recently in the aftermath of the civil war.
- 97 per cent of the oil is found offshore, largely isolating the IOCs from local communities.
- Political stability in Angola has improved and the conflict risk level is fairly low.
- A growing number of Norwegian companies are active in Angola, and on balance both oil companies and supply/service players report of positive experiences and promising prospects.
- Oil revenues have risen sharply, to 1,2 billion USD in 1998 and 3,3 billion USD in 2002.
- Angola has recently emerged from decades of civil war that to a large extent was fuelled by oil and diamond wealth
- Yet GDP per capita has fallen from one-half of the level realised at independence to about 500 USD in 2003, and Angola is one of the poorest and most corrupt countries in the world.
- The country is highly dependent on oil revenues, which account for above 90 per cent of export earnings and 60 per cent of GDP.
- Sonangol is dominant in the management of Angolan oil. It sits on both sides of the table: it is the sole concessionaire; it is involved in every important decision in the industry; it is an equity partner, together with IOCs, in oil exploration and production; and it handles about half of the total government revenue.
- Angola’s relationship with the international community has been characterised by mutual suspicion and scepticism, owing not least to perceived mismanagement of oil resources. The country has recently accelerated its dialogue with the international community, in tandem with certain improvements in transparency and accountability.

Key facts

- **Oil and gas production:** 1 million barrels per day
- **Oil and gas reserves:** 23 billion barrels
- **Oil and gas dependence**: 61 per cent of GDP and 93 per cent of exports
- **National oil company:** Sonangol
- **Main international oil companies:** ChevronTexaco, ExxonMobil, Total, BP and Shell
- **President:** Jose Eduardo Dos Santos (since 1979)
- **Population**: 10 million
- **GDP per capita:** 660 USD
- **Ranking in UNDP’s 2003 Human Development Index**: 161 of 174
- **Ranking in TI Corruption Perceptions Index 2003:** 124 of 133

2.1 A challenging background

2.1.1 From war to peace

Political stability in Angola has improved after decades of civil war and, partly as a result, the country has recently accelerated its dialogue with the international community, including the IMF. However, the Angolan Government's commitment to reform is perceived by many to be ambiguous, its infrastructure has been ravaged by war, and popular patience remains fragile as the country takes its first tentative steps towards democracy and greater accountability in the use of its oil wealth.

A recent history of war

Civil war has been the norm in Angola since independence from Portugal in 1975, except two unstable interludes of "quasi-peace" in 1991-92 and 1994-98. It is estimated that up to 1,5 million lives may have been lost in fighting over the past quarter of a century. Three different groups fought for independence from the colonial power: Frente Nacional de Libertação de Angola (FNLA), Movimento Popular de Libertação de Angola (MPLA) and União Nacional para a Independência Total de Angola (UNITA). After gaining independence in 1975, different fractions of the country continued to fight each other. Following the collapse of FNLA in 1976 MPLA gained control over most of the country, but the civil war continued. Wars in Angola have also been escalated by the intervention of foreign powers. The Cold War saw Angola split between two sides: the ruling party MPLA received support from USSR and Cuba, whereas the rebel group UNITA was backed by the US and South Africa.

The first attempt for peace, the Bicesse Accords of 1991, failed. A second attempt, the Lusaka Accords in 1994 also failed but provided for the integration of former UNITA rebels into the government and armed forces. A national unity government was installed in April of 1997, but serious fighting resumed in late 1998. The major turning point was the death of UNITA's leader Jonas Savimbi in February 2002, whose personal clout and commitment to war had prolonged the conflict. The MPLA government and UNITA signed the Luena Accords (a cease fire based on a Memorandum of Understanding Addendum to the Lusaka Protocol) in April 2002. With the signing of Luena accords, Angola began its transition to peace and democracy.

On the path to democracy?

Angola is, in principle, a multiparty democracy, with a strong presidential system. UNITA has turned into a political party, while the country is run by MPLA. President Jose Eduardo Dos Santos has been president since 1979 and is both chief of state and head of government. Fernando de Piedade Dias Dos Santos was appointed Prime Minister in 2002, although he lacks any real power.

The last elections in Angola took place in 1992, giving Dos Santos a 49,6 per cent victory. Then war resumed. New elections, due since 1996, have been repeatedly postponed. The next election was scheduled for 2004, but is unlikely to take place before 2006. In 2001, president Dos Santos announced that he will not run for president again. There have been recent indications, though, that he is reconsidering, which could delay the date of the next election still further.

Human rights were abused on a massive scale by both sides during the civil war. This has affected people's confidence in the rule of law (Hodges, 2001), with the effect that Angolan society often relies on parallel – and violent - forms of justice. According to the Economist Intelligence Unit (2003) the greatest risk to foreign companies are the corruption and inefficiency of poorly functioning government institutions. For instance, the enforcement of contracts cannot be guaranteed through the legal system.

Important regional player

Angola is an important regional power and has been a major player in many conflicts in the Great Lakes region. Indeed, the end of the civil war in Angola has had the effect of making a positive contribution to regional peace stability. President Dos Santos has taken an active role in promoting peace in the region (e.g. brokering between Uganda and the Democratic Republic of Congo).

Angola is part of the New Partnership for Africa's Development (NEPAD) and appears to willing to have its governance rated under the "peer review" programme of NEPAD. 18 countries have volunteered to be evaluated under the review, which aims to demonstrate that governments in Africa are improving in order to encourage flows of cash and investment. (BBC, 2004).

As the second largest oil producer in the region Angola has flexed its muscles in smaller countries, such as São Tomé e Príncipe. Sonangol has played a commercial role in the downstream operations in the Democratic Republic of Congo and engaged in a dialogue with various other countries, such as Congo Brazzaville. Compared to the other national oil companies in West Africa, Sonangol is perceived as a model. According to a report by Catholic Relief Services (Gary & Karl, 2003), Sonangol engagement in neighbouring oil countries is motivated by a desire to gain prestige and commercial interest.

Ambiguous relations with the donor community

Angola's relationship with the international community has been characterised by mutual suspicion and scepticism. Angola's rulers have not forgotten the West's military support for UNITA's leader Jonas Savimbi. As already mentioned, Angola's war escalated by the external environment of the Cold War and the country has felt let down by the international community on several occasions. Today, the Angolan government appears to be seeking a higher standing in the international community, symbolised by its status as an elective member in the UN Security Council since 2002.

Attempts to re-engage with the international community are perhaps not surprising given that Angola's development assistance has been declining in recent years - from 388 million USD in 1999 to 268 million USD in 2001 (EIU, 2003). Although Angola's humanitarian and development needs are huge, the reluctance of the international community to commit to increased levels of assistance is explained by Angola's consistent failure to manage - and be transparent about - its vast oil wealth to the benefit of society. However, there are signs that Angola is willing to display a greater willingness to work with the international community. The Angolan Ambassador to the United States, Josefina Pitra Diakité, is quoted as saying:

"As a post-conflict country, Angola's reconstruction and reintegration needs are huge. We want to work closely with our international partners to address these concerns in an open and transparent manner so that Angolans can finally recognise the true benefits of peace" (Angola's official website, 2004).

Angola joined the World Bank in 1989, and has since received commitments of (only) 82,6 million USD. In March 2003, the World Bank Board of Executive Director's endorsed a Transitional Support Strategy (TSS) for Angola, setting out the Bank's program for the next 12 months. As part of the TSS, the Bank approved two projects worth nearly 50 million USD.

The Poverty Reduction Strategy Paper (PRSP) process, which increasingly forms the basis of donor cooperation with developing countries, has dragged out, primarily because of a failure between the international community and Angolan Government to agree on the need for and extent of Angolan transparency. Although Angola has presented several drafts, no full PRSP has yet been endorsed by the main donors. In early 2004, a new version of the government's draft PRSP was shared for comments with the international donor community.

Angola's aspirations for more donor support also depend on successfully negotiating a deal with the IMF. This has highlighted the need to increase transparency (see section 2.3.2). However, the failure to meet IMF requirements has meant that there is currently no IMF program in Angola, after the staff-monitoring program ended in 2001.

Relations between Angola and the IMF are improving. In February 2004, the Government began formal participation in the IMF's General Data Dissemination System, which, according to the IMF, marks a significant improvement to the country's statistical system. During April 2004 an IMF team visited Angola to assess progress on data compilation and provision to the Fund, as well as the sharing of key economic policy information. In a public statement, the IMF mission concluded that "much progress has been accomplished in recent months regarding the timely and regular compilation of key macroeconomic data, including information on Sonangol's quasi-fiscal operations and tax offsets with the Treasury. The mission appreciates the authorities' readiness to share with staff some critical financial information on the current and prospective management of oil revenues. In this context, it reiterated the Fund's commitment to support the Angolan authorities' capacity-building efforts in the areas of data compilation and macroeconomic statistics" (IMF, 2004).

The IMF team plans to return to Luanda in early June to conduct the 2004 Article IV consultation discussions with Angola. According to the *Financial Times* the aim is for a full IMF-financed program by early 2005. In order for this to happen however, Angola will have to meet targets on fiscal and monetary policy and promote privatisation. In return, the IMF will give the country technical assistance. Should such a deal emerge, it could gradually steer Angola into an improved set of relations with the international community and could pave the way for further debt relief and support from international donors.

In parallel with (and in important regards contradicting) efforts to placate the multilateral community, the Angolan Government has been successful in securing (less conditional, though more expensive) bilateral accords. For instance it recently agreed an oil-backed loan of 2 billion USD from China and is seeking an oil-backed bank syndicated loan of up to 2,5 billion USD put together by London-based Standard Chartered Bank. This is likely to reduce the IMF's leverage. As a result, according to the Economist Intelligence Unit, it is more likely that a "soft" engagement with the IMF will be pursued, including partial efforts to stabilisation and technical assistance.

2.1.2 Poor economic conditions

The Angolan economy is heavily dependent on oil, which accounted for 61 per cent of the GDP in 2002, according to the IMF. Oil revenues comprised 70-90 per cent of state revenues from 1995-2001 and currently make up more than 90 per cent of export value. In 2002 the Angolan economy grew by 15 per cent, due to oil, but the country is still dependent on imports and food aid for about half of its cereals requirements. The growth of the non-oil economy has lagged conspicuously behind. With current estimates for production, PFC Energy estimates that the Angolan Government will make 43 billion USD in oil revenues by 2010, and a further 51 billion USD between 2010 and 2019 (PFC, 2003).

Despite the dramatic increase in cash flow, Angola will be fiscally constrained still for at least the next couple of years. The deep offshore projects that will bring Angola major revenue flows are currently in a "cost recovery" phase in 2004-2005. From 2006 and onwards, government revenue will increase substantially, where-after international leverage is likely to be reduced. Thus a report by CSIS, a US-based think-tank, points out that the next couple of years constitute a potentially unique window of opportunity for external influence (Goldwyn & Morrison, 2004).

Meanwhile, the country suffers from macro-economic instability and an overvalued exchange rate. Despite falling to 77 per cent in 2003, inflation is forecast to remain high, averaging 90 per cent in 2004-05, due to high rates of money supply growth and large fiscal deficits. The Economist Intelligence Unit has forecasted a fiscal deficit of 9 per cent in 2004, rising to 11,5 per cent of GDP in 2005. This will be financed mainly through international borrowing, although domestic debt is also likely to grow rapidly. (EIU, 2004).

2.1.3 Poor social conditions

Angola's level of poverty is severe, ranking 161st out of the UNDP's Human Development Index. Over two thirds of the population live in poverty, while almost one in three Angolans are extremely poor. In 2000, only 38 per cent of the population had access to water and the adult literacy rate is only 42 per cent. Angola has the second highest mortality rate in the world: almost a third of children die before they reach the age of five.

Angola's social structure is shaped by decades of war. In February 2002, 4 million Angolans were internally displaced persons (IDPs) and about half a million were refugees in neighbouring countries (World Bank, 2003b). A large number of people have been able to return home since the war ended in 2002.

The availability of oil revenues coupled with an impoverished and disenfranchised civil society has created massive opportunities for corruption. Angola is ranked 124 of 133 on Transparency International's Corruption Perceptions Index. The World Bank summarises this sorry state of affairs as follows: "..privileged access to state controls, regulatory agencies, foreign partnerships, elite health and education facilities, privatised state assets, and subsidise credit and foreign currency have enriched a few at the expense of the many" (World Bank, 2003b).

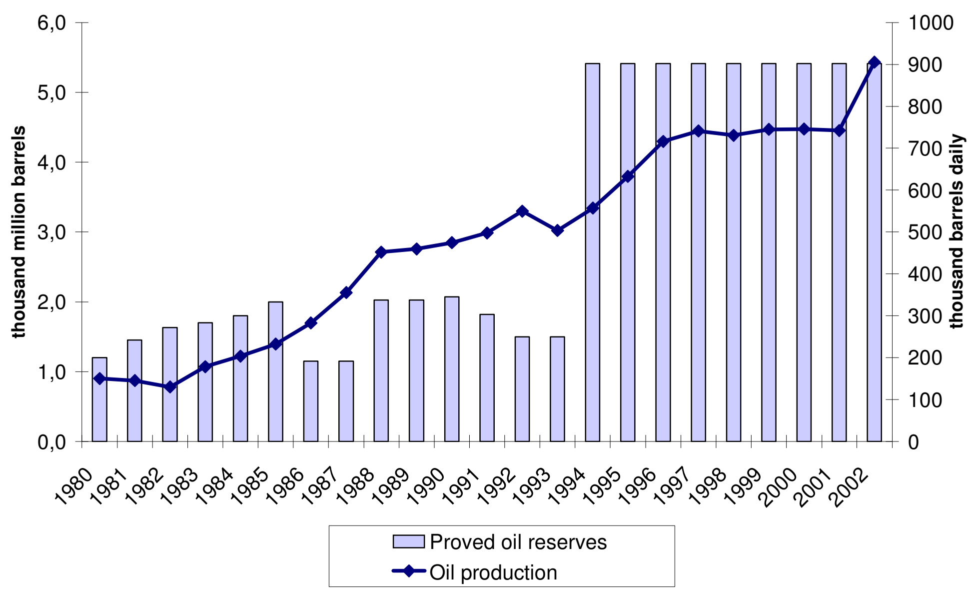
2.2 An important energy industry

2.2.1 Increasing oil and gas production

In energy terms, Angola is a global exploration hotspot. Between 1991 and 2000, the commercial success rate for international oil companies (IOCs) in offshore Angola was over 40 per cent, the second highest ranking in the world. Angola is often regarded as the most promising non-OPEC oil hotspot. Successful exploration, combined with a relatively low government take and relatively low exploration costs makes Angola a very attractive IOC destination.

Starting out with PetroFina's oil discovery in 1955, oil production has increased rapidly, as Figure 2.1 illustrates. Reserves have seen a remarkable increase during the 1990s.

Figure 2.1 Angola's oil production and proved reserves



Source: BP Statistical Review of World Energy (2003)

Angola's oil reserves are significant. PFC Energy has estimated the total reserve volume discovered in Angola at 23 billion barrels, with 5 billion barrels produced so far (PFC, 2003). At the turn of 2004, Angola's oil production exceeded 1 million barrels per day, marking a production increase of nearly 600 per cent since 1980. Angola is now sub-Saharan Africa's second largest oil producer, with production expected to rise to 2 million barrels per day by 2008. In comparison, UK's 2002 production was 2.4 million and Norway's 3,3 million barrels per day.

97 per cent of Angola's oil is found offshore. In 1995, deepwater exploration began and production started in 2001 with the Girassol field on block 17. Future estimates predict that deepwater production will form a large proportion of total Angolan production. Although much of the gas produced is currently flared, gas is expected to become increasingly important as the country enforces no-flaring policies and develops downstream systems for export or utilisation of the gas. The target is zero flaring by 2005-2006.

2.2.2 Sonangol - key in managing the petroleum sector

The state-owned oil company, Sonangol, dominates the Angolan oil industry. To a large extent Sonangol represents an unhealthy mix of roles a profit oriented company on the one hand and the extended arm of the Government on the other hand. Established in 1976, Sonangol is sole concessionaire for exploration and production in addition to managing its own exploration and production activities. Sonangol is also responsible for product supply, distribution and marketing to the domestic market and crude export marketing, in addition to its upstream exploration and production. With about 30 subsidiaries Sonangol is also active in many non-oil related activities, such as telecoms, manufacturing, banking and transport.

Sonangol has provided other oil-producing countries with a 'model' for commercial and political success. With fairly scarce human resources it has developed in to a considerable commercial organisation (Gary & Karl, 2003). Despite this 'success', Sonangol's role in the Angolan economy can be questioned. The IMF has pointed to several problems with Sonangol's role in the management of oil revenues, including the danger that its large number of non-commercial objectives – and its quasi-fiscal operations – can be in conflict with Sonangol's commercial objectives.

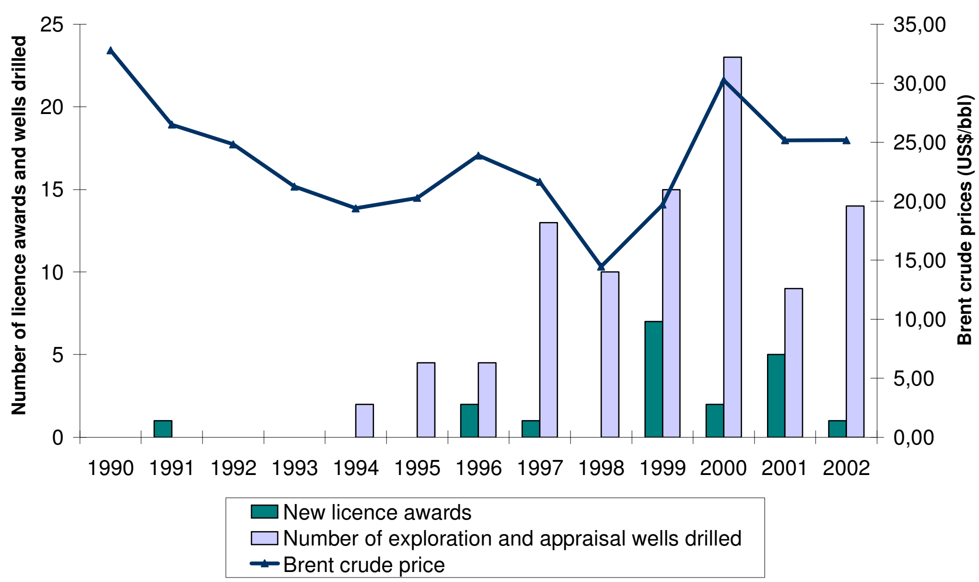
Sonangol is the sole concessionaire for Angolan oil, with the rights for all exploration and production activities. Most often a group of IOCs, and sometimes Sonangol itself (as an equity partner) is given a concession by Sonangol. Sonangol's various subsidiaries are incorporated or linked to Sonangol's EP Holding. According to the IMF this practice "creates conflict on interest whenever Sonangol, as a concessionaire, gives preference to oil service or supply companies in which it owns a stake" (IMF, 2003b).

The Ministry of Petroleum (MINPET) is formally in charge of petroleum policy & management, while its role is generally dwarfed by that of Sonangol. MINPET is responsible for regulatory development, some upstream inspection work, planning and statistics, downstream licensing and supervision and work permits for foreigners. A new petroleum law could change the division of labour between Sonangol and MINPET, as increasing attention, including by international agencies (e.g. by advisors from the Norwegian Petroleum Directorate), is paid to the need to reform the institutional structure for Angolan oil.

The management of oil and gas production is based around the Production Sharing Agreement (PSA) model, which is becoming increasingly common world-wide. It means that Angola contracts international oil companies (IOCs) to provide capital and technical expertise while maintaining control over the operations. As such, IOCs bear most of the financial risk of exploration and production. Many national oil companies act as joint ventures or partners in development consortia, where they oblige themselves to contribute capital for development. Historically, Sonangol has not met its full financial obligations, forcing IOCs to carry the capital burden for a substantial part of the project's life. The IOCs are entitled to recover these costs and then share profits (in cash or in oil) with the Government.

A new PSA model was introduced in 1991 for deepwater areas and a significant number of contracts were awarded (see Figure 2.2). Despite a background of low oil prices, sensational drilling results and relatively attractive contract terms made Angola one of the most desirable areas in the late 1990s. Instead of increasing the government take, the Angolan Government was able to maximise its short-term benefit by auctioning blocks, resulting in unprecedented levels of signature bonuses.

Figure 2.2 Angola deepwater –Licence awards and drilling



Source: Konkraft (2003) and BP Statistical Review of World Energy (2003)

In the mid 1990s blocks 14-30 were offered and activity sharply increased, as Figure 2.2 illustrates. Major discoveries have been made on blocks 14, 15, 17 and 18. In 1999-2001 blocks 31-33 were offered, resulting in 900 million USD in signature bonuses. In 2001 Hydro became a technical assistant to Sonangol on block 34, with a 30 take in a block, which generated 279 million USD in signature bonus (IMF, 2003b).

Table 2.1 Angola's signature bonuses in 1982 and 1996-2001

Block	Year paid	Amount (USD million)
Block 1	1982	3.5
Block 18	1996	9.0
Block 21	1998	41.0
Block 31	1999	300.0
Block 32	1999	300.0
Block 33	1999	300.0
Block 34	2001	232.0

Source: IMF (2003b)

Note: After two auction rounds and some adjustments, the total for block 34 was 278.6 million USD.

According to PFC Energy, the Angolan Government retains about 60 per cent of the value of its oil production (through bonuses, taxes, profit oil etc). This government take is relatively low, compared to for example Nigeria with 80 per cent. So far, the low government take can be explained by the high risks associated with offshore development for IOCs. Due to declining geological risk, Angola's new petroleum legislation may provide less generous returns. The competitiveness of this new framework will depend on the fields open for bid, world oil prices, and other fiscal terms.

2.2.3 International presence and responsibility

Despite being ranked 95th out of 95 countries in business competitiveness by World Economic Forum in 2003, Angola offers a favourable investment framework for IOCs. In Angola, oil is, by any definition, the odd man out in terms of international private sector interest and investment. According to CSIS, Angola has offered packages of taxes, royalties, and other fiscal terms that enable IOCs to earn, on average, a 15 per cent rate of return on their investment (Goldwyn & Morrison, 2004).

The major IOCs dominating the industry

The top foreign oil companies operating in Angola are US-based ChevronTexaco and ExxonMobil, France's Total, UK's BP and UK/Dutch Shell. The nature of Angola's oil resources has given these four a dominant position; the deep-waters require large financial and engineering resources, which few outside the major IOCs possess. As a consequence, out of 52 discoveries, 51 have been made by just four operators: ExxonMobil 17, Total 16, ChevronTexaco 9 and BP 9 (Petroleum Economist, 2004).

The Norwegian oil companies, Hydro and Statoil, also have a significant presence in Angola. Of the two companies, Hydro has invested more than Statoil so far, but it has not made commercially viable discoveries on (the important) Block 34, where the company is technical partner to the operator, Sonangol. Statoil, with a more modest presence, has been reasonably successful in terms of discoveries. Both Norwegian companies have stakes in Block 17, with the producing field Girassol.

All IOCs are investing in corporate social responsibility

International oil companies increasingly realise that environmental and social issues are having an impact on business performance and shareholder value. Managing corporate social responsibility (CSR) – alongside traditional financial and economic issues – is becoming significant for business success. Operating in communities, which have neither experienced nor benefited from significant amounts of international business activity, is leading many IOCs to engage in a range of social investment programmes. For instance, BP, one of the largest IOCs in Angola, is currently involved in:

- education projects in schools;
- a pilot project to assess the value of installing solar power in schools;
- an AIDS education initiative targeting young people and other vulnerable groups;
- a home for orphaned boys which provides vocational training;
- an initiative which helps local communities to select, plan and implement infrastructure projects to improve their quality of life;
- and two new projects, which are specifically aimed at responding to the present serious humanitarian situation in Angola: a farmers' support project and a children's food aid and health initiative.

Similar projects are undertaken by other IOCs operating in Angola like Total, ChevronTexaco, ExxonMobil, Hydro and Statoil. Hydro has invested in what they call the Quenguela Water system and Agriculture Program, to promote agricultural development and improve the water system in this community.

A strongly emerging aspect of the CSR agenda in Angola (and elsewhere) is the drive towards 'local content'. In large part, this emphasis on training and employing local Angolans, as well as maximising the benefits of the oil industry for local supply chains, has been driven by the Angolan Government, through Sonangol. In negotiating its contracts with IOCs that seeks to do business in Angola, Sonangol now requires each IOC to demonstrate a commitment to providing skills, training and employment for the local Angolan population.

Following negotiations with Sonangol, Hydro has committed to a 5-year management-training program in which a total of 40 Angolans are trained for management positions in Angola and British and American Universities. Both this program and the social investment program are currently (2004) handed over to Sonangol. ExxonMobil also invests significant resources in training Angolans, up until 2004 the company had spent 25 millions USD on training.

The activities of Total in Block 17 – a major Angolan off-shore oil field – provide a good example of the demand for local content. As the operator of Block 17, Total is a key actor in the Block 17 steering committee (which provides a forum to discuss CSR, although that is not its main focus). All investments on the Block related to local content need formal approval by Sonangol. Given that CSR is usually defined as activities that go *beyond* legal requirements, some may argue that the activities undertaken by BP, Total and others do not reflect CSR. However, given that virtually *all* IOC activity requires approval from Sonangol, local content can still reasonably be considered as representing a relevant CSR approach, even though it is not "voluntary" per se.

IOCs also work with other key stakeholders – governments, multilaterals, and NGOs - in promoting CSR activities. The Angola Partnership Initiative illustrates this. The 50 million USD partnership includes ChevronTexaco, United States Agency for International Development (USAID), the United Nations Development Program (UNDP) in addition to the Angolan Government. The partnership was launched in 2002 to support education, training and small business development.

IOCs have also been exposed to CSR pressures by coming under pressure to reveal details of their contracts with the Angolan Government. Angola has received much attention for its lack of transparency, and several reports by Global Witness (Global Witness, 1999, 2002 & 2004) have highlighted these concerns. Companies have been under pressure, particularly from the international community, to reveal the details of their payments to the Angolan Government. But the difficulty for IOCs to comply with 'publish what you pay' was demonstrated in 2002 when Sonangol threatened to terminate BP's contract after the company said that, in the interests of transparency, it would publish details of its payments to the Angolan Government. Subsequently, oil revenues received by the Angolan government have now been made public, following pressure from the IMF and NGOs such as Global Witness and the Publish What You Pay campaign.

The oil supply/services industry

The oil supply/services industry in Angola is dominated by international contractors, which contribute a substantial part of Angola's foreign direct investment. Their relationship with the Government is different to that of the IOCs: the main interface is indirect through the operator of a block.

Many of the big names worldwide are present in Angola, such as Halliburton, Schlumberger, ABB, and the Norwegians AkerKværner and FMC Kongsberg. On the large Girassol project on block 17, Norwegian FMC Kongsberg supplied sub-sea equipment, worth 220 million USD. All products were delivered to what was then Elf in Norway (now part of Total), but produced by different FMC subsidiaries around the world (Wiig, 2001). FMC Kongsberg was awarded the contract in 1998 and installation took place in 2000-2002.

In 2003, another major player in this industry, AkerKværner, was awarded a contract for the Dalia Project, on Block 17. This was the largest contract ever awarded for sub-sea oil and gas installations, worth 300 million USD. The scope of the project covers engineering, procurement and fabrication of all required equipment. It also includes assistance to the operator during installation, maintenance and life of field support.

Through their operations, suppliers are more involved with the Angolan society and government than oil companies such as Statoil, who without operatorship have a small operation focused on its financial interest. However, the relationship with Sonangol is largely indirect, through the operator, Total. Raymond Carlsen, president of Aker Kvaerner's subsidiary Kvaerner Oilfield Products is aware of the responsibility attached to this contract, largely driven by the requirements of

Sonangol: “We are committed to the success of the project and the development of Angolan involvement based on transfer of technology. Our main aim now is to live up to the expectations of Total and Sonangol, both during the delivery phase and through the whole life of this field”.

‘Local content’ is therefore more of an issue for the supplier industry than many of the oil companies not engaged in exploration or development. AkerKværner has committed itself to train Angolans, at a budget of NOK9 million. In addition, Aker Kværner seeks to use local workforce for its 60 people operation in 2005-2006.

INTSOK, the Norwegian umbrella organisation that supports the globalisation of Norwegian oil industry, is also involved in several initiatives to encourage more local content. One of these is the “train the trainer” program. Three companies in the supplier industry - Aker Kværneer, FMC Kongsberg and ABB – have, with Intsok, collaborated to coordinate training. A group of teachers was trained in English in South Africa, before undertaking a year of intensive industry-related training in Norway (at Rogaland Kurs og Kompetanse Senter and in the companies). They returned to Angola, with support from Norwegian mentors. In May 2004 the teachers began educating 30-35 students at the National Petroleum Institute (IMP) in Angola. This institute offers technical/vocational training, focused on petroleum, at high-school level. The course seeks to train these students as technical operators of sub sea installations, skills that would be valuable for the companies involved in the program. The total budget is 2,5 million.

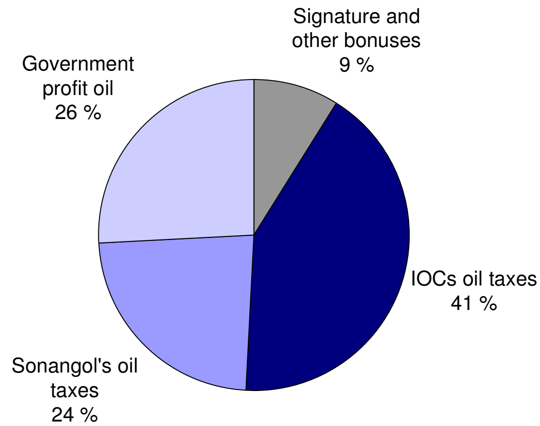
Another Intsok initiative in Angola is the Quality Management Program, where 10-15 Angolan companies will be selected for training in quality management. The intention is that these companies will qualify as contractors for the petroleum and/or supplier industry. The budget for the first phase is about 100.000 USD, while the actual program is expected to cost about 1 million USD.

2.3 Oil revenues - so far a curse

2.3.1 Sonangol – also dominant in revenue management

Angola receives revenue from its PSA operations through: signature bonuses; government’s oil profit; Sonangol’s profit; taxes on IOCs; and royalties from joint ventures or partnerships between Sonangol and IOCs. Between 1998 and 2002 Angola received 15 billion USD in revenue from these sources. Figure 2.3 shows the distribution.

Figure 2.3 Sources of Angola's oil revenues from 1998-2002, in total 15 billion USD



Source: IMF (2003b)

Although signature bonuses only account for 9 per cent of revenue in this period, they play an important part in the Angolan economy. Without signature bonuses, Angola would have had to wait for oil production to begin before receiving revenues.

Not only is Sonangol dominant in the management of the oil production, it is also deeply involved in the management of the oil revenues. According to the IMF, from 1998-2002 Sonangol handled over 50 per cent of the total oil revenue. The remaining (mainly IOC taxes) is paid to the state account (IMF, 2003b). The presidential office, Ministry of Finance, Sonangol and Banco Nacional de Angola (BNL) are all involved in the management of revenues, and the flows between these are unclear at best. According to Global Witness (2004) a Petroleum Account was established at BNL in 1995, which collapsed in 2001, because there were insufficient funds to service cash calls and government debt obligations placed on it.

In addition to handling revenues flowing into the Government, Sonangol also spends a lot of money. According to the IMF: "Sonangol has in some areas functioned as a treasury outside the Ministry of Finance" (IMF, 2003b). In 2002, Sonangol's quasi-fiscal expenditures accounted for 12 per cent of overall government expenditures or 6 per cent of GDP. The 2002 quasi-fiscal expenditure was spent on: subsidies (46 per cent); delivery of petroleum products (24 per cent); UNITA relocation camps (1 per cent); state enterprises (10 per cent); Government ministries (17 per cent); and others (1 per cent). In addition, Sonangol paid 1.2 billion USD in debt services on government loans. (IMF, 2003b)

The IMF has proposed that a way forward should be to stop all quasi-fiscal operations and review whether Sonangol's investments are profitable and/or should be undertaken by the private sector instead. Sonangol has also taken some steps to improve its role in the management of oil. (IMF, 2003b)

2.3.2 Lack of transparency and accountability

A major problem in the Angolan oil-dominated economy is unaccounted revenue. Public finances are shielded from scrutiny, due to a vast system of parallel finances. The presidential office, Sonangol and the central bank are all involved in what has become known as the “Bermuda Triangle”. The IMF has called for more transparency: “greater transparency in the management of public institutions and the oil sector lie at the heart of improving governance and structural reform would help to consolidate the peace process” (IMF, 2003a)

Global Witness alleges that over 1.7 billion USD per year of the country's oil revenues have gone unaccounted for from 1997-2001. In September 2003 the International Monetary Fund (IMF) issued a report criticising the lack of transparency in the management of oil revenues and in the financial operations of Sonangol, the Angolan state-owned oil company. The IMF estimates that 31 per cent of total government expenditure in 2002 “was executed outside the regular budgetary system” (IMF, 2003b). A major problem is the lack of control by the Treasury over all expenditures. As discussed in 2.3.1, Sonangol handles about half of the government’s total revenue.

The Oil Diagnostic - a monitoring system promoted both by the IMF and the World Bank – was set up in 2000 in an agreement with the Angolan government. KPMG was awarded the contract, which included monitoring and assessing oil revenues as well as training. The Oil Diagnostic pointed to unaccounted funds of 4,2 billion USD between 1997 and 2002.

The executive summary of the preliminary report of the Oil Diagnostic has been published, but the final report is still not disclosed. Angola has been criticised by for example Human Rights Watch for not publishing all the reports (HRW, 2003). The 42 page executive summary of the Inception Report does, however, disclose a significant amount of information. According to the Financial Times (2004), Angola’s Finance Minister has said that the final conclusions will be public by June 2004.

The government claims that the gap between revenues received and those accounted for is caused by accounting weaknesses, and has stated its commitment to increase accountability. Decades of war and the corrupting impact of oil money that started flowing before effective state institutions were in place, combine to make the very building of such institutions very demanding. According to Angola’s Finance Minister, José Pedro de Morais, the government has pledged to reveal oil-related financial information, audit the state oil company Sonangol and implement recommendations of a private sector survey of the oil industry. The Finance Minister has already pointed out that the country has taken several steps to increase transparency. In addition to publishing some Oil Diagnostic information, data has been published through the IMF in its Article IV Consultation report.

The jury is still out, however, on whether or not this commitment to more transparency is real. Following its April 2004 mission, the IMF pointed to some encouraging steps and stated: "The mission stressed, and the Angolan authorities agreed, that timely and consistent economic data were vital for the policymaking, as well as for improving transparency in the management of public resources. In this regard, utmost effort was placed in evaluating the financial positions and the financial relationships among the Treasury, the Banco Nacional de Angola (BNA), and the national oil company (Sonangol).” (IMF, 2004).

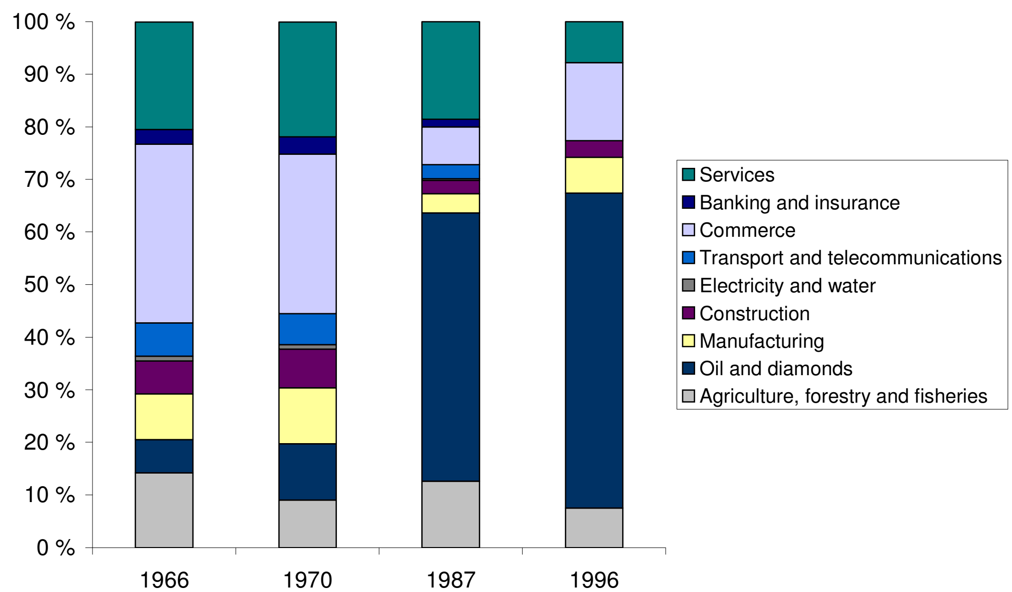
Overall, Angola continues to trail far behind Nigeria in both *committing* to transparency and starting to do the real work. Although the finance minister participated in the launch of the UK-led Extractive Industry Transparency Initiative, he claimed “observer status” for Angola rather than committing to full participation, like Nigeria has.

2.3.3 Negative effects on Angola’s development

The prolonged civil war in Angola, combined with mismanagement of the natural resources has had a profound impact of all aspects of social and economic life.

Literally all negative economic phenomena associated with oil-rich developing countries can be found in Angola. Non-oil sectors have been ignored. Before independence in 1975 Angola was a diversified and relatively prosperous economy. Today the performance of the agricultural, manufacturing and commerce sectors is very poor, and has deteriorated over the last few decades. In the same period the extractive industries have taken up a growing share of the economy, as Figure 2.4 illustrates.

Figure 2.4 GDP composition over time



Source: World Bank (2003b)

Oil revenues have risen sharply since 1969, from almost a zero to 1,2 billion USD in 1998 and 3,3 billion USD in 2002 (IMF 2003b). Yet GDP per capita has fallen from one-half of the level realised at independence to about 500 USD in 2003.

Before independence Angola was the world’s fourth biggest coffee exporter and the third largest producer of sisal. Over time agriculture has been damaged by war and poor policy. Not only has growth in the sectors such as agriculture lagged behind, the quality of the growth is the oil sector has been poor, with little impact on employment, poverty reduction and growth in other industries.

Booming oil exports, raising labour costs and spending on goods and services has resulted in other export products becoming less competitive, the so-called “Dutch disease”. The economy is heavily dependent on imports and highly vulnerable to external shocks, such as the sudden drops in oil prices in 1985-86 and 1998.

Much of Angola’s windfall has been mortgaged for prior purchase of weapons and other goods. The oil-backed loans are extremely expensive. Servicing these loans now accounts for the bulk of the Government’s oil revenue (EIU, 2003). The country has received more than 8 billion USD in oil-backed loan since 1995. Despite increasing efforts to create a deal with the IMF, Angola appears to continue to borrow money from other sources. In March 2004 Angola agreed with China on a 2 billion USD concessional loan. Angola’s state oil company, Sonangol, is also seeking an oil-backed bank loan of up to 2,5 billion USD. The planned syndicated loan, which Sonangol has asked London-based Standard Chartered Bank to put together, would be the largest obtained by a company of its kind in Africa, according to the Financial Times (2004). These moves could weaken IMF and other external player’s leverage on the Angolan government in general and on Sonangol in particular.

The Government is under pressure to negotiate debt relief, attract donor assistance and increase investment. Angola has taken some steps to improve the macro-economic situation. A new monetary policy is in place with the aim to reduce public expenditures as a per centage of GDP. Inflation in 2000 was 260 per cent and 106 per cent in 2002. According to the Angolan Government the inflation has dropped to 76 per cent in early 2004, and the Government’s goal is an inflation of 20 per cent by the end of 2004. The government has published a comprehensive strategy to combat poverty and address social reintegration, rehabilitation, reconstruction and economic stabilisation.

However, the 2003 IMF report was not satisfied with Angola’s progress. Spending on health and education is very low relatively to the country’s oil wealth and high military spending. Public spending on health was only 2 per cent of GDP in 2002. Outside Luanda and the other major cities there are hardly any functioning hospitals run by the government.

Table 2.2 Angola's distribution of government expenditure, in per cent of GDP

	1998	1999	2000	2001	2002
General public services etc.	7.7	3.1	4.4	12.9	15.9
Defence and security	14.5	25.8	9.0	7.2	7.2
Education	2.6	1.5	1.9	3.1	2.9
Health	1.4	1.2	2.0	2.6	1.9
Social security, welfare and housing	0.9	1.2	5.5	3.3	2.7
Energy, agriculture, mining and transportation	1.5	1.3	2.0	3.4	2.5
Interest payments	8.6	9.1	5.6	0.1	1.0
Unclassified	5.8	39.1	30.4	13.6	13.8

Source: IMF (2003b)

Table 2.2 illustrates the Government's spending on social sectors, as opposed to other sectors. As previously mentioned, the Angolan Government is expected to earn about 100 billion USD by 2019. The hope, and the platform of lobbying from an increasingly concerned international community, is that far more of this money will benefit the impoverished people of Angola than has been the case to date.

2.4 Limited risk of conflict/war

The risk of a new civil war in Angola appears to be fairly low. The peace established in 2002 looks robust, as UNITA lacks both the will and the ability to return to war. MPLA is increasing its political and economic dominance while trying to marginalise, or co-opt, its opponents.

However, the desperate humanitarian situation and the lack of assistance for ex-combatants, particularly UNITA members, are concerns to the stability. One observer, the Economist Intelligence Unit (2003), believes that these problems are likely to be settled over the next two years.

The troubled oil-producing region of Cabinda represents a risk, though. Cabinda receives 20 per cent of the resources distributed among Angola's 18 provinces. However, the region is unsatisfied. The smaller Frente para a Libertação do Enclave de Cabinda (FLEC) fought independence for Cabinda during the war for independence and some tension prevails. A peace agreement still needs to be reached. Global Witness (2004) warns of the threat Cabinda could pose to national security.

Also there have been tensions on the border to the Democratic Republic of Congo, in the diamond-rich province of Luanda Norte. Tens of thousands of Congolese migrant workers have been expelled from Angola, and more is expected to have to go. Military forces have allegedly abused the workers in the process.

Overall, the risk of serious conflict is currently perceived as fairly low. And given the offshore nature of Angola's oil adventure, which has survived and prospered throughout decades of bloody civil war, the risk of major disruptions in oil production is even lower.

References

Angola's official website: http://www.angola.org. E.g. the executive summary of the preliminary Oil Diagnostic: (http://www.angola.org/referenc/reports/oil_diagnostic_eng.pdf).

BBC (2004): "Angola and IMF to sign deal". BBC News online. 24.04.2004. (http://news.bbc.co.uk/2/hi/business/3515550.stm).

BP Statistical Review of World Energy (2003). (http://www.bp.com/subsection.do?categoryId=95&contentId=2006480).

Economist Intelligence Unit (EIU). (2003). Country Profile Angola. 14 July 2003.

Economist Intelligence Unit (EIU). (2004): Country Report Angola. 1 April 2004.

Financial Times (2004): "Angola's state oil group seeks 2,5bn USD syndicated loan", Financial Times 21.04.04

Gary, Ian and Karl, Terry Lynn.(2003):"Bottom of the Barrel – Africa's Oil Boom and the Poor". Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm).

Global Witness (1999): "A Crude Awakening". A Global Witness Report. December 1999. (http://www.globalwitness.org/reports/show.php/en.00016.html).

Global Witness (2002): "All the Presidents' Men". A Global Witness Report. March 2002 (http://www.globalwitness.org/reports/show.php/en.00002.html).

Global Witness (2004): "Time for Transparency". A Global Witness Report. March 2004. (http://www.globalwitness.org/reports/show.php/en.00049.html).

Goldwyn & Morrison (2004): David L. Goldwyn & J. Stephen Morrison. "Promoting Transparency in the African Oil Sector". A Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa. March 2004.(http://www.csis.org/africa/GoldwynAfricanOilSector.pdf).

Hodges .T (2001): "Angola from Afro-Stalinism to Petro-Diamond Capitalism". The Fridtjof Nansen Institute & The International African Institute. 2001.

Human Rights Watch (HRW) (2003): "Some Transparency, No Accountability: The Use of Oil Revenue in Angola and Its Impact on Human Rights". January 2004, Vol. 16, No. 1 (A). Human Rights Watch. (http://www.hrw.org/reports/2004/angola0104/)

IMF (2003a): "IMF Concludes 2003 Article IV Consultation with Angola". PIN No 03/114. September 10, 2003. International Monetary Fund. (http://www.imf.org/external/np/sec/pn/2003/pn03115.htm).

IMF (2003b): “Angola: Selected Issues and Statistical Appendix”, July 2003, International Monetary Fund. (http://www.imf.org/external/pubs/cat/longres.cfm?sk=16872.0).

IMF (2004): “IMF Staff Statement on Angola “. Press Release No. 04/88. April 27, 2004. International Monetary Fund. (http://www.imf.org/external/np/sec/pr/2004/pr0488.htm).

Kon-Kraft (2003): ”Utredninger 1 – Norsk Petroleumsvirksomhet ved et veiskille”. August 2003.

Petroleum Economist (2004): “Output to double by 2008”. The Petroleum Economist Ltd, London. February 2004.

PFC (2003): “West Africa Petroleum Sector – Oil Value Forecast and Distribution”. PFC Energy. December 2003. (http://www.csis.org/africa/040330_rodgers.pdf).

Wiig (2001): Wiig, Arne. ”Supply chain management in the oil industry: The Angolan case”. Working Paper 2001:6. Chr. Michelsen Institute.

World Bank (2003a): “Transitional Support Strategy for the Republic of Angola“. Report No 25471-ANG, March 2003. (http://www.worldbank.org/ao/reports/2003_Angola_tss.pdf).

World Bank (2003b): “Technical Annex for a Proposed Grant of SDR 24 million to the Republic of Angola for an Angola Emergency Demobilization and Reintegration Project”. Report No T7580-ANG. March 7, 2003. The World Bank. (http://www.worldbank.org/ao/reports/2003_EDRP_TechAnn.pdf).

3 Equatorial Guinea

Highlights

- The discovery of oil has transformed the Equatoguinean economy into the fastest growing in Africa, with the second highest GDP per capita in sub-Saharan Africa. Oil dependence stands at 90 per cent of GDP.
- Based on current reserve estimates, the oil boom in Equatorial Guinea will be over by 2020. Production is likely to peak around 2010. The first major oil discovery was made in 1995.
- Equatorial Guinea has been plagued by a lack of transparency, accountability and good governance since independence in 1968. Mismanagement of oil revenues is an emerging issue that could lead to full-fledged "resource curse" unless the capacity of public institutions and the quality of public policy improve.
- According to the IMF, oil revenue management in Equatorial Guinea has become more transparent and accountable from 2001 to 2003. However, non-governmental organisations point out that clear information about the country's oil income has yet to enter the public domain.
- American oil companies are dominant in Equatorial Guinea and president Obiang is eager to be on the good side of Washington. This should give the superpower considerable leverage over one of the smallest countries in Africa. However, Bush administration officials tend to play down the degree to which the U.S. has influence over developments in Equatorial Guinea.
- Neither Statoil nor Norsk Hydro have operations in Equatorial Guinea at present. A couple of Norwegian oil service companies have been involved in the development of the Equatoguinean petroleum industry. However, Equatorial Guinea is clearly a more limited market for Norwegian business than Nigeria and Angola.

Key facts

- **Oil production:** 350.000 barrels per day in 2003
- **Oil reserves**: 1.1 billion barrels
- **Gas reserves:** 1.3 trillion cubic feet
- **Oil (and gas) dependence**: 89,7 per cent of GDP in 2002
- **Main international oil companies:** ExxonMobil, Amerada Hess, Marathon Oil, ChevronTexaco, Noble, Devon, Petronas and Sasol
- **President:** Teodoro Obiang Nguema Mbasogo (since 1979)
- **Population:** 510,000 (UN estimate in 2002)
- **GDP per capita:** 4200 USD in 2002
- **Ranking in UNDP Human Development Index 2003:** 116 of 174
- **Ranking in TI Corruption Perceptions Index 2003:** N/A
- **National oil company:** Guinea Ecuatorial de Petroleo (GEPetrol), established in 2001-2002

3.1 Political, economic and social context

3.1.1 Political context

Brief political history

Equatorial Guinea, a tiny country both in size and population, achieved independence in 1968 following 190 years of Spanish rule. It has since been one of the world's most tightly closed and repressive societies. The country's first president, Francisco Macias Nguema, declared himself president for life. During his reign, one-third of the population were killed or fled into exile. In the 1970s, Equatorial Guinea was nominally a pro-Soviet one-party state. President Macias was deposed and killed by his nephew in a coup d'etat in 1979. The nephew, current president Teodoro Obiang Nguema Mbasogo, set out to improve relations with Western powers and increase foreign assistance to his impoverished country.

Under pressure from donor countries demanding democratisation, president Obiang in 1992 reluctantly proclaimed a new era of political pluralism. Still, there has been no free and fair election in Equatorial Guinea since independence. Over the last decade, successive elections – presidential (every seven years), legislative (every five years) and municipal (every five years) – have all been rigged. The legalised political opposition has also faced harassment and arrest. This explains why 11 of 12 so-called opposition parties today are allied with the ruling Partido Democratico de Guinea Ecuatorial (PDGE).

Personalised power and political stability

Power in Equatorial Guinea rests with president Obiang. Formally, he exercises power through the PDGE, which controls the legislature, the judiciary and all of the country's 30 municipalities. In reality, however, Obiang wields power through an informal network of family members and kinsmen from the Mongomo clan of the majority Fang tribe. The ruling elite is made up almost exclusively of this group. The key political figures in the country include the president, his two sons and his brother. The oldest son, Teodorin Nguema Obiang, is minister of forestry and infrastructure. The second son, Gabriel Nguema Lima, is secretary of state for minerals and energy. The brother, Armengol Nguema, is national security adviser.

There is often an inverse relationship between personalised power and political stability. This would explain why Equatorial Guinea has been negatively affected by the ongoing feud within the ruling elite over presidential succession. The senior government officials who last December allegedly were implicated in the planning of a coup d'etat may have been plotting to prevent president Obiang from grooming his son Teodorin for succession. Much of their opposition to Teodorin, who has been described as erratic, self-indulgent and autocratic, probably reflects concern about how the country's oil wealth would be shared under his leadership.

Increased regional importance

Oil has brought Equatorial Guinea out of relative obscurity. The country is now the third largest oil producer and exporter in Sub-Saharan Africa. It is also the fourth largest recipient of U.S. investments on the African continent, behind South Africa, Nigeria and Angola. Oil has also made relations with neighbouring countries, in particular Gabon, more contentious. Relations with Gabon reached a new low last year, as UN mediation failed to resolve the dispute over the sovereignty of Mbagne Island in Corisco Bay. Matters were not helped, moreover, by persistent rumours that also implicated Gabon, as well as French petroleum interests, in the alleged plot against president Obiang last December.

Democracy and rule of law: might makes right

According to the country's constitution, Equatorial Guinea is a presidential republic with a multiparty system. As already discussed, however, the constitution bears little resemblance to the country's political realities. Presidential might makes right and the constitution is habitually violated. Generally speaking, there is little respect for the rule of law in Equatorial Guinea. The judicial system repeatedly fails to ensure due process. Trials are seldom impartial and judges are usually not independent. The political environment in Equatorial Guinea is one in which independent politicians, journalists and other groups find it especially difficult to speak out, much less make demands. Outside of the churches, civil society is virtually non-existent

Where political power is as centralised and personalised as in Equatorial Guinea, there is limited scope for regional or local autonomy. However, the central government remains sensitive to charges that the development needs of the capital Malabo, on Bioko Island, precede those of the mainland area of Rio Muni, from which the majority Fang tribe hails. The government is therefore seeking to increase investments on the mainland, especially in the city of Bata. Its commitment to Rio Muni is also meant to be underscored by the fact that the seat of government now moves to Bata for a few months of the year.

A poor human rights record

International observers such as Amnesty International, Freedom House, the International Bar Association and the U.S. State Department agree that the country's human rights record remains poor. The security services commit abuses with impunity. They also allow Fang vigilante groups to abuse members of the Bubi minority. Torture is a serious problem in Equatorial Guinea. The conditions of jails and prisons are harsh and life threatening. Corruption is endemic within the police and gendarmes, who routinely extort money from guest workers; mainly citizens of Cameroon, Nigeria, Ghana, Togo and Benin. They occasionally also harass employees of international oil companies.

As to freedom of expression, there is censorship of all publications. Mild criticism of public institutions and their policies or practices is generally allowed, but nothing disparaging about the president or the security services is tolerated. Only one newspaper is currently distributed in the whole country. It is a monthly publication. There are no daily or local newspapers. Radio and television are under direct control of the president and his family, which may explain why state radio last summer described president Obiang as the country's God, "with all power over men and things." This one particular program also went on to say that the president was in permanent contact with the Almighty and could decide to kill without anyone calling him to account.

Part of the African Franc Zone

It is important to note that Equatorial Guinea has been a member of the Central African Economic and Monetary Community (CEMAC) since 1985. This makes the country a member of the African Franc Zone bound by a single monetary policy. Equatorial Guinea is one of only two members of the African Franc Zone that are not former French colonies. The main purpose of CEMAC is to bring about the economic integration of six Central African states: Cameroon, the Central African Republic (CAR), Chad, Congo Brazzaville, Gabon and Equatorial Guinea. Progress towards integration has often been slow, however, not least because of resistance from small, conservative and oil rich members such as Gabon and Equatorial Guinea.

3.1.2 Economic context

An economy transformed by oil

Equatorial Guinea's per capita income at independence in 1968 was one of the highest in Africa. It plunged during the 1970s, however, due to Soviet-style mismanagement of the country's cocoa and timber resources. The economy improved somewhat when Equatorial Guinea joined the African Franc Zone in 1985. The devaluation of the African franc in 1994 helped boost the country's export of timber. The discovery of major hydrocarbon deposits off Bioko Island in 1995 has prompted massive foreign investment, predominantly American, in oil and gas production facilities.

The discovery of oil and gas has transformed Equatorial Guinea into Africa's fastest-growing economy. According to the Economist Intelligence Unit (EIU), real GDP growth was 18 per cent in 2000, 37.5 per cent in 2001, 17.6 per cent in 2002, 14.7 per cent in 2003 and is estimated to be 10.2 per cent in 2004. In 1995, oil displaced cocoa as the country's most important export commodity. Until then, agriculture – cocoa, coffee and timber – had formed the basis for the Equatoguinean economy. Today, agriculture contributes 4 per cent of GDP, whereas the petroleum sector accounts for 90 per cent. According to World Bank estimates, Equatorial Guinea's annual oil revenues have increased from 3 million USD in 1993 to 210 million USD in 2000, and reached 700 million USD in 2003.

While Equatorial Guinea's rapidly expanding economy has created some inflationary pressure, monetary policy has been constrained by the country's participation in the Central African Economic and Monetary Community (CEMAC). The consumer price index for the last few years has averaged 6 per cent. In 2002, the government responded to protests over rising costs of living by fixing prices on several food staples.

The size of economy

The following table presents comparative economic indicators based on EIU estimates for 2003 comparing Equatorial Guinea, Gabon, Angola, Ivory Coast and Cameroon

Table 3.1 Comparative economic indicators

	EG	Gabon	Angola	Ivory Coast	Cameroon
GDP (% real change)	10.2	1.2	1.5	-1.6	4.2
GDP (bill. USD)	2.6	7.5	12.7	8.2	12.1
Consumer price inflation (%)	6.0	0.5	76.6	3.1	2.3
Current account (bill. USD)	-0.9	-0.1	-0.5	0.8	-0.6
Exports of goods (bill. USD)	2.6	2.9	9.6	5.2	2.2
Imports of goods (bill. USD)	1.2	1.1	4.1	2.4	2.2
External debt (billion USD)	0.3	3.3	9.2	10.9	7.3
Debt-service ratio, paid (%)	0.1	9.2	17.5	13.5	9.7

Source: EIU

The actual size of the economy, as measured in GDP per capita, has doubled between 2000 and 2003, from 2,822 USD to 5,310 USD.

Sustained budget surplus, reduced debt

Government spending is expected to rise sharply over the next few years, partly because of ambitious plans to improve economic and social infrastructure, and partly because more of the proceeds from the oil boom will have to be distributed throughout the president's patronage network. Despite a significant increase in government outlays, however, the EIU estimates that the massive growth in oil production will enable Equatorial Guinea to sustain a budget surplus of around 11 per cent both in 2004 and 2005.

Large inflows of foreign direct investment have allowed Equatorial Guinea to reduce its dependency on foreign borrowing, and the foreign debt stock fell to 239 million USD at the end of 2001. Equatorial Guinea's debt ratios are among the lowest in the African Franc Zone. They are expected to improve further as the country continues its formidable oil-led increase in GDP and export earnings.

Integrity of public economic institutions

As a member of the CFA franc zone, Equatorial Guinea benefits from a stable currency and a well-functioning central bank, the Banque Centrale des Etats de l'Afrique Centrale. Other public economic institutions are weak in a system that is only very selectively based on the rule of law.

According to the U.S. State Department Country Report on Human Rights Practices in 2003, poor fiscal management and a lack of transparency in public accounting of national finances have undermined Equatorial Guinea's economic potential. The report sees little evidence that the government has used the country's oil wealth for the public good. Most oil wealth is concentrated in the hands of top government officials while the majority of the population remains poor.

3.1.3 Social context

Poverty amid plenty

Despite the fact that Equatorial Guinea boasts one of the highest levels of GDP per capita in Africa, poverty remains widespread and income disparities are growing. In 2001, the Special Rapporteur to the UN Commission on Human Rights stated that the oil boom did not seem to have led to any improvement in people's economic, social and cultural rights. The World Bank reports that there has been little or no positive impact on the country's social indicators. According to some estimates, 65 per cent of the population live in conditions of extreme poverty. Moreover, 80 per cent of the national income is said to be in the hands of 5 per cent of the population.

Ethnic and social structure

Equatorial Guinea comprises five main ethnic groups: the Fang (86 per cent of the population) live chiefly in the mainland region of Rio Muni, the Bubi (6 per cent) live mainly on the island of Bioko, the Ndowe (4 per cent) live along the coast of Rio Muni, the Bisio (1 per cent) share the coastal zone with the Ndowe and the Fang, the Annobonese (2 per cent) live on the island of Annobon, and the Creoles (0.1 per cent) live on Bioko. The remainder are foreigners. Differences between the Fang and the Bubi are a major source of political tension that has often erupted into violence.

Women make up 51 per cent of the population (and men 49 per cent). 61 per cent of the population live in rural areas and 39 per cent in urban areas. Over the last few years, Equatorial Guinea has experienced a significant rural exodus and influx of immigrants to Malabo and Bata, principally for economic reasons and reflecting the impact of the oil industry.

In terms of age structure, the majority of the population is rather young, with 44 per cent under the age of 15, 17.7 per cent between 15 and 24, 31.2 per cent between 25 and 59, and 7.1 per cent above the age of 60.

Key development indicators

Table 3.2 Development indicators for Equatorial Guinea

Life expectancy at birth, 2001	49.0
Adult literacy rate (per cent age 15 and above)	84.2
Combined gross school enrolment ratio (per cent)	58
GDP per capita (PPP USD), 2001	15,073
Human development index (HDI) value, 2003	0.664

Equatorial Guinea ranks as number 116 on UNDP's Human Development Index. This is higher than any other country in Sub-Saharan Africa, save the Republic of South Africa. The oil boom has caused a striking improvement in economic indicators, but not in social indicators.

Corruption: oil revenues unaccounted for

According to the 2004 Index of Economic Freedom, the economy of Equatorial Guinea is dominated by corruption and oil. As much as 500 million USD in oil revenues could be unaccounted for, according to Global Witness. It appears that much of the country's oil money is being held overseas and out-of-sight. Recorded fiscal surpluses in 2000-2001 exceeded the increase in government bank balances by 170 million USD, according to the IMF. This discrepancy represents about 10 per cent of GDP.

3.2 Energy Industry

3.2.1 Overview of oil and gas production

Fields, licences and ownership structure

Most of the activity in Equatorial Guinea's petroleum sector is concentrated around the Zafiro, Ceiba and Alba fields.

The Zafiro oil field is located northwest of Bioko Island and south of Nigeria's Edop, Etin and Ofun fields. It was discovered by ExxonMobil and Ocean Energy (which merged with Devon Energy in 2003) in 1995 and constitutes the northern portion of Block B. Other discoveries made in Block B since then include the Opalo East, Topacio, Amatisto, Rubi and Serpentina fields. The Zafiro field is Equatorial Guinea's largest. Production reached 300,000 barrels per day in 2003. Probable reserves are estimated at 1 billion barrels.

The Ceiba oil field is located just offshore of Rio Muni in Block G. Amerada Hess discovered it in 1999. Although production started only 14 months later, Ceiba has failed to meet expectations. A complex geology has led to lower reserve estimates. Amerada Hess is therefore looking to revive its prospects in Block F north of Ceiba. Production at Ceiba was scheduled to reach 90,000 barrels per day in 2003. The field's proven reserves are estimated at 300 million barrels.

The Alba field, which is the largest gas field in the country, is located east of Zafiro and north of Bioko. The Spanish company Cespa discovered Alba back in 1991. Today, Marathon Oil (2/3) and Noble Energy (1/3) hold the interests in Alba. At the end of 2001, the Alba field was producing 17,000 barrels per day of natural gas condensate, 2,700 barrels per day of LPG and 240 MMcf/d of natural gas. Marathon's plans for increased production from Alba has been approved by the government of Equatorial Guinea and include the building of a liquefied natural gas facility on Bioko that will supply 3.4 million tons of LNG. Alba contains 1.3 trillion cubic feet of proven reserves, but probable reserves are estimated to be at least 4 trillion cubic feet.

The government's involvement in – and take from – the petroleum sector is expanding, albeit slowly. In 1998, the government introduced a new, more liberal framework for regulating hydrocarbon exploration and production activities. Production Sharing Contracts (PSCs) were revised and updated in accordance with new profit-sharing arrangements. As a result, government take of receipts earned from oil exports increased from 13 to 20 per cent. This is still a relatively small share by international standards. Plans to increase the government's interest in existing and new production sharing contracts have also been announced, although not yet formally pursued. Today, the government holds about 5 per cent in PSCs. Managing these interests is also going to be one of the tasks GE Petrol, the national oil company that was formed in 2001-2002.

Oil and gas: production and reserves

According to the U.S. Energy Information Administration (EIA), oil production in Equatorial Guinea was expected to approach 350,000 barrels per day in 2003. This is considerably above the EIU production estimate of 248,200 barrels per day for the same year. The EIU forecasts for 2004 and 2005 are 350,000 and 400,000 barrels per day respectively.

According to the EIA in September 2003, Equatorial Guinea's total proven reserves are estimated at 1.1 billion barrels of oil and 1.3 trillion cubic feet of gas. According to PFC Energy in March 2004, however, the total volume of oil discovered in Equatorial Guinea is approximately 1.8 billion barrels, with 350 million barrels having been produced to date.

At current reserve estimates, Equatorial Guinea is looking at a relatively short oil boom. Production could peak by the end of the decade. This has led to speculation that the government might want to cap production in order to extend the life of the country's petroleum reserves. Malabo continues to deny such rumours, however.

3.2.2 Managing the oil and gas sector

There is little doubt that president Obiang keeps a tight leash on the petroleum sector and personally supervises all financial transactions related to it. The president's son, Gabriel Nguema Lima, runs the Ministry of Mines and Energy from his position as secretary of state. He is also the main point of contact in the government for international oil companies. The ministry itself functions as a technical adviser to the Obiang presidency in the awarding of exploration licenses. Its role as regulator is mainly focused on the management of petroleum contracts. This involves interaction with other government bodies to facilitate petroleum contracts, approval of field development plans, work programs and budgets, and monitoring of all operators.

The role of GEPetrol

Angola has been a key regional influence in the development of the petroleum sector of Equatorial Guinea. GEPetrol, for example, is modelling itself after Sonangol, which is perceived to be the national oil company in the region that has achieved the greatest success over the last two decades. Much like Sonangol, GEPetrol is tasked with managing the state's interest in production sharing contracts; selling the state's crude oil in world markets; tending to and promoting unlicensed acreage; entering into other commercial partnerships or projects, such as the joint venture with Swiss-based Glencore for exploration of Block O, between Bioko and Cameroon; developing human resources and building greater capacity; and helping to develop and implement policies for health, safety and the environment. Overall, the establishment of GEPetrol is meant to strengthen local content by securing more of the value creation in the upstream sector for the country and accelerating the transfer of technical, commercial and managerial skills.

Attractive terms for foreign investors

Equatorial Guinea is welcoming of foreign investment. The law governing foreign investment imposes no minimal eligibility or performance requirements and no time limitations. Foreign investment is not subject to screening and foreign equity ownership is not subject to limitations, although additional advantages can be gained by having a national partner. Both residents and non-residents may hold foreign exchange accounts, but approval is required, except for accounts in euros. The most serious impediment to foreign investment is lack of transparency, bureaucratic red tape and corruption.

The terms offered to international oil companies in Equatorial Guinea are quite attractive. First, entry costs are low. They typically involve a modest signature bonus compared to what has been paid in Angola. Second, operating costs are relatively low, partly due to the use of technology that has already been tested, and partly because there is no need for terminal facilities. Third, company take (as opposed to government take) is higher than in most other oil producing nations.

A question of capacity

From a technical, commercial and political perspective, Equatorial Guinea lacks the capacity to manage oil properly. The country is also running out of time to get this right. Oil production may peak before GEPetrol is fully operational, for example. Given these constraints, how should Equatorial Guinea proceed to strengthen its management of the petroleum sector? First, building institutional capacity within the government is probably more important than building a national petroleum industry. If the reserves are insufficient to sustain long-term value creation based on hydrocarbons, why the preoccupation with building local content around a dominant state-owned oil company. Second, government capacity to manage oil revenues is probably more important than the acquisition of technical and commercial knowledge, some of which can be bought from the outside. Strengthening government capacity to manage oil revenues implies improving transparency and governance. This will ensure that revenues are properly accounted for and can be used for the purpose of human development, including investment in sectors other than petroleum. At the same time, however, getting governments to focus on responsible revenue management is no easy task. In the final analysis, improvements in governance will come as a result of national commitment in combination with international support.

3.2.3 Key international oil companies

Equatorial Guinea has largely been the domain of American oil companies, especially independents like Marathon Oil, Amerada Hess, Noble Energy, Devon Energy, Vanco Energy and Atlas Petroleum. ExxonMobil operates the Zafiro field, which is the country's only world-class oil field to date. Another U.S. supermajor, ChevronTexaco, has not had similar exploration success. Other companies with interests in exploration blocks include Total (France), Petronas (Malaysia), Sasol (South Africa), Roc Oil (Australia) and Glencore (Switzerland).

It is generally the case that the smaller the company, the greater the importance of Equatorial Guinea for the corporate portfolio. The Zafiro field is clearly a considerable cash cow for ExxonMobil. However, the company operates several fields of similar size and quality around the world. For independents like Marathon Oil and Amerada Hess, on the other hand, Equatorial Guinea is now among the top three core areas in terms of investment and expected production.

Corporate social responsibility in Equatorial Guinea

Independents tend to put less emphasis on CSR than larger international oil companies or national oil companies. Because they do not meet customers in the retail market – at the gasoline pump – independents generally feel less exposed to political and reputational risk This may also help explain why the independents rushed into Equatorial Guinea ahead of the competition.

American oil companies are steeped in the tradition of corporate philanthropy and tend to approach CSR in much the same way. Investments in local communities are generally geared towards improving physical and social infrastructure. ExxonMobil and Marathon Oil both have extensive programs for the transfer of skills to Equatoguineans. ExxonMobil now also acknowledges that corporations have an important role to play in promoting human rights: "We make it clear to all of our employees and contractors – as well as military forces that provide security to our operations – that human rights violations will not be tolerated." However, the company does not address how its position on human rights affects the relationship with host governments such as the one in Equatorial Guinea.

The contribution of companies to the improvement of local conditions is nevertheless significant enough to receive favourable review in some quarters, especially when compared to the government's apparent lack of commitment to economic and social progress. In it's latest Country Report on Human Rights, for example, the U.S. State Department makes the following comparison: "Oil companies have paved roads in Malabo, upgraded the electricity generating system of Bioko island, and funded a variety of health and environment projects designed to improve citizens' well-being; however, there was little evidence that the government used the country's oil wealth for the public good."

Political risks to production

The political risks to production are relatively low. First, offshore production mitigates political risk. Second, there is no OPEC quota risk. Equatorial Guinea is not a member of OPEC. Nor does the country seem inclined to cap production in order to prolong the life of its shelf. Third, the fact that several American companies are heavily invested in Equatorial Guinea should offer some “geopolitical” (i.e. U.S.) protection against attempts to change the regional status quo, including maritime borders.

For the most part, political instability is a manageable risk for oil companies operating in Equatorial Guinea. A change of leadership by violent means is not likely to affect oil and gas operations in the Gulf of Guinea. The example of Angola shows that offshore production can continue uninterrupted even under conditions of civil war. The incoming regime will usually prove just as interested in maintaining good relations with foreign investors as the outgoing regime. Both will depend on a secure flow of oil revenues for their political survival and/or personal enrichment. Leaving aside the extreme case of nationalisation in the 1970s, it is fair to say that the international oil industry has shown a solid ability to navigate shifting political currents in most countries.

The nature of the host government does, however, pose a potentially significant reputational risk to international oil companies in their home countries and markets. This is a trend that has become more pronounced in the years since Shell (and Statoil) came under attack for operating in Nigeria under the Abacha regime. In countries where oil revenues are misappropriated and squandered, companies increasingly find that their global, and sometimes also local, license to operate is being challenged. The risk of being accused of complicity in corruption is an emerging business risk. It is being addressed by the oil industry in response to initiatives such as the Publish What You Pay Campaign and the Extractive Industries Transparency Initiative. The nature of the Obiang regime in Equatorial Guinea is such that it confronts the larger companies, not the small independents and wild-catters, with reputational challenges.

3.2.4 Supply industry

Because American oil companies are dominant, much of project development for the oil industry in Equatorial Guinea takes place in Houston. Neither Statoil nor Norsk Hydro has interests in Equatorial Guinea at present. However, a couple of leading Norwegian oil service companies are involved with the country. Bergesen owns and operates an FPSO on the Zafiro field. FMC has delivered equipment to a sub-sea installation, whereas FRAMO Engineering has helped boost reservoir pressure in some problematic wells.

The Equatoguinean petroleum industry is also being supplied from bases in Nigeria. This will to some degree change as construction of the Luba Freeport, southwest on the island of Bioko, is completed. Authorities in Malabo and GEPetrol both market Luba Freeport as the deepwater gateway to the West African oil industry. Equatorial Guinea has no indigenous supply industry to speak of.

3.3 Oil revenues

3.3.1 Oil dependence

Oil revenues: past, present and future

Government take from the petroleum sector in Equatorial Guinea has grown from 3 million USD in 1993 to 212 million USD in 2000 to over 700 million USD today. The petroleum sector has grown from 11 per cent of GDP in 1993 to 90 per cent today.

According to PFC Energy, Equatorial Guinea is likely to maintain a stable level of oil income from its offshore production through most of this decade. Estimates show that the country will receive a mean expected value of approximately 10 billion USD by 2010. An additional 5.8 billion USD will accrue by 2019, resulting in a total mean expected value of 15.8 billion USD for the period 2002-2019. If measured in terms of probable effect on Equatorial Guinea's GDP per capita, this will represent an additional 22,158 USD per capita at P90 between 2002 and 2019.

The Gulf of Guinea could sit atop probable oil and gas reserves as high as 10 per cent of world total. Compared to Nigerian reserves, in particular, but also Angolan reserves, the hydrocarbon potential of Equatorial Guinea is rather limited. In its forecast of oil value and distribution in West Africa, PFC Energy expects Equatorial Guinea to capture about 5 per cent of total value for the governments in the region over the next two decades. This figure compares to 60 per cent for Nigeria, 23 per cent for Angola, 5 per cent for Gabon and 4 per cent for Congo Brazzaville.

3.3.2 Transparency and accountability

Oil revenues and multilateral leverage

Foreign aid has traditionally been an important part of the Equatoguinean economy. However, the country's relationship with donor countries and international financial institutions has generally been rather rocky. Over the years, several aid programs have been suspended due to poor performance and lack of transparency on the part of the government of Equatorial Guinea. The World Bank severed its relationship with the country back in 1993 and only resumed lending two years ago. An IMF program for Equatorial Guinea, the so-called Enhanced Structural Adjustment Facility (ESAF), expired in 1996. However, Article IV consultations were held both in 2001 and 2003.

Efforts to resume relations between the Bretton Woods institutions and Equatorial Guinea have been mutual. However, the government in Malabo can now approach the World Bank and IMF from a position of financial strength rather than weakness. While it may still need the international legitimacy that such an association can bring, it is probably less inclined than before to heed the advice it receives from these institutions. The promise of oil revenues is likely to have reduced the urgency of macroeconomic and structural reform and strengthened vested interests.

The World Bank and IMF, for their part, may have reached the conclusion that any engagement with the resource-rich government of Equatorial Guinea is preferable to no engagement. Some suspect that the latest IMF assessment of the country, dating back to December 2003, has been tinted by the desire for such engagement. In this assessment, the IMF finds that Equatorial Guinea has made progress both on macroeconomic management and transparency. The IMF also welcomes plans to save part of the oil revenues in an oil fund and encourages the authorities to press ahead with their ideas for a poverty reduction strategy. Other observers of the political and economic scene in Equatorial Guinea do not share the IMF's apparent optimism, however.

Taxes and payments from oil companies

According to the World Bank, the first oil contracts in Equatorial Guinea guaranteed operating companies a 30 per cent rate of return and offered exceptionally favourable cost recovery conditions. Whereas government take in the rest of Sub-Saharan Africa ranged from 45 to 90 per cent, the range in Equatorial Guinea was 15-40 per cent.

For several years, the government of Equatorial Guinea lacked the capacity to audit international oil companies. There was, in effect, no fiscal oversight over payments made from the companies to the state. Audits done with assistance from the World Bank later revealed sizeable discrepancies between payments due and payments made by companies operating in the country. One company had to make a "corrective payment" of 53 million USD. Audits covering the period 1996-2001 resulted in the government reclaiming a total of 88 million USD, which is about 3 per cent of the country's GDP. In the words of Global Witness, the companies have basically sought to take advantage of Equatorial Guinea's notoriety, inexperience and lack of capacity.

Improved budgeting and transparency

Until 2000, oil revenues were greatly underestimated and underreported in the budget. Substantial extra-budgetary expenditures were financed through advances from oil companies. The World Bank concluded that "the budget has lost relevance as an instrument of control." Things have improved since then. Estimates of oil revenues and reserve accumulation are now included in the budget. A decision to save part of the fiscal surpluses in an oil fund has also been made. The EIU reports that 259 million USD was paid into the fund in 2002, and that it contained 733 million USD by the end of 2003.

The IMF has been encouraged by these developments and is now calling on Equatorial to follow through on stated intentions to become a pilot under the Extractive Industries Transparency Initiative. However, clear and precise information about the country's oil revenues does not yet seem to have entered the public domain.

3.3.3 Financial management of the revenue flow

Possible negative effects on the economy

Dutch disease

As a member of the African Franc Zone, Equatorial Guinea enjoys a stable, convertible currency. This has helped limit the effect of "Dutch disease." However, growth in agriculture and logging has nevertheless been sluggish, due primarily to a loss of competitiveness. The real effective exchange rate appreciated by 15 per cent between the end of 2001 and the middle of 2003. Some of this can be attributed to domestic price pressures and some of it to the appreciation of the euro vis-à-vis the U.S. dollar.

Rent-seeking

The question of how to distribute the oil revenue surplus has had a destabilising effect on the ruling family and clan. This would suggest that rent-seeking behaviour is becoming more prevalent among the country's elite.

Increased spending on "prestige" projects and the military

Last October, the government of Equatorial Guinea announced a major new spending program to upgrade the country's roads and other infrastructure. As minister of forestry and infrastructure, the president's son and preferred successor, Teodorin, was put in charge of this program. Some observers fear plenty of white elephants and corruption in the wake of this program, which will also serve to elevate the profile of Teodorin in the eyes of the public.

Increasing concern about the threats to internal and external security has led to a considerable increase in military expenditure over the last few years. According to figures from the IISS, the Equatoguinean military counts 1,320 men – an army of 1,100, a navy of 120 and an air force of 100. Some foreign diplomats, on the other hand, estimate the strength of the military, including paramilitary units, at around 4,000.

Pressure to subsidise

In 2002, protests over the rising costs of living led the government to freeze prices on a selected group of food staples.

3.3.4 Socio-economic development

For key development indicators, see Chapter 1.2.3.

Local content, local employment

The establishment of GEPetrol reflects a growing desire on the part of the government to achieve higher local content as the petroleum sector develops further. Also, international oil companies are increasingly called upon to accelerate the transfer of skills and hiring of locals. The catch with regard to employment, however, is that Equatoguineans who seek to work for foreign companies have to go through agencies run by president Obiang's two brothers.

The two employment agencies screen the potential workforce for "undesirables" and collect a fee from those who eventually get hired.

Local protests

Outside of the churches, the country is predominantly Roman Catholic, civil society is practically non-existent. The last few years have seen sporadic ethnic clashes between the Fang and the Bubi. There have also been protests over rising food prices.

Assistance in public participatory processes

There is practically no international NGO involvement in Equatorial Guinea. The World Bank is back in the country, however, running a couple of projects aimed at strengthening capacity in the management of the petroleum sector. The United States is considering whether to pursue the idea of offering training to Equatoguinean police officers in order to help improve their dismal human rights record.

3.4 Risk of conflict/war

The internal threat to political stability and national security is said to come from Bubi separatists, who attacked government facilities in 1998, and from disgruntled members of the president's own family and clan. Obiang himself entrusts his own security to 350 Moroccan bodyguards, and not to the country's regular military. The external threat is said to come from neighbouring countries seeking to redraw maritime borders in light of the region's increasing oil wealth.

The neighbouring states in question are Nigeria, Cameroon and Gabon. Although Nigeria and Equatorial Guinea have signed a pact delineating their maritime boundaries and reached an agreement on joint exploration of a zone that touches both the Zafiro and the Ekanga fields, the government in Malabo continues to look over its shoulder. After all, Nigeria is the regional superpower. There are no guarantees, moreover, that the next president of Nigeria will prove to be as reasonable as Obasanjo. Investment in some promising acreage in the Gulf of Guinea has also been inhibited by a possible territorial claim by Cameroon. However, Cameroon has kept a low profile in this matter pending a final resolution of its border dispute with Nigeria, a dispute that is ongoing despite the fact that the International Court of Justice ruled in favour of Cameroon in October 2002.

The state of relations between Equatorial Guinea and Gabon reached a new low last year. UN mediation failed to solve the dispute over the sovereignty of Mbagné Island in Corisco Bay. It did not help the situation that rumours started surfacing about Gabon's involvement in the alleged plot to overthrow president Obiang. The Aznar government in Spain, which supports the Equatoguinean claim to Mbagné Island, fuelled these rumours. It even hinted that French petroleum interests stood behind Gabon. Aznar himself was planning a trip to Malabo after the elections to promote Spanish petroleum interests in Equatorial Guinea.

References

Amnesty International (2003): “Equatorial Guinea”, report.

Bolender, John (2003): “Blind Eye on Africa: Human Rights”, Equatorial Guinea and Oil, ZNet/Africa, 16 August.

Center for Public Integrity (2002): “Making a Killing: The Curious Bonds of Oil Diplomacy”, November, Washington, D.C.

CSIS (2004) : “Promoting Transparency in the African Oil Sector”, a Report of the CSIS Task Force on Rising U.S. Energy Stakes in Africa, March. Washington, D.C.

CSIS Conference on Promoting Transparency in the African Oil Sector, Washington, D.C., March 2003.

CWC/GEPetrol Conference on Opportunities in the Petroleum Sector of Equatorial Guinea, Houston, November 2003.

Economist Intelligence Unit (EIU). Country Profile Equatorial Guinea, February 2004.

Economist Intelligence Unit (EIU). Country Profile Equatorial Guinea, January 2004.

Energy Information Administration (2003): “Country Analysis Brief: Equatorial Guinea”, September, US.

Freedom House (2003): “Freedom in the World 2003 – Equatorial Guinea”

Gary, Ian and Karl, Terry Lynn. (2003): “Bottom of the Barrel – Africa’s Oil Boom and the Poor”. Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm).

Global Witness (2004): “Time for Transparency”. A Global Witness Report. March 2004. (http://www.globalwitness.org/reports/show.php/en.00049.html).

International Bar Association (2003): ”*Equatorial Guinea at the Crossroads”*, Report of a Mission to Equatorial Guinea by the IBA’s Human Rights Institute, October .

IMF – Equatorial Guinea

IRINNEWS.ORG (2004): “Equatorial Guinea: Oil and gas production climbs, but where does the money go?”, UN Office for the Coordination of Humanitarian Affairs, 28 April.

U.S. State Department (2004): Country Report on Human Rights Practices – Equatorial Guinea, February 2004.

U.S. State Department's Country Page –Equatorial Guinea

UNDP: Human Development Indicators 2003 – Equatorial Guinea

West Africa Petroleum Sector (2003): Oil Value Forecast and Distribution, Report to Africa Policy Advisory Panel, PFC Energy, Washington, D.C., December 2003.

World Bank – Equatorial Guinea

4 Gabon

Highlights

- Oil production has been falling since 1997. Although reserves nearly doubled between 1996 and 1998, most new finds have been in smaller or marginal fields that have not proven very interesting to the majors.
- Falling oil production plus very high debt has recently placed the government in a tight budgetary position. The Paris Club of bi-lateral lenders has made agreement with the IMF a condition for debt re-scheduling, giving the international community a certain amount of leverage for encouraging reforms. However, Gabon has had an exceptionally poor record of fulfilling IMF conditions in the past.
- Mining (manganese) and timber exports probably provide the best alternative sources of economic growth and revenue. The government has recently made some efforts to reform these sectors.
- Gabon is known as one of the more politically stable countries in Africa, though this stability probably has been purchased in part through an elaborate patronage network funded by oil money. Necessary spending cuts and restructuring may strain this social cohesion in the near future.
- French interest in maintaining traditionally close relations with its ex-colony appears to be waning, due to falling oil production as well as politically damaging allegations about president Bongo's corruption networks made during the trials of the "Elf scandal". Meanwhile, American and Chinese interest in Gabon appears to be increasing.

Key facts

- **Oil production:** 265,000 barrels per day in 2003
- **Oil and gas reserves**: 2.5 billion barrels
- **Oil dependence:** 30-40 per cent of GDP
- **National oil company:** Disbanded 1987
- **Main international oil companies:** Total, Shell and Marathon
- **President:** Omar Bongo (since 1967)
- **Population:** 1.3 million in 2002
- **GDP per capita**: 3,700 USD in 2002
- **Ranking in UNDP's 2002 Human Development Index:** 118 of 175
- **Perception of corruption ranking**: N/A

4.1 Political, economic and social context

4.1.1 Political context

Brief political history

Gabon became a French colony in 1883. Since independence in 1960 it has continued to maintain close political and economic ties to France.

French legionnaires reinstated the first president, Leon M'ba after an attempted coup d'etat in 1964. Albert (later Omar) Bongo, M'ba's vice-president, became president after latter's death in 1966.[1] Bongo formed the *Parti Democratique Gabonais* (PDG) and introduced one-party rule in 1967. Following a series of strikes and demonstrations, a national convention led to a multi-party constitution in 1990. The 1994 Paris accords between the government and the opposition alliance led to further political reforms, including a revision of the electoral code. However, the PDG has continued to increase its majority in each parliamentary election, amid regular accusations of fraud. Since the mid-1990s, president Bongo appears to have been successful in co-opting many of his political opponents into his elaborate patronage network fuelled by oil money.

The most recent parliamentary elections, in which the PDG took 86 of 120 seats, were held in 2001. The next parliamentary elections are to be held in 2006. Omar Bongo was last re-elected president in 1998 and is expected to stand again in December 2005, after a 2003 amendment to the constitution opened the way for him to run an unlimited number of times.

Regional/geo-political importance

Gabon has long been one of France's closest ex-colonies in Africa, especially after the discovery of oil in 1957 and the loss of Algeria in 1962. France has used Gabon as an important military base, although since 1997 has maintained a garrison of only 600 troops.

More recently, declining oil output and France's increasing desire to expand its economic activities beyond francophone Africa have led to an apparent decrease in French interest in Gabon.

Allegations of pervasive patronage networks in Gabon that intersect those in France made during trials related to the "Elf scandal" (especially the trial of Andre Tarallo in November 2003) probably have made it increasingly difficult for the French government to continue embracing the Bongo regime as tightly as before.

Relations between Gabon and the United States appear to be growing along with the latter's interest in West African oil and security issues. Increasing relations with China are connected to China's growing appetite for timber and oil imports.

Omar Bongo is now one of Africa's longest-serving leaders and presents himself as an elder statesman. He has helped mediate a number of regional political crises,

[1] Bongo took the first name Omar after converting to Islam in 1973 and added the surname Ondimba in 2003.

most recently in the Ivory Coast, the Central African Republic and in Congo-Brazzaville.

Membership and engagement with international/multilateral organisations

Gabon is a member of the Central African Economic and Monetary Community (CEMAC), which was created in 1994 to replace the Central African Customs and Economic Union.[2] It is also a member off the African Union, the successor organisation to the Organisation for African Unity.

Gabon is part of the 2000 Contonou Convention, which gives 77 African, Caribbean and Pacific countries preferred trading links with the EU.

Gabon became a member of OPEC in 1975, but quit in 1995 because of high membership dues.

In 2000 Gabon became one of the founding members of the Gulf of Guinea Commission, a regional forum for discussion of natural resource issues with apparent strong US backing.

Gabon has had difficult relations with the IMF. Most of its programmes have been cancelled due to lack of progress in fulfilling conditions. The most recent was an 18-month standby programme agreed in 2002 but discontinued soon after. The IMF conducted a staff-monitored programme from September to December 2003 as the first step to discussing a new programme, which may be agreed in 2004. Gabon has a large incentive to reach a new agreement with the IMF since this is a precondition for rescheduling its substantial debt to the Paris Club of bilateral creditors.

Political system

Gabon has a 120-seat National Assembly, and multi-party popular elections have been allowed since 1990. A 91-seat Senate was created in 1995 and is elected by municipal and regional councillors. Parliamentary elections are held every five years, and elections for president are held every seven years. However, participation in elections is generally quite low (reportedly only about 20 per cent in the large towns), apparently reflecting scepticism about opportunities for real democratic change (EIU 1/2004).

Real power in the country is said to be exercised via an informal patronage network headed by president Bongo and fuelled by oil money. Large oil revenues compared to a small population (1,3 million) has apparently allowed the president to co-opt many of his political opponents and to maintain a certain degree of popular support by funding a large and well-paid public sector.

Gabon is one of the more stable countries in Africa, but stability appears to have been largely purchased with oil money. Because the government has built up

[2] CEMAC was formed at the time of the devaluation of the CFA franc with a treaty between participating members and with France, which backs the common currency. Other CEMAC members are Cameroon, the Central African Republic, Congo, Equatorial Guinea and Chad.

enormous debts and generally neglected the non-oil parts of the economy, this stability is likely to be tested as oil revenues fall over the coming years due to falling production. Historically, political protest has grown during periods of low oil revenues, though in the past this was due to low prices. Current high world oil prices have probably given the government some breathing space.

Record of human rights protection

Although the government reportedly regularly intimidates its political rivals, large oil revenues compared to a small population have generally made it easier to simply co-opt opponents. Although information on human rights issues in Gabon is not very easy to obtain, the country's human rights record is probably better than that of many other countries in the region.

4.1.2 Economic context

Size of economy

Gabonese GDP was about 5 billion USD in 2002. Due to a very low population, GDP per capita was some 3,700 USD, over six times the average for Sub-Saharan Africa. However, income is extremely unevenly distributed. Per-capita income has declined since 1998 due to falling oil production, though is expected to rise slightly in 2004 on the back of high oil prices.

Description of economy

The oil industry has accounted for about 30-40 per cent of GDP in recent years, depending on oil prices. However, its share is on a downward trend, due to falling production.

The largest part of non-oil GDP comes from trading, including large imports of food, consumer goods and equipment, largely from France. In addition to oil production, the main industries are timber and mining.

In general, manufacturing suffers from high labour costs, a small local market, and poor infrastructure, including lack of adequate transportation links to larger regional markets.

The public sector is the largest employer, accounting for over 60 per cent of jobs in the formal sector. About a quarter of public sector jobs are in state-owned enterprises. The largest private-sector employer is the timber industry. Few Gabonese work in the informal sector, which is generally left to foreigners from neighbouring Africa countries. Unemployment is currently around 20 per cent of the economically active population.

Timber and wood processing

Timber was the leading economic sector before the discovery of oil. It is currently the second most important industry, accounting for about 4 per cent of GDP and 12 per cent of export earnings in 2002. Some two thirds of the country is covered by forests, 90 per cent of which is commercially exploitable. About half of timber production is accounted for by the tropical species, okume and ozigo, which are used in plywood production.

Most wood is exported. Only about 20 per cent of exported timber is processed, although this is almost double the amount of a few years ago. The government hopes to raise the share of processed timber to 30 per cent in the near future.

French companies traditionally have dominated the forestry sector, but Chinese and Malaysian companies are increasingly active as Asian imports grow.

Mining

Mining is Gabon's third largest industry. The sector is dominated by manganese, which is mostly exported to Europe for use in steel production. Gabon possesses about one quarter of the world's manganese reserves and is the world's third largest producer. Gabon's estimated reserves of 45 million tonnes should last for another 20 years at current extraction rates. The main producer is COMILOG, which operates several open-pit mines near Moanda. The company is majority-owned by French interests, with a 25 per cent share owned by the government.

Gabon was once the world's eighth largest producer of Uranium, but the country's uranium mines have been exhausted, and production ceased in 1999.

There are reportedly promising deposits of niobium, iron, copper, lead, gold, zinc and titanium, but commercial production so far has been hindered by lack of adequate transport infrastructure.

Agriculture and fishing

Agriculture accounts for only about 8 per cent of GDP, much lower than in most African countries. State-owned rubber and palm oil companies are supposedly being groomed for privatisation, but in general the sector appears to have been neglected. An estimated 35 per cent of the population is involved in agriculture on an informal basis in order to supply own food needs, mostly in rural areas and towns. However, most food in the main urban areas is imported, largely from France.

Fishing is currently underexploited, but suffers from high labour costs and lack of access to port infrastructure. Recent agreements have given the EU fishing quotas in Gabonese waters, and Japan reportedly is offering some assistance in developing this sector.[3]

Restructuring

With the help of the IMF, the government is making economic diversification a priority, although past efforts in this direction generally have failed. The government has identified the following sectors as having important potential: wood processing, tourism, fisheries and agriculture.

The priority structural reform agenda includes privatisation of public enterprises, simplification of regulatory processes to encourage competition, improvement of the legal environment, strengthening of the financial sector and improvement of

[3] The EIU comments that Japanese aid in the fishing sector may be in exchange for Gabon's support of Japanese positions on whaling issues (EIU 1/2004).

infrastructure (IMF 2003, p. 15). Past economic reforms have generally been hindered by the country's large external debt, lack of administrative capacity, poor investment climate and resistance from entrenched economic and political interests (EIU 1/2004).

Thanks to tight monetary policy by the CEMAC area's central bank, the BEAC, annual inflation since the late 1990s has generally been less than 2 per cent. However, inflation may increase in the CFA-franc zone as oil production in Equatorial Guinea and Chad increases.

Budgetary position

Due to oil revenues, Gabon has a modest overall fiscal surplus, but this is likely to fall as oil production declines. (Oil revenues accounted for about 40 per cent of total revenues in 2003, but according to IMF estimates are scheduled to fall to about 33 per cent by 2006.) Gabon's very large public debt of about 3.5 billion means USD that debt servicing accounted for about 45 per cent of current spending in 2003.

Much of Gabon's debt was accumulated in the early 1980s and is owed to bilateral creditors. Given projected declines in oil revenue, it is critical for Gabon to reach an agreement with the Paris Club of bi-lateral donors to reschedule payment. The Paris Club has made agreement of an IMF programme a condition of rescheduling.

Table 4.1 Indicators of Fiscal Adjustment 2001-2006 (per cent of GDP)

	2001	2002	2003	2004*	2005*	2006*
Revenue	34.0	31.5	31.6	28.9	28.6	27.0
of which non-oil revenue	12.2	13.9	15.5	15.9	17.1	18.1
Primary expenditure	22.0	23.7	20.8	20.7	21.0	21.2
External debt service	14.0	4.2	7.2	6.5	5.6	5.2
Total public debt	75.8	76.6	76.0	71.6	69.5	68.9

Source: IMF 2004, p. 18. ("*" indicates projections)

4.1.3 Social context

Brief description of social structure

With a population of only 1,3 million in 2003, Gabon is one of the least densely populated countries in Africa. It is also one of the most urbanised (73 per cent), due to intensive migration from rural areas over the past 20 years, in turn largely due to high urban wages caused by the oil boom.

In 2002, approximately 40 per cent of the population was under 15 years old, although the proportion of older people (and women) is substantially higher in the countryside. According to the World Bank, only 1 in 5 heads of household in the two major cities of Libreville and Port Gentil were natives of the city (World Bank 1997, p. 2).

Gabon's population doubled between 1967 and 1997, in part due to heavy immigration. The country has been a magnet for immigration since the 1970s. The foreign-born population is estimated to be about 20 per cent of the total, although some sources claim it could be as high as 50 per cent (BDP-Gabon, p. 23). Most foreigners from neighbouring African countries take menial jobs in trade and fishing, while most native-born Gabonese are concentrated in the public sector and oil industry (EIU 1/2004). Non-African expatriates account for about 3 per cent of the population in the three largest cities. About 80 per cent of European expatriates are French.

Gabon has around 40 Bantu tribes, including four major ones: Fang, Bapounou, Nzebi and Obamba. Approximately 55-75 per cent of the population is Christian (mainly Catholic), although local animist faiths are quite prevalent. Muslims account for only about 1 per cent of the population, though represent a higher per centage among foreign-born residents. (President Bongo converted to Islam in 1973.)

In general, ethnic and religious rivalries are relatively low in Gabon. Although many opposition parties are ethnically based, the ruling PDG party cuts across ethnic lines, perhaps because president Bongo comes from a minority tribe.

Development indicators

Even though Gabon has one of the highest GDP/capita ratios in Africa, wealth is extremely unevenly distributed, and social indicators are similar to those of low-income African countries. Several sources have noted that recent and reliable poverty statistics for Gabon are relatively scarce.

UNDP ranked Gabon 118th out of 175 countries in the Human Development Index (HDI) for 2002. Some 62 per cent of the population lives below the poverty line, and access to basic services such as electricity and improved water sources is limited for large segments of the population, even in urban areas.

Despite relatively large per-capita spending on health, outcomes are rather mediocre, implying significant inefficiencies. According to World Bank Millennium Development Goal statistics for 2002, infant mortality rate (per 1,000 live births) was 58.6, the immunisation rate against measles for children under 12 months was 55 per cent (down from 76 per cent in 1990), and life expectancy at birth was 52.9 years. Gabon’s national anti-AIDS programme estimated that about 7.7 per cent of the population is currently infected with HIV/AIDS, compared with 4.2 per cent that UNAIDS estimated for 1999.

In June 2003 the government adopted an I-PRSP, which it had developed with UNDP assistance. It identifies the following as priorities: education, health, water, agriculture, rural development and AIDS prevention. A full PRSP is expected by end-June 2004.

Corruption

According to the EIU, corruption in Gabon is very high but “slightly less stifling than in most neighbouring countries” (EIU 1/2004). Nevertheless, lack of sufficient data prevents it from being ranked by Transparency International’s Corruption Index.

4.2 Energy Industry

4.2.1 Overview of oil and gas production

Brief history of oil production

The Societe des Petroles de l'Afrique Equatoriale Francaise, a forerunner of the current Total-Gabon, drilled the first exploration well in 1934, and in 1956 it made the first commercial discovery onshore near Port Gentil. The first offshore field came on-stream in 1962. However, oil output continued to be quite modest until Gamba-Ivinga began producing in 1967.

Oil production started to decline in the late 1970s until discovery of the giant Rabi-Kounga field by Shell in 1985. Oil production peaked in 1997 and has declined by one third since then, mostly due to the decline of Rabi-Kounga, which currently accounts for about 40 per cent of national output.

Recent emphasis on developing smaller fields and enhanced production from existing ones has helped compensate for falling production at Rabi-Kounga somewhat, but overall oil production is expected to continue dropping unless new major discoveries are made.

Oil and gas reserves

Gabon's 2.5 billion barrels of proven reserves are currently Sub-Saharan Africa's third largest. Although reserves nearly doubled between 1996 and 1998, many of the new finds were in smaller or marginal fields. Few large finds have been made since 1985. This has caused concern for the government, since oil output has been declining since 1997. Based on output in 2003, Gabon's oil reserves-to-production ratio is approximately 10 years.

Gabon's gas reserves are estimated at 1.2 trillion cubic feet.

Two main petroleum basins stretch along Gabon's 885-km coastline, each with onshore and offshore portions. After the 9th permit round in 2000, some 56,000 km2 onshore and 218,000 km2 offshore were under exploration or production permits.

There have been hopes that Gabon may possess major deep offshore reserves similar to those recently found in Angola and Nigeria. However, exploration wells drilled by Total and Agip so far reportedly have been disappointing (EIU 1/2004).

A particular problem for exploration in Gabon is a thick sub-surface salt layer, which reportedly diminishes the effectiveness of seismic surveys. Thick forest cover is also apparently a hindrance to exploration.

Current production

Until recently, Gabon had been Sub-Saharan Africa's third largest producer, behind Nigeria and Angola. In 2003 it was surpassed by Equatorial Guinea.

Gabon produced about 265,000 barrels per day in 2003, down from a peak of 370,000 barrels per day in 1997. Most Current oil production is from Shell's giant offshore Rabi-Kounga field, which has also accounted for most of the decline. Production from Rabi-Kounga was 55,000 barrels per day in 2003, down from a peak of 217,000 in 1997.

Production from Rabi-Kounga has been declining by about 10 per cent per year, while output in other fields has been more stable. Shell and Elf-Gabon (now Total-Gabon) announced a Rabi Phase III project that will inject gas into the field and is expected to slow Rabi-Kounga's rate of decline. New smaller fields and enhanced production methods at other older fields operated by various companies are also expected to help slow the overall decline. Nevertheless, according to IMF projections, Gabon's oil output is likely to fall by 13-14 per cent per year through 2006 (IMF 2004). According to announced development plans, production is expected to fall to 257,600 barrels per day in 2004 and 249,000 in 2005 (EIU 2004).

Almost all of Gabon's modest gas output is associated with oil production. Most gas produced is used for electricity generation, as refinery feedstock or re-injected.

Markets

Over 90 per cent of the country's oil production is exported. Approximately half goes to the United States. Most of the rest goes to Western Europe.

China accounts for only a small share of Gabon's crude exports at present, but its share is expected to grow. A visit to Gabon in February 2004 by Chinese president Hu Jintao was accompanied by a the signing of a number of agreements, including one in which Gabon will provide a guaranteed shipment to China of 20,000 barrels per day (IRINNEWS.ORG 2004).

Gabon has one fairly small oil refinery in Port Gentil. The Societe Gabonaise de Raffinage (Sogara) is a joint venture between the state (25 per cent) and a consortium led by Total. It has a 21,000 barrels per day nameplate capacity but currently is only able to work at about 80 per cent of capacity. It produces about 100 per cent of the country's LPG needs, 127 per cent of its motor gasoline needs, 316 per cent of its fuel oil needs and 710 per cent of its naphtha needs, but only 80 per cent of its kerosene and 54 per cent of its jet fuel needs. Surplus production of motor gasoline, fuel oil and naphtha are exported, while the country imports substantial amounts of jet fuel and gas oil (ESMAP 2001, p.2).

4.2.2 Managing the oil and gas sector

Structure of oil and gas decision-making

Formally, the General Directorate of Hydrocarbons (*Direction Generale des Hydrocarbures* or DGH) of the Ministry of Mines, Energy and Petroleum oversees, sets policy for and regulates the petroleum industry. However, the most important decisions are probably taken in the president's office.

Some critics also charge that a substantial part of day-to-day operations are effectively run from Geneva by a former head of the DGH, Samuel Dossou-Aworet. Mr. Doussou-Aworet was forced to leave the country after a series of strikes in the early 1990s but apparently remains a close associate of president

Bongo. A policy document on the oil sector funded by the Gabonese government-in-exile (also based in Geneva) describes the process of meetings and bribes that allegedly must be paid by oil companies wishing to do business in Gabon, including obligatory trips to Doussou-Aworet's office in Geneva. (BDP-Gabon 2003, pp. 8-10). It comments that "Gabon is a country that has lost its credibility in the petroleum world […] The corrupt political structure is basically […] asphyxiating and turning away investment." (BDP-Gabon 2003, p. 10) While it is of course difficult to comment on the veracity of such charges, the opacity of the oil sector governance regime in Gabon makes it difficult to fully dispute them.

The former national oil company, PETROGAB, was disbanded in 1987. However, its main role was to act as a holding company for the government's shares in a number of licenses, a task which the government now handles directly.

4.2.3 Key international oil companies

Traditionally, the main international oil companies in Gabon have been Elf-Gabon and Shell. In general, however, these larger players appear to be lowering their commitment to Gabon as more interesting opportunities open in Angola, Nigeria and Equatorial Guinea.

The latest (9th) licensing round, which closed in January 2001 and included 27 blocks (nine in deep water), was a disappointment to the government in terms of attracting the interest of the majors. However, since then, the government has struck deals with a number of smaller companies interested in working the smaller fields that now seem to represent most of Gabon's new discoveries, as well as firms specialised in enhanced recovery techniques at existing or abandoned fields.

Total-Gabon (which changed its name from Elf-Gabon in September 2003) is the largest and oldest producer in the country, accounting for over 40 per cent of production currently. It has a relatively independent status compared to other Total subsidiaries, and is actually a joint venture between the French company (which owns 58.28 per cent) and the Gabonese state (25 per cent). Some 16.72 per cent of the shares are listed as belonging to diverse private shareholders, but it is rumoured that these are primarily family members and associates of president Bongo. Total-Gabon's major fields are Mandji and Avocette/Coucal.

Shell is the second largest producer in the country, accounting for about 25 per cent of production. It's major fields are the giant offshore Rabi-Kounga and the Gamba field. Shell also has significant downstream product marketing operations within the country.

Perenco has been operating in Gabon since 1992 and currently accounts for about 15 per cent of output. Its main field is the Oguenjdjo.

Marathon has discovered three offshore fields since 1995 and now accounts for about 10 per cent of the country's output. The major part of its production comes from the offshore Tchatamba fields.

Chinese producer Sinopec signed a series of agreements in February 2004 during a visit by president Ju Jintao to Gabon. Its plans initially include co-operation with

Total in onshore exploration, although it may expand into offshore exploration in the future (IRINNEWS.ORG 2004).

Other oil companies operating in Gabon include: Amerada Hess, Broken Hill Petroleum, Devon Energy, Energy Africa, Eni, PanAfrican Energy, Petrofields, Petronas, Pioneer Natural Resources, Sasol Petroleum International, Vaalco, and Vanco (EIA 2003).

CSR agendas

Elf-Gabon's 2002 annual report (the latest available on its website) does not mention corporate social responsibility (CSR) per se. The closest it comes to such issues is a brief section on statistics regarding personnel and social relations, and a section called "diversification activities". The latter notes that the company spent some 9.3 million USD on various activities in Gabon, including contributions to the Centre International de Recherches Medicales de Franceville (CIRMF), agricultural development projects with the Gabonese Institute for Development (IGAD), and various infrastructure projects (Elf Gabon Raport Annuel 2002). The parent company's 2002 Social Responsibility Report only mentions Gabon in the context of a partnership with IGAD, by which the company "promotes the development of agriculture in areas on the outskirts of cities" (Total 2002 Social Responsibility Report).

Shell does not have specific information on its web pages pertaining to CSR activities Gabon, but notes in an article on the website of the International Business Leaders Forum that, "after 40 years of providing services on which the community depends such as hospitals and schools, Shell Gabon has spent two years in dialogue to shift from direct community assistance to self-development through sponsorship, advice and training".[4]

Perenco's website includes a project in Gabon as one of three examples of its CSR programs worldwide. (The rest are in Latin America, Perenco's main region of activity.) It notes that it "has installed power generation facilities for a number of villages close to its Rembo Kotto and Batanga Fields in Gabon. It also distributes potable water in the Rembo Kotto area and maintains a number of community roads".[5]

Investment conditions

Legislation from 1974 establishes public ownership over natural resources. Petroleum legislation (notably Law No. 14/82 of January 1983) favours production sharing contracts, under which companies pay all investment costs.

After royalties are deducted, cost oil goes to the contractor to repay the investment, and the contractor divides the remaining "profit oil" with the government according to a complex sliding scale. The government also taxes profits.

[4] http://www.iblf.org/csr/csrwebassist.nsf/content/f1b2a3k4.html

[5] www.perenco.com

Investment and tax conditions are generally said to be relatively favourable, and to have become more competitive as the government grows concerned about stemming the decline in production.

Current production sharing contracts generally offer the following terms:

- The exploration phase usually comprises two periods of five years.
- The production phase has an initial period of ten years, followed by two additional five-year periods.
- The minimum state participation is 10 per cent, and the minimum royalty payment is 5 per cent. (Typical royalty rates are now 5-15 per cent, whereas previously they were around 20 per cent.)
- Cost oil is limited to 55 per cent, though may be raised to 75 per cent if the company is not able to recover its development costs within five years (Mbendi 2000 and EIU 1/2004).

4.2.4 Supply industry

The oil services sector is dominated by French companies. The UK government's Trade & Investment department comments that there are "few overt barriers" for companies to obtain business, but states that Gabon has been identified as a "low priority market" for the UK oil and gas supply sector, due primarily to moderate market size (UKTI 2004).

The major supply industry players in Gabon are: Baker Hughes INTEQ (France), Compagnie Generale de Geophysique, Deutag, Dietsmann Overseas Services (CY) Ltd, Dresser Oilfield Gabon S.A.R.L, and Wetherford Enterra Inc.

4.3 Oil revenues

4.3.1 Oil dependence

Over the past few years, oil has typically accounted for about 30-40 per cent of GDP, 40-60 per cent of government revenues, and 70-80 per cent of export earnings. However, falling output generally has been lowering oil's share in each, and the declining trend is likely to continue. By 2006 the IMF expects oil to represent only 24.3 per cent of GDP and 32.9 per cent of total government revenue (IMF 2004).

Table 4.2 *Oil revenue (billion CFA francs)*

	1996	1997	1998	1999	2000	2001	2002est
Total revenue	755.1	1,029.8	912.1	813.6	1,207.6	1,173.6	1,088.0
Oil revenue	449.1	643.9	498.3	368.6	814.7	752.9	609.0
Profits tax	269.3	337.8	272.6	172.3	553.3	441.9	320.7
Royalties	182.7	198.6	129.5	165.8	223.3	161.3	175.6
Prod. Sharing & assets	15.5	6.0	48.8	7.6	6.5	88.9	72.7
Dividends	15.0	60.5	43.0	22.8	30.8	60.1	40.0

Source: IMF 2004 Statistical Annex, p. 36

Table 4.3 *Oil economy indicators 2003-2006*

	2003	2004 est.	2005 est.	2006 est.
Oil production (Mt)	12.3	11.8	10.3	8.8
Oil exports (per cent of GDP)	40.9	37.7	29.9	24.3
Oil revenues (per cent total rev)	51.1	45.0	40.3	32.9

Source: IMF 2004, p. 29 (IMF staff estimates and projections)

4.3.2 Transparency and accountability

The IMF notes that transparency of financial flows in Gabon is low, but that the government has promised to enact measures for ”enhancing governance and transparency at all levels of public management” (IMF 2004, p. 16). While a World Bank report from 1997 notes similar commitments – subsequently not maintained – the current desire to reach an agreement with the IMF as part of a debt restructuring deal with the Paris Club may give the government a significant incentive to improve this time around.

The government has carried out an audit of oil company payments to the government, as requested by the IMF, but reportedly has not published the results and is not even under any obligation to share them with the IMF. (Gary and Karl 2003, p. 30). Gary and Karl further comment that the government generally has been reluctant to share key data about the oil industry with the IMF.

4.3.3 Financial management of the revenue flow

Spending on health and education in absolute terms and as a per centage of GDP and the budget are relatively high for Sub-Saharan Africa, although results in terms of outputs, especially in health, are similar to those in other countries in the region. This implies either major inefficiencies in programmes or possible leakage in the budget. Detailed outside examination of public expenditures (e.g., by the World Bank) has been very limited, including tracking exercises to ensure that money actually gets to the intended recipients.

Under the influence of the IMF, the 2004 budget was prepared according to a new classification system and notably includes some previously off-budget funds, such as the road fund. Other special funds are expected to be incorporated into the main budget document in for the 2005 budget (IMF 2004, p. 21).

Preparation of the 2004 budget included an intergovernmental seminar to identify key priorities for investment, an apparent innovation in transparency in Gabon (IMF 2004, p. 21). Otherwise, "in the absence of a sectoral strategy and efficient budget procedures, budget allocations [have been] simply renewed each year without rigor and control" (Gary and Karl 2003, p. 30).

Table 4.4 Expenditure on selected items in 2000

	Per cent of GDP	Per cent of budget
Education	2.1	6.3
Health	3.9	11.7
Debt service	10.5	31.5

Source: Human Development Report 2003 and IMF 2004 Statistical Annex[6]

4.3.4 Oil Fund

Under pressure from the IMF, the government created the Fund for Future Generations (FFG) in 1998. The fund's statutes state that 10 per cent of budgeted oil revenue and half of any revenues in excess of the budgeted amount should go to the FFG. However, the government apparently did not make any payments into the fund until 2002, and then only under pressure from the IMF. According to the IMF, the government made a first-time deposit of 70 billion CFA, representing about 2 per cent of GDP that year (IMF 2004, p. 9). However, EIU reported in its January 2004 Country Profile that "there is no indication that Gabon has so far credited the [FFG] account", which is located at BEAC (EIU 1/2004).

4.4 The socio-economic impact of oil

Gabon has followed a rather classic pattern for oil-rich developing countries. The oil boom of the early 1970s led to the rapid growth of an overstaffed public sector, as well as the launch of many large infrastructure projects with little regard to long-run costs or economic rationale.[7] Easy access to loans on the back of future oil revenues led to enormous public borrowing.

Large public expenditures distorted the economy and caused high factor inputs for other sectors. Dependence on oil revenues also lulled the government into a false sense of economic security, under which it paid little attention to the development of sectors beyond oil. As a result, agriculture, the small and medium-sized business sector and other industries contracted or failed to grow.

[6] Estimates based on total 2000 budget of 1,207.6 billion CFA francs and GDP of 3,618.3 billion CFA francs.

[7] Notable examples include the TransGabonais railroad between Libreville and Franceville, which is unlikely to ever repay its investment costs, and elaborate conference facilities built for an OAU conference in 1977 that nearly bankrupted the Treasury.

The oil price crisis of 1986 led to several years of budget cuts and attempted restructuring, but also more borrowing. By 2000, over 30 per cent of government income went to debt service payments. Falling oil production since 1997 apparently has finally led the government to think more seriously about economic restructuring.

The impact of oil development on the population has been positive in terms of overall income per capita, but income is very unevenly distributed, with large portions of even the urban population living without access to improved water supplies or electricity. Moreover, distortions caused by the oil economy have made Gabon one of the most expensive countries in Africa, with Libreville rated as the fifth most expensive city in the world (EIU 1/204).

Oil is generally considered to be an enclave sector, generating few direct employment opportunities for the population in most developing countries. However, the employment impact on Gabon is probably somewhat larger than in most, due to the country's relatively small population.

The international oil companies in Gabon appear to hire a large per centage of Gabonese employees even in technical positions. For example, of 408 total employees at Elf-Gabon in 2001, 338 were Gabonese. Of the Gabonese employees, 55 were engineers (compared to 42 expatriates in this category) and 228 were skilled technicians (compared with to expatriates).[8]

4.5 Political stability and risk of conflict

Gabon generally has had a reputation as one of the most politically stable countries in Africa. However, this stability has probably been maintained at least partly with oil revenues. Lower oil output, combined with mounting debt, will soon force the government to significantly cut spending. According to Gary and Karl, "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" (Gary and Karl 2003, p. 30-31).

Public protest in Gabon typically increased after expenditure cuts in the past, e.g., after the oil price crisis of the late 1980s. However, public protests generally have not been very violent. Trade union activity, which in the past seems to have acted as a proxy for general public discontent, now appears to be "more localised, focussing on normal labour issues" (EIU 1/2004). Although strike and protest activity apparently has grown since 2002, the EIU calls it "generally peaceful and uncoordinated, posing no serious threat to stability".

A policy document issued by the Geneva-based government-in-exile comments that the country "does not anymore have need for a civil war to change. The Bongo regime is very feeble today, so that it will not take much to evict him by other means. All it requires is politically courageous leaders capable of retaking the country by various channels, without having need to fire a shot or send people

[8] Elf Gabon. 2002. *Rapport Annuel*.

into the street" (BDP-Gabon 2003, p. 16). However, it laments that a "political lethargy and an insupportable fatalism have taken over the Gabonese, who leave up to France and God the mission to change their own country." On the other hand, it cautions (perhaps self-servingly) that "There is an implicit political instability that does not reassure investors", whom it claims "fear an explosion similar to that in the Ivory Coast," another African country that until recently appeared peaceful to most outsiders. (BDP-Gabon 2003, p. 10).[9]

One particular advantage of low population density noted by some observers is that oil companies have largely been able to avoid creating the social and environmental disruptions to local populations that occurred for example in Nigeria's Niger Delta (EIU 1/2004).

Ethnic and religious rivalries appear to be rather minor by African standards. In part this may be due to the inclusive character of the ruling party, policies that probably were dictated by the fact that president Bongo comes from a minority tribe. Uncharacteristic promoting of officers from the president's own ethnic group within the military therefore has caused some speculation that Bongo may be bracing himself for increased civil unrest, under which he may wish to be more certain of the military's loyalty.

The only real cross-border dispute concerns the ownership of three small islands (Mbagne, Cocotier and Congas) on Gabon's border with Equatorial Guinea. Although dormant since the 1970s, the dispute flared up again in 2003 when Gabon occupied the islands, which may possess oil reserves. In January 2004, Gabon and Equatorial Guinea agreed to put the dispute to UN mediation (EIU 2003).

[9] Translation of quotes from French by ECON.

References

AOPIG. (2002): “African Oil: A Priority for U.S. National Security and African Development”. African Oil Policy Initiative Group. Washington D.C.

BDP-Gabon Nouveau. (2003): “Petrole et renaissance economique au Gabon: Rapport de la Commission Economique du BDP-Gabon Nouveau sur le Gabon”. Gouvernement de Salut National en Exil. Geneva.

EIU (2004): “Country Report Gabon”. Economist Intelligence Unit, April London.

EIU (2004):“Country Profile Gabon”. Economist Intelligence Unit, January, London.

EIA. (2003): Country Analysis Briefs: Gabon (October 2003). Energy Information Administration, US Department of Energy. Washington, D.C.

ESMAP. (2001): *Africa Gas Initiative: Gabon* (Report 240/01). Joint UNDP/World Bank Energy Sector Management Assistance Programme (ESMAP). Washington, D.C.

Gary, Ian and Karl, Terry Lynn. (2003): “Bottom of the Barrel – Africa’s Oil Boom and the Poor”. Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm

IMF. (2004): “Gabon: Staff Report for the 2003 Article IV Consultation and Staff-Monitored Program” (27 October 2003). International Monetary Fund. Washington, D.C.

IRINNEWS.ORG. 2004: “Gabon: oil pact with China aims to boost reserves”, UN Office of Humanitarian Affairs (26 April), New York.

Mbendi. (2000): “Gabon: Oil and Gas Industry” (web pages: http://www.mbendi.co.za/indy/oilg/af/ga/p0005.htm, current as of 28 April 2004). Mbendi Information for Africa. Cape Town.

UKTI. (2004): “Oil, Gas, Refining & Petrochemical (Plant Design & Construction) Market in Gabon” (website: http://www.tradepartners.gov.uk/oilandgas/gabon/profile/overview.shtml, current as of 28 April 2004). UK Trade and Investment. London.

World Bank. (1997): “Republic of Gabon: Poverty in a Rent-Based Economy”. World Bank Human Development Group, Africa Region. Washington, D.C.

5 Chad

Highlights

- Oil revenues started flowing into Chad at the end of 2003, and will contribute significantly to the state budget.
- The most recent estimate assumes a 48 per cent growth in Chad’s real GDP in 2004. But the country will still be one of the poorest in the world.
- Chad is the first country to implement a WB Oil Revenue Management program, intended to be a pioneer for other "new" oil countries in managing oil revenues on WB terms.
- A “two-speed” progress is more and more apparent in the development of Chad's newborn oil industry. Commercial development is ahead of schedule whereas the institutional development is experiencing serious delays. The World Bank may be experiencing a loss of leverage towards the Chadian government as oil revenues are flowing in, which may delay institutional developments even further.
- The slow progress of crucial institution building for the oil sector increases the risk of mismanagement of the oil revenues.
- Foreign companies are present through direct investment and shares in Tchad Oil Transport Company. There are no Norwegian petroleum interests in Chad.

Key facts

- **Oil and gas production:** 85.000 barrels per day (2004)
- **Oil and gas reserves:** 900 million barrels (as of 1/1/03)
- **Oil and gas dependence:** App. 3,3 per cent of GDP
- **National oil company:** No, but government has 15 per cent stake in Tchad Oil Transport Company (TOTCO)
- **Main international oil companies:** ExxonMobil, Petronas, ChevronTexaco, Shell and Total
- **President:** Idriss Deby (since 1990)
- **Population:** 9,25 million (2003)
- **GDP per capita:** 220 USD (2002)
- **Ranking in UNDP’s 2003 Human Development Index:** 166 of 174
- **Ranking in TI Corruption Perceptions Index 2003:** N/A

5.1 Political context – weak democracy

5.1.1 Turbulent history

Chad is a republic that gained independence from France August 11, 1960. Since then the political arena has been subject to a long period of conflicts, coups and a civil war. During the 90's Chad regained relative political stability. France continues to exert strong political influence over Chad. The French government has tacitly approved every change of power in Chad and has provided critical military support to several presidents.

Generally speaking, rivalry between northern Muslims and southern Christians accounts for much of the political violence that has plagued Chad. The North dominated pre-colonial Chad, whereas the South benefited from colonial administration and assumed power following independence. The North has since succeeded in reasserting its dominance over the country's political institutions. The current president originally hails from to the northern Front de liberation nationale du Chad.

In 1965, civil war commenced between northern and southern interests. The conflict was to last for several decades. The two first Presidents were victims of coups in 1975 and 1979 respectively. After the last coup, a National Union Transition Government was inaugurated with a northern President, Goukouni, supported by Libya. However, the arrangement was proven unsuccessful as conflicts continued between the President and the former southern defence minister Habre. Habre, supported by French and Zairian forces, seized the capital N'Djamena in 1982. Goukouni consequently formed a rival government in northern Chad. The situation prevailed until 1990, when the current President Idriss Deby, a former southern general, was assisted to power by Lebanese forces. Deby was inaugurated by approval of his political party Patriotic Salvation Movement (MPS).

French troops left Chad in 1984 after a mutual agreement between French and Libyan governments to leave the country, while the Lebanese troops did not withdraw until 1994 after a decision by the International Court of Justice.

5.1.2 Strong executive branch

The current political system is dominated by a strong executive branch, headed by President Idriss Deby, who won presidential elections both in 1996 and 2001. The President is limited to two five year terms in office, but has recently announced his wish to amend the constitution to allow him to run for president for a third term. Deby's continuation in office depends, as well, on his health as concerns have arisen from his hospitalisation in July 2003. Especially, a recent private journey to France, where he earlier has received medical advice has increased speculations on this matter.

A new Constitution was approved by referendum in 1996. The Constitution of 1996 gives the President the power to appoint the prime minister and the Council of State, exercise considerable influence over appointment of judges, generals, provincial officials and heads of Chad's state owned (parastatal) firms. The National Assembly deputies are elected by universal suffrage for a term of four years. Deputies elect a president of the National Assembly every two years. In practice, the president exercises significant influence over the National Assembly through the MPS party structure. Chad has around 60 political parties, of which MPS is the dominant with 110 out of 155 seats in the National Assembly.

The legal system is based on French civil law system and Chadian customary law. Parliamentary elections were last held in April 2002, in which the MPS won a large majority. The next election year is 2006, when both presidential and legislative mandates are up for renewal. Suffrage is universal over 18 years old.

5.1.3 Lack of democracy

In the first multi-party presidential election in 1996 and the first legislative elections in 1997, both won by Deby and his party (MPS), several serious irregularities were noted by international observers. Moreover, in relation to the presidential elections in May 2001, six opposition leaders were arrested, and one opposition party activist killed. Generally, there is a lack of respect for human rights and the rule of law in Chad (State Department of Human Rights Report 2002).

Despite constitutional guarantees for independence of the judiciary branch, the fact that the President names most of the key judicial officials, e.g. the chief justice of the Supreme Court, makes independence questionable. There has been examples of the government taking judicial action against independent newspapers for publishing material that it deemed prejudicial to the government.

5.1.4 Local elections in 2004

Chad has recently implemented a decentralisation process to minimise the gap between local administration and its constituents. In February 2003, 17 new governors were named in order to redefine administrative divisions. Former regional prefects retained their titles, but they now report to the new governors rather than the central government in N'Djamena.

The decentralisation process indicates that efforts are being made to enhance the influence of local governments. It should be mentioned, however, that the appointment of all regional governors is controlled by the presidency through the Ministry of Territorial Administration.

Communal (local) elections are expected to be held in 2004. However, the government is likely to use patronage and control of the electoral process to make sure that the MPS wins the election. The opposition parties have strong support in the southern regions and might attempt to compete, but lack of electoral monitoring could lead to boycott of the elections by most of the political parties.

5.1.5 Lack of human rights protection

A US State Department report of 2002 states that the Chadian government's human rights record remains poor, and that it has committed serious human right abuses. In 2002, security forces committed extrajudicial killings and use arbitrary arrest and detention. Opposition leaders have also been arrested in recent years. The World Bank's president has on occasions personally intervened to help free local opposition leaders.

5.1.6 Membership in several multilateral organisations

Chad is a member of the Central African Economic and Monetary Union (CEMAC) together with the Cameroon, Central African Republic, the Republic of Congo, Gabon and Equatorial Guinea. The union was established in 1991 with the aim of improving economic and political cooperation in the region.

The central location in West/Central Africa makes Chad a transit country important for market access for its neighbouring countries. The upcoming oil industry will further strengthen the country's importance in the region. Chad has been active in regional cooperation through organisations like the Central African Economic and Customs Union (UDECA), the Lake Chad and Niger River Basin Commissions and the Interstate Commission for the Fight Against the Drought in the Sahel.

- Chad receives economic aid from several sources, but most importantly the EU, USA and other international organisations. Also Libya supplies aid to Chad.
- In the mid-90's Chad entered into agreements with the World Bank and the International Monetary Fund (IMF) to carry out substantial economic reforms. In May 2001, the IMF qualified Chad for the Highly Indebted Poor Countries (HIPC) debt relief initiative, which released a debt reduction of 260 million USD, representing close to 30 per cent of the national debt. Further relief depends on the government's implementation of a poverty reduction strategy paper (PRSP) finalised in July 2003 that includes improved governance, promoting sustainable economic growth, developing human capital, improving living conditions for vulnerable groups and restoring and safeguarding ecosystems.
- The IMF's concerns over the 2004 budget allocations towards increased military expenditure and road-building projects prone to corruption have prevented the final disbursement of funds under a poverty reduction and growth facility (PRGF) that lapsed in January 2004. The Economist Intelligence Unit expects a new PRGF to be implemented by mid 2004.

5.2 Economic context – on the threshold

5.2.1 Poor country – strong growth

In 2003 GDP per capita in Chad was 267.6 USD, placing the country among the poorest in the world. Half of Chad's GDP has in recent years come from services and more than a third of it is from agriculture. Industry only makes up the remaining 13 per cent.

The main export industry has been cotton, which has provided the economy with some hard currency. Other important export articles are livestock, sugar and gum arabic constitute. The main export markets are Cameroon, Nigeria, France, Germany and Portugal. Import commodities are mainly machinery and transportation equipment, industrial goods, petroleum products, foodstuffs and textiles. Import partners in 2002 were France (32 per cent), US (31 per cent), Germany (6 per cent) and Nigeria (5 per cent).

The IMF has classified Chad as poor, heavily indebted and one of the least developed countries in the world. The status as one of the worlds poorest countries is about to change, due to the development of Chad's unreleased petroleum reserves in the Doba Basin oil fields, and the construction of a 1070 km pipeline from the fields in Chad to Cameroon's western coast. The first cargo of crude oil left for export markets October 3, 2003, and is expected to be the main driver of Chad's economy for many years to come. It is estimated that Chad will experience an unprecedented 48 per cent GDP growth in 2004 and 14 per cent in 2005, making Chad the fastest growing economy in the world.

Table 5.1 Size of Chad's economy in numbers

	2001	2002	2003 (est.)
GDP million USD	1.514	1.846	2.419
GDP growth rate (per cent)	8,1	10,6	9,1
GDP pr capita (USD)	216,0	237,0	267,6
Inflation (per cent)	12,4	5,2	6,0
Government spending as per cent of GDP	20,2	30,9	19,8
Unemployment	n.a.	n.a.	n.a.
Foreign Debt (million. USD)	1.086	1.061	1.400
Debt Service Ratio (ratio of principal interest payment on foreign debt to foreign income)	13,8	16,0	15,4
Total exports (fob)	254,0	197,5	257,0
Total imports (cif)	637,0	797,7	1032,8

Source: US Commercial Service 2004

5.2.2 Traditionally dependent on agricultural exports

The Chadian economy has long been handicapped by its landlocked position, high energy costs and a history of instability. Traditionally, the economy has been highly dependent on fluctuations in rainfall and in prices of its principal export products, especially cotton. Uncertainty related to the privatisation of the state cotton company CotonTchad in 2004 could limit cotton production, despite incentives for increased production due to recent improvement in cotton prices

The last three years, Chad's economy has seen a consistently high economic growth. Real GDP grew on average 0,8 per cent in 1999-2000, while mounting to 8,1 in 2001 and 10,6 in 2002. In 2003, real GDP growth was 9,1 per cent, while forecasts for 2004 range between 30 and 50 per cent. Inflation rose from 3,7 per cent in 2000 to 12,4 per cent in 2001, before it dropped to 5,2 in 2002. The fluctuations are related to variations in rainfall and the petroleum development project.

5.2.3 From long lasting current account deficit towards surplus

Chad has traditionally had a long-running trade deficit. The deficit has not implied a convertibility risk for Chad's currency (the Central African CFA franc) as Chad is a member of CEMAC. The central bank BEAC (la Banque des États d'Afrique Centrale) maintains strict control over the supply of currency.

The current account deficit (excluding grants) declined from 48,8 per cent of GDP in 2002 to 31,4 per cent of GDP in 2003. The rising oil production will cause a current-account surplus of 3,8 per cent of GDP in 2004, whilst an expected fall in oil prices will reduce the surplus to 2,9 per cent of GDP in 2005.

5.2.4 Integrity of public economic institutions dubious

The economic institutions are highly influenced by president Deby, which may have a negative effect on the institutions credibility. In April 2003, the National Director for Chad of BEAC (Bank for Central African States), which is shared with neighbouring countries, was removed from his post without explanation. President Deby's brother-in-law was appointed as the new head of the Central Bank, which also includes being the head of an Oversight Committee established to monitor the oil revenues.

Chad is the first country to accept a World Bank loan based on restriction of the oil-revenue spending. However, the Chadian government spent 4 million USD of a 25 million USD "signing fee" paid by the foreign consortium that are involved in oil exploration activities, on weapons. Despite this incident and negative feedback from an International Advisory Group, established by the WB in 2001 to monitor the oil development project including revenue spending, the WB decided in September 2002 to continue supporting the project.

5.3 Social context

Chad has 200 distinct ethnic groups, and clan or household identification overrides the national identity. The main religion is Islam (54 per cent), followed by Christianity (34 per cent), in addition to indigenous beliefs (primarily animism).

5.3.1 Difficult situation – positive historic trend

Some key social characteristics of Chad are:

- In 2001, about 80 per cent of the population lived below the poverty line.
- 80 per cent of the country's population rely on agriculture for their livelihood.
- Severe drought and political turmoil has reduced Chad's capacity for self-sufficiency in food production.
- Mass mortality levels within human and cattle populations make Chad reliant on external food sources.
- Less than 2 per cent of the population has access to electricity.

Table 4.2 presents the development in some other key social indicators in Chad from 1960 to 2000, and reveals that in spite of a unsatisfying situation, good progress has been made over the last 40 years.

Table 5.2 Development in key social indicators in Chad from 1960 to 2000

	1960	1970	1980	1990	2000
Mortality rate, infant (per 1000 live births)	193,4	171,2	123	118	101,2
Life expectancy (years)	34,9	38,2	42,2	46,2	48,5
Illiteracy rate (per cent of people aged 15 and above)	n.a.	90,7	83,3	72,3	57,4

Source: Katz, M., U. Bartsch, H. Malothra and M. Cuc (2004): *Lifting the Oil Curse: Improving Petroleum Revenue Management in Sub-Saharan Africa*. International Monetary Fund, Washington, DC

5.3.2 Corruption persists

Despite the fact that the Chadian Parliament passed an anti-corruption legislation in 1999, government corruption is a persistent and widespread problem at all levels. Low salaries of most civil servants and judicial employees, and a general tolerance for bribery, have contributed to the problem. Corruption is difficult to detect and verify. Chad is not included in the Transparency International Corruption Perceptions Index of 2003, due to lack of data, and the country is not a signatory of the OECD anti-bribery convention.

International Advisory Group has been established to monitor the spending of funds to the pipeline project and the revenues related to the petroleum activities. This has been done partly to minimise the possibility of corruption.

5.4 Energy Industry

5.4.1 Oil and gas production

Chad has significant oil reserves in the Doba basin, which is situated in the southern part of the country close to the border with the Central African Republic. The Doba basin consists of three fields; Bolobo, Kome and Miandoun. The development of these fields and the Chad-Cameroon pipeline project, which is an integral part of the development, is led by a consortium that consists of ExxonMobil (40 per cent), ChevronTexaco (25 per cent) and the Malaysian Petronas (35 per cent). Originally, Shell and Total had in total 60 per cent stake in the project, which was sold to Petronas and ChevronTexaco in 1999.

Geographically, Chad is landlocked, which necessitates a pipeline establishment over foreign land (Cameroon) to reach export markets. Two companies, Tchad Oil Transport Company (TOTCO) and the Cameroon Oil Transport Company (COTCO) owns shares in the pipeline facilities according to the number of kilometres on their land, which is respectively approximately 180 km and 890 km. Both companies are joint ventures of the foreign consortium and the governments of Chad and Cameroon. The Chadian government hold stakes of 15 and 5 per cent in the companies. In addition, Chad has proven oil reserves in the Sedigi field in Lake Chad Basin. The development of these reserves have been uncoupled from the Doba basin project, and is taken over by the Sudanese corporation, CONCORP.

The oil production only commenced in July 2003, and the production is already running at a pace of 225.000 barrels per day, which is the planned peak level. Over the subsequent six years, production is expected to decline gradually to 150.000 barrels per day and further to 100.000 barrels per day in year ten and beyond. Over the life time of the project (25-30 years) the production is expected to be in the range 900 million to 1 billion barrels of low sulphur oil. In the Sedigi field, the reserves are estimated to be 150 million barrels.

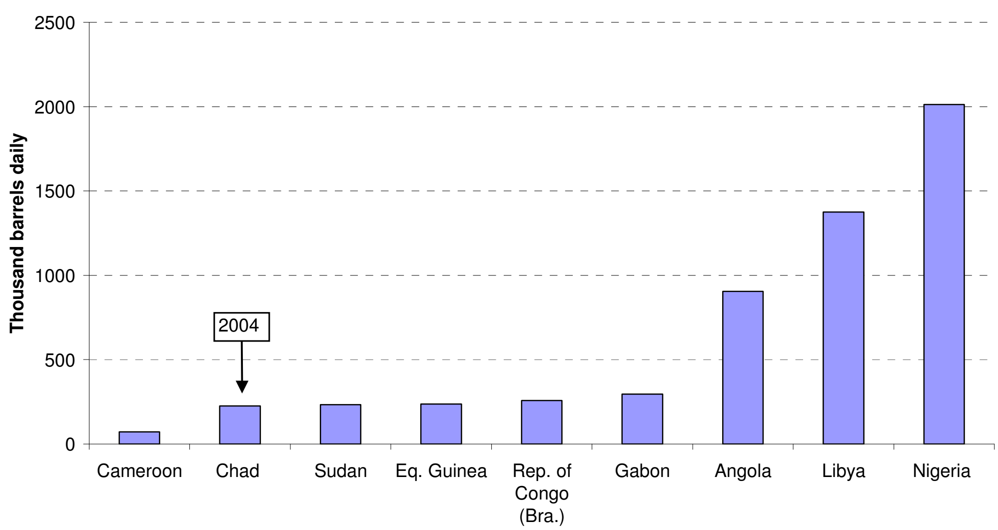
Three additional field discoveries are reported near the Doba area; Nyan, Badila, and Mandouli. Exploration is also progressing in the Basin between Doba and Sarah (June 2003). Salamat, Dosseo, and Bongor. So far there are no known gas reserves in any of Chad's fields.

At the current pace of Chad oil production, the proven reserves in the Doba and Sedigi fields would last between 12 and 13 years.

Progress in development of the Sedigui field is currently on hold. The project was separated from the Doba project in 2000 and awarded to the Sudanese CONCORP, which has difficulties procuring the refinery connected to the Sedigui field by pipeline.

The consortium between the Swiss Cliveden Petroleum and Canadian EnCana, is currently progressing in seismic exploration on a concession that covers 437.000 km^2 (app. the size of Spain). So far, petroleum discoveries have not been made. Cliveden holds an exploitation right for the area of up to 25 years.

Figure 5.1 Regional production comparison 2002



Source: BP Statistical review 2003, EIA

If Chad exports the total production of 225.000 barrels per day, this would account for 0,5 per cent of the total world oil exports in 2002, and app. 10 per cent of Nigeria’s current production level.

5.4.2 Managing oil and gas sector

The World Bank's Petroleum Sector Management Capacity Building Project is aiming to increase the Chadian governments capacity to manage the development of the petroleum sector, providing legal technical assistance, and training on the implementation of the National Environmental Framework and on data management on geological information.

The Chadian government will potentially be the head of the petroleum sector development, and the World Bank will have an advisory role. The involvement of the World Bank and the IMF has been crucial for all participants to be committed to the development of the petroleum resources. The foreign companies have some influential power through their exploration and production activities as well as through their co-ownership with the government in the Tchad Oil Transport Company (TOTCO).

Chad does not have a national oil company, but the government possesses 15 per cent stakes in TOTCO. Hence, the influence of national interest in the company are rather limited.

The interface between the international oil companies and the government of Chad is organised through the consortium established by TOTCO and the cooperation with the World Bank.

Chad has a weak institutional capacity to deal with the size of the oil development project. An agreement between the Chadian government and the World Bank launched two programs to strengthen the institutional capacity; the Management of the Petroleum Economy Project and the Petroleum Sector Management Capacity Building Project. The WB supports the projects financially. However, the International Advisory Group states that the progress of these projects are largely lagging behind the petroleum resource development. The resulting ”two-speed” progress creates problems for the management of the significant inflow of oil revenues to the country currently underway.

5.4.3 Key international oil companies

The Doba basin project in Chad will provide American supermajor ExxonMobil with additional sources for supplies to the US and other energy markets.

ExxonMobil activities in Chad:

- E&P – pipeline project 40 per cent
- Distribution and marketing 20 per cent

In addition to Chad, ChevronTexaco has E&P activities in Angola, Cameroon, Dep. Rep of Congo, Rep. of Congo, Nigeria and Equatorial Guinea. The company is also engaged in marketing activities in most African countries. The participation in the Doba basin project strengthens the company's profile in West Africa.

ChevronTexaco activities in Chad:

- E&P – pipeline project 25 per cent

The Malaysian oil company Petronas, has most of its African petroleum activities in the North of the continent. In West Africa the company has E&P activities in Gabon, Benin, Cameroon, Equatorial Guinea, and Angola. Petronas presence in the Chad project reinforces the company's position in West Africa's E&P activities, and could indicate a strategy of further involvement unreleased petroleum reserves in the area.

Petronas activities in Chad:

- E&P – pipeline project 35 per cent

Further, Total and Shell have respectively 20 and 25 per cent in distribution and marketing activities in Chad, and Taiwan's Chinese Petroleum Corporation has shown interest in constructing an oil refinery in Chad, partly to strengthen relations between the two countries.

5.4.4 International oil companies involved in CSR

The pipeline project involves Corporate Social Responsibility initiatives for the companies involved. EssoChad's involvement in CSR activities has made possible the sale of contraception in 75 villages close to the pipeline to prevent spreading of HIV. An environmental management plan is established to address environmental issues in the petroleum sector that the oil industry has committed to. The oil consortium funds the External Compliance Monitoring Group (ECMG), which is established to monitor the oil industry's compliance with the environmental management plan.

The International Advisory Group (IAG) is an independent organisation that consists of members from academia, civil society and governments in Europe, the US and Africa. The group's task is to monitor that the oil industry, the World Bank and the national government adhere to environmental and social safeguards.

A plan for individual and community compensation is elaborated to compensate those affected by the pipeline and oil field construction. The pipeline has been re-routed from its original path to avoid some of the most environmentally sensitive areas and to protect indigenous communities.

5.4.5 Investment conditions slowly progressing

The investment climate is slightly enhanced over the last few years, due to a relative improvement of political stability in Chad. In addition, Chad's petroleum resources, and the involvement of the World Bank have considerably stimulated foreign investment. The increasing petroleum activity might lead to additional trade and foreign investment in other sectors. Work is also progressing with an Investment Charter that is expected to bring Chad's Investment Code into closer compliance with regional (CEMAC) and international (WTO) standards.

However, a general lack of information about investment conditions in Chad, in addition to uncertain legal protection and lack of an independent judiciary represent significant caveats to investment. Moreover, energy costs are high and financial services are expensive and limited. Additional constraints are small market potential, limited infrastructure, chronic energy shortages, a scarcity of skilled labour, a high tax burden and corruption.

5.4.6 Risks to investment in the oil industry

The main risk to the oil production is geopolitical, due to the long term conflict between the government and the opposition, which potentially could resume. Moreover, relations to Sudan are tense due to conflicts between the rebel Sudanese Zaghawa ethnic group and government-supported Arab militas. The economic risk is minimal due to the involvement by economic solid oil companies and international financial institutions.

The World Bank preconditions to the loan and general involvement in the projects are perceived to reduce the political risk related to the project. However, continued conflicts between the government and the opposition may result in increasing political risk independent of the cooperation with the World Bank.

5.4.7 Supply industry

Chad's petroleum industry is in its infancy and a domestic supply industry has not yet been developed. The E&P activities and construction of the pipeline have been dependent on imports, mainly from the USA, Germany and France, to supply the development of its petroleum reserves.

Norwegian oil companies are not involved in petroleum activities in Chad.

5.5 Oil revenues

In 1999, Chad passed the Petroleum Revenues Management Law (PRML), which states the prerequisites for the World Banks approval of the Doba basin project. The WB provided the government with 41 million USD loan to develop a revenue management and financial control system, including financial support to key institutions. The Petroleum Revenues Management Law establishes a Petroleum Revenue Oversight and Control Committee, an independent government-civil society committee, whose task is to control the expenditure of oil revenues. The Revenue Oversight Committee consists of nine members; five from the government; 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 right groups, and religious groups (Muslim, Catholic and Protestant on a rotating basis).

Two factors explain the groundbreaking revenue management system that accompanies the Doba basin development and the Chad-Cameroon pipeline project. First, this project would not have been realised without the risk-mitigating involvement of the World Bank. Second, as one of the world’s poorest countries, Chad was in a weak bargaining position and had to accept the unprecedented conditions imposed by the World Bank with regard to transparency and responsible revenue management.

5.5.1 Oil dependence

Originally, the World Bank estimated that the total amount of export earnings related to Chad's interests in the Doba Basin oil project will be over 2,5 billion USD over the next 25 years, or app. 80 million USD annually. More recent analysis reveals that this could be grossly underestimated, as Chad may receive 3,84 billion USD in the first ten years of the project and further 5 to 6 billion USD over the span of the project. 80 per cent of estimated revenues are expected to flow in during the first 15 years of the project.

Exports of petroleum products will generate regular inflow of hard currency to Chad's economy, which clearly will enhance the economic situation, if managed in a sound economic manner. The revenue is estimated to rise from 625 million USD in 2003 to around 770 million USD in 2004, where oil revenue is expected to contribute close to 110 million USD of this increase.

Spending will rise from 729 million USD in 2003 to 865 million USD in 2004. Most of the increase reflects rising in investment spending and transfers to the fund for future generations and the stabilisation fund.

5.5.2 Transparency and accountability

The Oversight Committee has the authority through the PRML to examine and audit any or all of the determinants of the oil revenue, including prices and volumes, exchange rate, royalties and dividends, taxes and customs duties related to oil production and interest and commission rates. The Committee may at any time and at its own discretion audit the accounts of the oil companies if there is any doubt of non-payment of taxes or tax fraud, according to the law. Audits are to be conducted annually of oil revenue payments and of offshore accounts that receive oil payments. However, the Committee is in a weak financial position, which could cause difficulties for hiring of staff to adequately perform its tasks. In addition, president Deby's influence in the management, through his brother-in-law who is the head of the Committee, reduces the trustworthiness of the transparency.

The distribution of the oil revenue follows the participants respective shares in the project. The government take of 12,5 per cent in the Doba project is only a fraction of that of the oil companies that hold the main part of the shares. Moreover, through a special tax regime arranged for the TOTCO and the Doba oil project contactors and subcontractors are offered tax exemptions.

The government expenditures and revenue allocations are determined by the prerequisites to the loan from the World Bank (PRML):

- 10 per cent will be held in a trust for future generations.
- 90 per cent will pass though Treasury "Special Petroleum Revenue Accounts" and be spent according to the following division:
  - 80 per cent will be put aside for education, health and social services and rural development.
  - 5 per cent will be used for regional development of the Doba basin area.

- 15 per cent may be used to finance recurrent government expenditures until the end of 2007.

Despite these prerequisites, the 2004 budget reveals a rise in the military wage bill of 30 per cent. Moreover, a large share of the earmarked oil revenues have been allocated to road-building projects (40 per cent), which is particularly vulnerable to corruption and mismanagement. Education and health care receives respectively 5,1 and 3,3 per cent according to the budget. The WB and IMF's concerns about corruption and excessive unproductive expenditure are increasing.

The capital needed for the pipeline project, which amounts to 3,7 billion USD, was mostly provided by international companies and financial institutions:

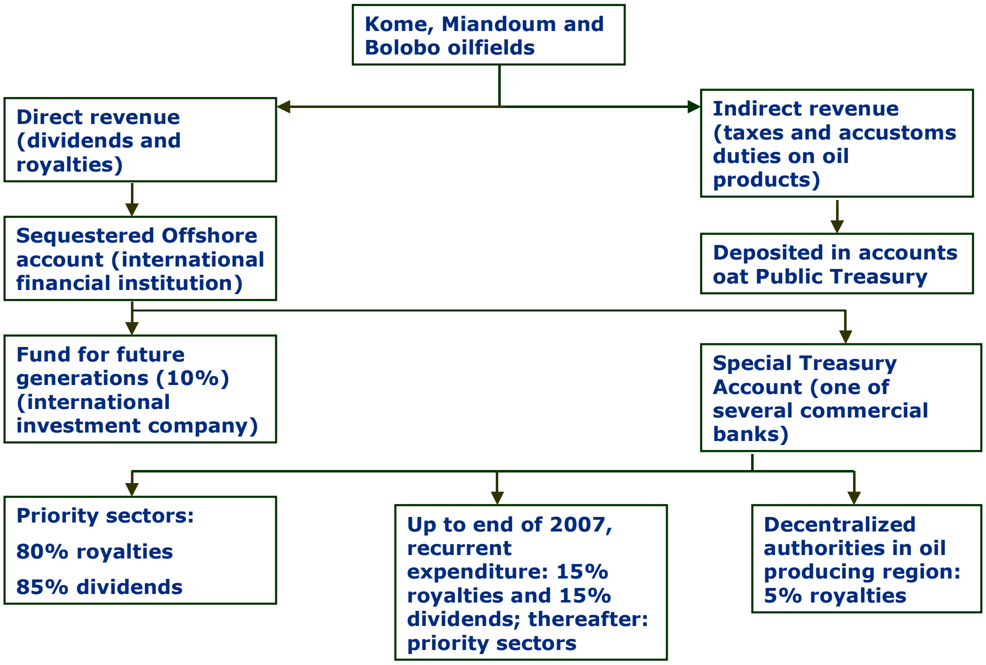
- ExxonMobil, ChevronTexaco and Petronas – 50 per cent
- Market rate loans – 37 per cent
- International Finance Corporation –200m USD
- World Bank – 39,5m USD
- European Investment Bank
- US Export Import Bank
- Coface – the French export-credit agency
- Group of private banks- led by ABN Amro and Credit Agricole Indosuez

5.5.3 Financial management of the revenue flow

Where does the money go?

The illustration below reveals in detail the allocation and utilisation of oil revenues in Chad. The indirect revenues such as taxes and custom duties generated by the oil project are not given any predetermined allocation and go into ordinary Treasury accounts.

Figure 5.1



Source: Bottom of the Barrel; Africa's Oil Boom and the Poor. Catholic Relief Services, June 2003

Lack of local and central revenue sharing

A major weakness of the PRML is that the law does not state any revenue sharing between local and central government, which entails that central authorities (i.e president Deby) are more or less free to spend the allocation to i.e. health services and education on development in central parts of the country. This could be highly detrimental to political stability and lead to lack of progress and development in the poor regions of Chad.

The PRML establishes a Fund for Future Generations and will consist of 10 per cent of the oil revenues. The PRML stipulates that the assets are held with an international financial institution and invested in long term instruments.

The PRML is an unprecedented system of tracking petroleum revenue streams and controlling expenditure, but has several weaknesses, which potentially may lead to misuse of the oil revenues, distorting the economy and failing to develop the poor country. The identified weaknesses by the Catholic Relief Services[10] are:

- oil revenues falling outside of the scope of the Revenue Oversight Committee have been estimated to be around 45 per cent over the life of the project.
- the law does not cover all of Chad's oil but only the three fields in the Doba Basin, though, there are high expectations of finding additional reserves.

[10] Catholic Relief Services was founded in 1943 by the Catholic Bishops of the United States to assist the poor and disadvantaged outside the country. The organisation is involved in several human aid activities around the world.

- the allocation of five per cent to the oil-producing communities may be inadequate in relation to the local impact of oil development.
- the law is vague regarding priority sector and regional spending i.e. there are no directions of whether revenues should fund primary health clinics in rural areas or state of the art hospitals in the capital.
- the law, while creating a fund for future generations fails to establish oil sterilisation and stabilisation funds, which may lead to macroeconomic instability and price fluctuations.
- the five per cent allocated to the Doba oil producing region can be changed by presidential decree five years after the passage of the law. There are hardly any other governmental branches that may counterweight the presidential power.

Possible negative effects on the economy

Revenues only commenced in 2003, and has not yet had great influence on the economy that it is possible to detect potential Dutch disease in Chad.

Traditionally, cotton and sugar sectors are the most valuable to Chad's economy, according to the World Bank. Farming activities in the Southern parts of the country, in vicinity to the oil fields, employ several hundred thousand of workers. There is a risk of farmers leaving the traditional activities to seek employment within the oil industry. However, the oil industry is unlikely to provide jobs for the Chadian population after the construction phase. This could potentially lead to increasing unemployment, in addition to damaging the sustainability of the agricultural sector, which is important for the long term development of the Chadian economy.

Also, high energy- and transportation costs in addition to a relatively inhospitable business climate are longstanding economic handicaps that need to be addressed to stimulate non-oil sectors. The official target of 6-7 per cent growth in non-oil sectors is not likely to be attained.

The possibility of rent seeking is evident in Chad, due to the presidents potential strong influence on the usage of the oil revenues. This could entail temptation from the governments part to benefit from the oil wealth in ways that are not productive for the economy or society as a whole.

As long as the government follows the prerequisites (PRML) to the World Bank, military expenditure is not supposed to increase. However, as already mentioned, 4 million USD of a 25 million USD "signing fee" was used for weapons, despite the WB agreement. Since an estimated 45 per cent of total government oil revenues are not regulated by law, one should not neglect the possibility of this happening again in the future.

The PRML does not state how the 80 per cent of the oil revenues should be distributed in the targeted areas (health and social services, education, rural development). Consequently, the possibility of overspending in certain areas is a reality. The example is road-building projects, as mentioned, which have been allocated large amounts in detriment to other priority sectors.

Efforts made to minimise revenue volatility

Chad's oil revenues are subject to variations in the international oil price similar to any oil exporting country. The PRML did not originally establish a stabilisation or sterilisation fund. However, in the 2004 budget the government set aside 9 million USD into a stabilisation account to be used in periods with low oil prices. This is only half the amount indicated by the WB and the IMF.

Fiscal stability with the CEMAC

As a member of the CEMAC and a signatory to OHADA (the Organisation for the Harmonisation of African Business Law) Chad is participating in regional efforts to standardise tax policies and commercial law.

5.5.4 Socio-economic development

In Chad, foreign companies are officially required to employ local workers for at least 98 per cent of their staff. In practice, the law has not been applied due to the scarcity of skilled labour.

During the peak of the pipeline construction work app. 10.000 Chadian had temporary jobs. However, the project largely employs highly skilled Americans. The expertise needed for the development of the petroleum resources in Chad is generally feeble. ExxonMobil reports that Chadian workers are being trained in the US and Canada for key positions and that in 10 years time, 90 per cent of Esso Chad will be staffed by Chadian workers.

Programs to aid local entrepreneurs to take advantage of subcontracting opportunities are established, but are now delayed.

Local companies control 35 per cent of the existing petroleum distribution and marketing in Chad.

The pipeline project has been subject to severe protests from human rights and environmental groups. In 1998, nearly 90 local, national and international NGO's submitted a petition to the World Bank to stop the pipeline project. The reason for the petition is a fear for oil revenues being spent on funding military expenditure and not on needed social programs. Also, the pipeline crosses a jungle area inhabited by ethnic groups, whose land will be taken away from them in extension of a certain financial compensation.

Important role of the World Bank

The World Bank has a major role in assisting the socioeconomic development of Chad. The prerequisites to the pipeline project loan is a prime example of this. In addition, the WB has granted loans to rehabilitate and improve the country's electricity and water structure, which was done to secure the progress in the oil revenue economic development plan. Loans from the WB has also been given to projects aiming at providing affordable and sustainable energy supplies to Chadian households.

5.6 Risk of conflict/war

Chad currently has fairly good and stable relations to its neighbour countries. There is a withering rebellion in the northern region of the country, which is not a real threat to oil and gas activities in the south. Massacres of civilians that occurred close to the Doba Basin fields in the southern part of the country in the 90's should be mentioned, however, the situation has calmed.

There are concerns that the distribution of oil revenues may give rise to new conflicts between the Northerners and the Southerners, as the PRML does not specify regional allocation of oil revenues.

Chad's post-independence history is marked by violence and conflicts stemming from traditional hostility between the negro-Christian south and the Arab-Muslim north. Currently the situation is relatively stable, but the possibility of reoccurrence of combats should not be neglected.

Over the last decade tensions between the government and opposition groups, have led to large scale killing of civilians, especially in southern Chad. The Movement for Democracy and Justice in Tchad (MDJT) has over the recent years represented the main threat to Deby's presidency. However, in January 2002 the government and the MDJT signed a formal peace accord. Additional agreements between rebellions and the government in August and September 2003, have led large groups of rebels to join the Chadian army. However, political instability remains fragile.

Recent ethnic tensions in the Darfur region east of Chad, between Sudanese Arab groups and the Zaghawa ethnic group who lead the Sudan Liberation Movement (SLM) has increased the short-term risk of armed conflict spreading to Chad. The conflict has provoked a substantial displacement of refugees within the Darfur region and an exodus of 75.000 refugees into Chad. The relations between Chad and Sudan remain strained, despite both countries authorities expressing a common interest in reducing insecurity along the border. One reason is that the governments do not directly control some of the main combatants.

References:

BBC News (2004): Country Profile Chad (February 2004)

CIA (2003): The World Fact Book Chad, (December 2003)

Country Commercial Guide FY2004: Chad, U.S. Department of Commerce

Economist Intelligence Unit (EIU). Country Profile: Chad. October 2003.

Economist Intelligence Unit (EIU). Country Report Chad. February 2003.

EIA (2003): BP Statistical review 2003.

EIA (2003): Country Analysis Briefs: Chad and Cameroon (December 2003). Energy Information Administration, US Department of Energy. Washington, D.C.

Gary, Ian and Karl, Terry Lynn. (2003): "Bottom of the Barrel – Africa's Oil Boom and the Poor". Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm).

International Advisory Group (2003): "Chad-Cameroon Petroleum Development and Pipeline Project", report of visit to Chad. (December 2003)

Katz, M., U. Bartsch, H. Malothra and M. Cuc (2004): *Lifting the Oil Curse: Improving Petroleum Revenue Management in Sub-Saharan Africa.* International Monetary Fund, Washington, DC

Mobbs, Phillip M. (2002): "The mineral industry of Cameroon and Chad". US Geological Survey Minerals Yearbook- 2002

Petroleum Economist (2004):"Against all odds" Pipelines: Chad-Cameroon, February.

PFC (2004):"Chad: World Bank's Model In Trouble Already", PFC Energy Report.

U.S. Departement of State Chad – Profile. Bureau of African Affairs (November 2003)

US State Department of Human Rights Report 2002

6 Cameroon

Highlights

- The degree of oil dependency has been fairly moderate in Cameroon compared to the majority of the other countries in this study. This has minimised the oil curse in the country.
- The oil adventure is in decline and is expected to finish by 2010 unless new reserves are discovered. This has led the government to make efforts to attract new investment through i.e. improving fiscal terms for oil companies in a new Petroleum Law of 1999.
- External debt has been a major problem for Cameroon, which has made the government adhere to an HIPC programme relieving fair amounts of debt.
- The border conflict with Nigeria, fuelled by oil reserves in the contested areas, has weakened the political stability in the country.

Key facts

- **Oil and gas production:** 72.000 barrels per day (2002)
- **Oil and gas reserves**: Crude oil 400 million barrels and natural gas 3,9 Bcf (as of 1/1/03)
- **Oil and gas dependence:** 5 per cent of GDP (2002)
- **National oil company:** National Hydrocarbons Company (SNH)
- **Main international oil companies:** Pecten, Perenco and Total
- **President:** Paul Biya (since 1982)
- **Population**: 16 millions (2003 est.)
- **GDP per capita**: 560 USD (2002)
- **Ranking in UNDP’s 2003 Human Development Index:** 135 of 174
- **Ranking in TI Corruption Perceptions Index 2003:** 124 of 133

6.1 Political context – A strong president

6.1.1 Political history in brief

The modern state of Cameroon was created in 1961 following the unification of a British and a French colony. After this, Cameroon was dominated by a repressive government led by president Ahmadou Ahidjou for 20 years. In 1982, president Ahmadou was succeeded by the former prime minister, Paul Biya. President Biya implemented multiparty presidential election in 1992, due to popular discontent. Biya won elections in both 1992 and 1997, the latter one being boycotted by three major opposition parties, due to the governments refusal of considering opposition demands for an independent election commission. In 2000, a National Election Observatory (NEO) was finally established to monitor election proceedings. NEO played an active monitoring role in the local and legislative elections of 2002. The NEO's authority is to be expanded to all phases of the electoral process in the October 2004 presidential elections. It is expected that president Baya will be re-elected in the elections of October 2004, due to weak and divided opposition. Next legislative election is to be held in 2007.

6.1.2 Current political situation

Cameroon is a republic with a strong central government dominated by the executive branch with traits towards autocracy. The Constitution of 1972 was modified in 1996, and provides the president with the power to name and dismiss most of the countries decision makers; cabinet members, judges, generals, provincial governors, prefects, sub-prefects, and heads of Cameroon's approximately 100 state-controlled firms. Further, it is in the presidents power to oblige or disburse expenditures, approve or veto regulations, declare state of emergency and appropriate and spend profits of parastatal firms. The president is not required to consult the National Assembly. The president is elected for 7 years term.

Regionally important country

Cameroon is the largest economy in Central Africa. The Capital Yaoundé hosts the regional central bank for the six central African countries that use the African Franc. The neighbouring country, Chad, is dependent on Cameroon's costal line to reach export markets for its oil products.

Feeble judiciary branch

The legal system is based on French civil law with common law influence. The judiciary is subordinate to the executive branch's Ministry of Justice. The Supreme Court may review the constitutionality of a law only at the request of the president. Tribal laws and customs are honoured in the formal court system when not in conflict with the national law.

Despite the fact that censorship was abolished in 1996, newspapers are still subject to considerable government restrictions. Arbitrarily jailing of journalists have occurred over the last years without any judicial proceedings.

Weak local governance

The 10 provinces in Cameroon each have a governor and an administrative staff. Each province's division and subdivision have chief officers. All of the mentioned are appointed by the president. All local government officials are employees of the central government's Ministry of Territorial Administration. Despite an amendment added to the Constitution of 1996, which calls for creation of regional councils, these have yet to be established. Regional politics are substantially influenced by the central government.

Poor record of human rights protection

The government's human right record remains poor, even though slight improvements have been registered over the last years. According to the US state department Human Right report for 2002 the judiciary was subject to political influence and suffered from corruption and inefficiency. Moreover, security forces arrest and detain arbitrarily opposition politicians, local human right monitors and others.

Membership in international organisations

Cameroon is a member of the most important international organisations; IMF, WTO, World Intellectual Property Organisation (WIPO). The country is also a member of regional organisations, such as Economic and Monetary Community of Central Africa (CEMAC), African Development Bank (AfDB), African, Caribbean and Pacific Group of States (ACP), Agency for the French-Speaking Community (ACCT), Central African States Development Bank (BDEAC), Economic Commission for Africa (ECA), Organisation of African Unity.

Through the IMF, Cameroon has implemented an HIPC debt relief programme expected to be completed during 2004, a poverty reduction and growth facility (PRGF), and Enhanced Structural Adjustment Facility implemented in 2000. The IMF granted Cameroon an extension of the PRGF programme until December 2004. The programme is aiming at strengthening fiscal management, expand the non-oil revenue base and implement structural reform to encourage private investment. A Poverty Reduction Strategy Paper (PRSP) was approved by the IMF in August 2003 and has subsequently been included in the new state budget for 2004. The government has also renewed its commitment to accelerating a privatisation programme. Generally, Cameroon is more advanced with its reforms than any other country in the CEMAC. (EIU 2004).

6.2 Economic context

Cameroon has a relatively well performing economy in a regional context, with a GDP pr capita of 1.700 USD. Real GDP growth averaged 4,5 per cent annually over the past 10 years and is projected at 3,7 per cent in 2004. Inflation is low, below 2 per cent (June 2003). The recent improvements of economic conditions are in parts due to several programs and agreements with the IMF. In addition to the PRGF, the program Enhanced Structural Adjustment Facility entailed market oriented reforms and have led to strong growth, low inflation and contained deficits. Cameroon has obtained HIPC relief of 2 bill. USD due to significantly enhanced economic management in October 2002. Overall, these programs have led to a significant improvement of the macroeconomic performance and enhanced transparency and accountability in both public expenditure management and tax administration. In addition to sound economic management, the growth in GDP is partly due to the diversification of the country's economy away from agriculture and spill over effects from the Chad-Cameroon pipeline project.

In 2002, agriculture accounted for 27 per cent of GDP but employed as much as 49 per cent of the economically active population. Manufacturing on the other hand only employ 15 per cent of the working population, but produces 30 per cent of GDP. Lastly, services make up 36 per cent of employment and 43 per cent of GDP. Unemployment is very high in Cameroon, reaching 30 per cent in 2001. Apart from petroleum products that make over half of all exports, Cameroon's main export products are timber, cocoa, aluminium, coffee and cotton.

Debt-service payments are expected to fall by 14 per cent between 2003-2004 due to higher wages and increased spending for the 2004 presidential election.

6.2.1 Declining GDP growth

GDP growth might decline over the coming years, due to lower activity in the service and industrial sector caused by the completion of the Chad-Cameroon pipeline project and a reduction in oil production. This could entail funds to be steered away from health, education and basic infrastructure to maintain a sustainable fiscal position.

The real GDP growth is estimated to slow to 3,7 per cent in 2004, due to the finalisation of the construction of the Chad-Cameroon oil pipeline (EIA 2004). In 2005 the growth is however expected to accelerate to 4,3 per cent after the completions of the HIPC efforts due in 2004. Table 6.1 gives a picture of the Cameroonian economy by revealing annual per centage change in key indicators.

Table 6.1 Size of Cameroon's economy in numbers

	2000/01	2001/02	2002[11]	2003 (est)	2004 (est)
Nominal GDP (bill. CFA franc)	6.320	6.612	6.869	7.235	7.750
Export volume (an per centage chg.)	2,5	-1,6	-7,0	3,9	-0,4
Imports (an per centage chg.)	12,5	19,4	1,9	-2,1	4,4
Gov. revenue (per cent of GDP)	20,6	19,6	19,2	18,8	18,7
Gov. expenditure (per cent of GDP)	18,6	18,1	17,8	17,2	17,1
Current account balance (incl. grants) (per cent of GDP)	-4,1	-6,4	-7,0	-3,1	-2,7
External public debt (per cent of GDP)	77,3	58,5	55,1	49,1	41,4

Source: IMF, December 2003

[11] Fiscal year from June to July until 2001/2002. After this calendar year.

Following the independence in 1960, Cameroon was one of the most prosperous countries in Africa for around 25 years. Due to a drop in the commodity prices of the country's main export products (oil, cocoa, coffee and cotton), combined with an overvalued currency and general mismanaged economy, Cameroon experienced a real per capita GDP fall of 60 per cent from 1986 to 1994. The current account and fiscal deficits widened, and foreign debt grew. The main reason for the drop in GDP is the declining activity in the oil industry that saw a fall in output of 50 per cent from 1985 to 2000. Main reasons were unfavourable investment conditions during the 1980's and early 1990's. During the 1990's the economy has benefited from improved macroeconomic performance and progress in implementing structural reforms.

HIPC debt relief improves current account balance

Cameroon's foreign debt has traditionally been very high. In 2001, the external debt of 9,5 billion USD was almost equal to GDP (96,1 per cent). In 2002 the burden was reduced to 8,6 billion USD due to debt release under the HIPC-programme.

Table 6.2 Development in budgetary position

	1982	1992	2001	2002
Current budget balance (per cent of GDP) incl. current grants	11,6	-2,9	5,0	5,5
Current account balance (million USD)	144	-216	-147	-650
Current account balance/GDP	2,0	-1,9	-1,7	-6,9
Interest payments /GDP	2,1	1,3	2,9	2,4
Total debt /GDP	37,1	74,9	96,1	90,6

Source The World Bank 2003

Current account deficit is expected to fall to 2,2 per cent of GDP in 2004, due to declining imports of goods and services following the completion of the Chad-Cameroon pipeline project, in addition to fall in income debits owing to lower repartition of profits by oil companies and HIPC debt relief. Lower oil exports and rising imports for HIPC-related infrastructure, which will increase trade deficit, leads to expectations of an increasing current-account deficit to 2,6 per cent in 2005.

Public economic institutions have improved performance due to commitments to the IMF and the World Bank. Under the programs the banking system has been rehabilitated and improved. However, further internal controls are needed and there are growing concern for the increasing size of the stock of nonperforming loans at the government owned housing bank.

6.3 Social context

The 250 ethnic groups in Cameroon form five large regional-cultural groups; western highlanders (38 per cent), coastal tropical forest peoples (12 per cent), southern tropical forest peoples (18 per cent), predominantly Islamic peoples of the northern semi-arid regions (the Sahel) and central highlands (14 per cent), and the "Kirdi" – non-Islamic or recently Islamic peoples of the northern desert and central highlands (18 per cent). Generally, the Cameroonian people primarily identify themselves with a clan or household, secondly, group identification supersede national identity. The main religion is Christian of 53 per cent, followed by Muslim of 22 per cent, other indigenous African religions count for 25 per cent. In 2003, 52 per cent of the population lived in rural areas.

Cameroon has the highest literacy rate in Africa (79 per cent overall, 85 per cent male and 73 per cent female), and is know for entrepreneur minded and hard working people. The average Cameroonian man may expect to live to 45 years whereas women on average live to 47 years (2003), which is somewhat below their neighbours Chad and Nigeria, where life expectancy is 51 and 52 years respectively.

6.3.1 Decline in poverty level

Two household surveys (ECAM I and II) have been conducted in Cameroon in 1996 and 2001 respectively. The surveys reveal that 6,2 million Cameroonian (40,2 per cent of the population) lived below the poverty line in 2001, which is a decline of 13,1 per centage points from 1996. Though, there is a significant difference between rural and urban households, which respectively saw a decline of 9,7 per centage points and 19,3 per centage points in poverty level from 1996 to 2001. Table 6.3 shows development in key social indicators from 1960 until more recent years.

Table 6.3 Development in key social indicators in Cameroon from 1960 to 2000

	1960	1970	1980	1990	2000
Mortality rate, infant (per 1000 live births)	161,2	125,8	102,6	81,0	75,8
Life expectancy (years)	39,5	44,6	50	54,2	50
Illiteracy rate (per cent of people aged 15 and above)	n.a.	68,7	53,2	37,5	24,2

Source: Katz, M., U. Bartsch, H. Malothra and M. Cuc (2004): *Lifting the Oil Curse: Improving Petroleum Revenue Management in Sub-Saharan Africa*. International Monetary Fund, Washington, DC

6.3.2 Widespread corruption

Corruption is a widespread problem in Cameroon. In 1998 and 1999 Cameroon topped the list for most perceived corruption in Transparency International's annual rankings. In 2002, the profile is somewhat improved, leaving the country number 124 of 133. Cameroon is a signatory of the Organisation for the Harmonisation of African Business Law (OHADA). However, this has not had any significant reducing effect on corruption.

6.4 Energy Industry

Exploration concession and licences to the Cameroonian oil fields are allocated by the national oil company SNH. In 1990, the SNH launched a campaign for exploration on marginal fields to increase activity. Due to a lack of interest in the third licensing round in Cameroon that was held in 2000, the government has made efforts to attract new exploration and implemented a permanent open-door policy for any company that is interested in developing oil in Cameroon. However, many of the fields offered in 1990 have still not been taken.

The exploration activities, onshore and offshore, are mainly carried out in four parts of the country; costal area, south, south-west and extreme north. The three main operators in Cameroon are the following:

- *Total* (French) is the operator of the two following fields Ekoundou (15,3 per cent), Kombo (75 per cent) and has 7 per cent interest in Mokoko[12]
- *Pecten* (USA) operates the Mokoko-Abana and Lipenja field.
- *Perenco* (UK) has operated in Cameroon since 1993 with its partners ExxonMobil and SNH. The company has interests in the Moudi field, Embodje and Nsepe.

6.4.1 Decline in oil production

Table 6.4 reveals the development in the Cameroonian oil production from 2000 to 2006. The projections result in an average annual decline of 5,5 per cent during the period. Cameroon's oil refinery (Société Nationale de Raffinage - SONARA) located in the port city of Limbe, produces 42.000 barrels per day for exports and domestic consumption.

Table 6.4 Oil production development in Cameroon from 2000 to 2006.

	2000 /01	2001 /02	2002[13]	2003 (est)	2004 (est)	2005 (est)	2006 (est)
Oil production (thousand of barrels daily)	114	103	102	97	90	86	81

Source: IMF December 2003

In 2002, proven oil reserves were estimated to 400 million barrels, which is less than half of the reserves of the neighbouring newcomer, Chad (900 million barrels). The Cameroon reserves are located offshore in the Rio del Rey Basin of the Niger Delta, offshore and onshore in the Douala/Kribi-Camp basin in Western Cameroon, and onshore in the Logone-Birni basin in the northern parts of the country.

Natural gas reserves are very low. A 2002 estimate places them at 3,9 trillion cubic feet, or the equvalent of 3 per cent of Nigeria's natural gas reserves. The development and production of 600 Bcf natural gas in the Sanaga Sud field are subjects for a production-sharing contract between Syntroleum Corporation and Euroil Ltd. and the Cameroonian government signed in January 2003.

The R/P ratio in Cameroon was 15,2 in 2002.

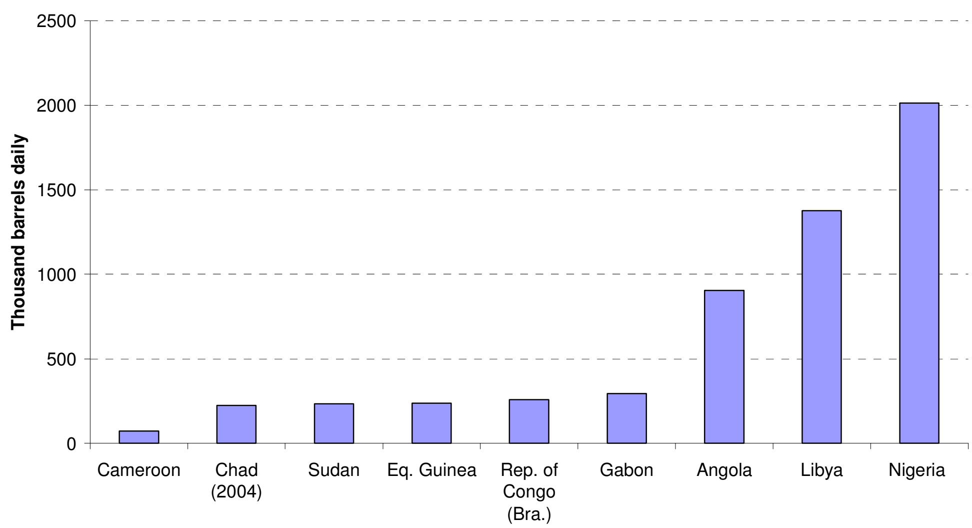
[12] http://www.total.com/ho/fr/library/finance/pdf/da/2002/fact_book/0factbook.pdf

[13] Fiscal year from June to July until 2001/2002. After this calendar year.

Since the peak production year 1985, output in petroleum activities has fallen by more than 50 per cent. No new fields were brought into production in the same period, which means that the current producing fields are aging fast. Unfavourable investment conditions for petroleum activities in Cameroon discouraged exploration activities in the 1980's and the beginning of the 1990's. Since 1995 however, the government has passed several laws that seem to be giving some positive results for the sector. The laws are: the Law on Marginal fields (1995), the Petroleum Code (1999) and the Gas Code (2002).

The improved legal framework, recent discoveries of petroleum resources in Equatorial Guinea in addition to the completion of the Chad-Cameroon pipeline project increases the governments confidence in potential exploration in the largely unexplored Logone Birni and Doala basins. In addition, the government targets the gas fields Isongo, Kita, Logbada, Matanda and Sanaga for development.

Figure 6.1 Regional production comparison 2002



Source: BP Statistics 2003

Figure 6.1 illustrates that in a regional context Cameroon is the smallest oil producer. In 2002, the Cameroonian oil export (50.167 barrels per day) accounted for 0,11 per cent of total world oil exports, which reveals that Cameroonian share of the global oil market is minor.

6.4.2 Managing oil and gas sector

The petroleum sector management in Cameroon is peculiar. It is a system of "management in association", where the National Hydrocarbons Company (SNH) acts out the role as the government's representative and thus regulator of the sector, but is also undertaking industrial ventures in association with the private companies in the sector. This system is set up because of the very specific nature of the sector, to provide high speed and qualified decision making, which a state bureaucracy cannot offer.

The ministry for Mines, Water and Energy has, for its part, a purely institutional role in the sector. It issues and manages all the concessions and exploration and development rights of the sector. There have been and there still are today some controversies between the Ministry and the SNH because of disagreement on the competences pertaining to each entity.

The decline in oil production has led the government to implement the reform plan for the petroleum sector which was adopted already in March 2001. In particular, the plan includes the formulation and the execution of an action plan that is to specify the roles of operators in the petroleum sector. The government has committed itself to redefine the roles and the responsibilities of the private sector, the national oil company SNH and the ministry responsible for hydrocarbons. The timetable for implementation of the needed reforms are expected by mid-2004. A strategy and action plan for the sale of government shares in the petroleum storage company (SCDP) to the private sector, is also progressing. Ultimately, the private sector is to take over the management of the SCDP.

Role of the state oil company

SNH’s roles

- Technical advisor to the government on petroleum issues.
- Regulator of the petroleum sector.
- Oil producer (part taker in joint ventures, mostly small fields).
- Petroleum seller for government’s shares of oil produce. Government claims 60 per cent of all oil produced in a “normal field”, climbing to 70 per cent when cumulated production reaches a certain level. For marginal fields, they only take 50 per cent. The state is thus carried through the exploration and development phases of a field. All exploration and development expenses are, however, recoverable over a series of years after production start.

SNH’s revenues:

- Dividend from all oil producing companies in Cameroon. To be allowed to produce in Cameroon, any company must set up a subsidiary in the country, and give 20 per cent of the shares to SNH.
- Oil producer: Share of joint ventures in some marginal fields
- Investor: SNH has invested in just about all companies in the national petroleum cluster. They have even invested in other companies, such as Hotel Hilton in Yaoundé.
- Petroleum seller: The states does not compensate SNH for its oil and gas selling services (ongoing quarrel).

Efforts to attract new investment

The Cameroonian government has revised fiscal terms for international oil companies to attract new activity in the petroleum sector in the new petroleum law of 1999 that amongst other things opened for foreign companies to sell their entire oil entitlement abroad as well as retain the proceeds outside the country.

Weak oil institutions

The oil industry is also a subject to the general weakness of institutions due to the overriding powers of the president, which renders public institutions such as the legislative, the judiciary, the press media and the administration dependent tools of the head of state's powers.

6.4.3 Key international oil companies

There are currently three producing oil companies in Cameroon (except SNH):

- Total
- Pecten
- Perenco (association with Exxon)

The production companies also have exploration activities. Other companies active in exploration are:

- Fusion Oil (with Sterling)
- Addax
- Tullow Cameroon Limited
- Philips

Enhanced involvement in CSR

The government found it very hard for a long time to get the oil production companies to commit to anything that was not stated in the concession contracts. Since the concession contracts were all very old, and new concession non-existent for a long time, nothing much happened. But little by little, the companies agreed to take on additional commitments. First they accepted environmental standards in line with international industry standards. In the late 1990's they also started engaging in local social development programmes in the areas around their production facilities.

The building of the Chad-Cameroon pipeline has been subject to several discussions concerning the protection of local society between the domestic players and oil companies. The oil consortium committed itself to minimising its impact on local communities by creating a sealed compound and building an underground pipeline with an offshore loading facility.

For a little more than five years, the three major producing oil companies have engaged in local social development programmes:

- **Perenco:** In the region of Kribi, they have for example:
  - Programme for renovating schools
  - Programme for upgrading the fishermen's equipment
- **Pecten:**
  - Scholarship programme
  - Health centre
- **Total:**

- Different local social development programmes
- Total also cooperates with Pecten on some programmes.

It was recognised that these individual local programmes were not optimised because of a lack of coordination with state activities. For this reason, a cooperation project was launched in the beginning of 2003 (first meeting 28/3-2003). The name of the project was "DEVELOPPEMENT DURABLE des zones riveraines des sites d'exploitation petrolieres" ("SUSTAINABLE DEVELOPMENT in zones neighbouring to petroleum extraction activities"). Project members are:

- The three producing oil companies
- SNH
- Ministry for Mines, Water and Energy
- Ministry for Finance
- Ministry for Municipalities

Investment conditions improving

A new law (Investment Charter), which will improve investment conditions significantly, is expected to be implemented in June 2004. It sets out to guarantee the freedom to undertake any production, service provision or commercial activity, irrespective of nationality, provide for equal treatment in the conduct of any activity in conformity with the law on competition, strengthen property rights, and assure dispatch in concession and land acquisition procedures. Cameroon is also strategically placed for entry into the Central African market. However, the corruption problem likely to remain a real caveat to investment.

The long-lasting conflict between the Cameroon and Nigeria could also cause risk to production in case it resumes, which could happen despite the current settlement between the two countries.

6.4.4 Supply industry

One of the main players in the Cameroonian supply industry is UIC (l'Union Industrielle pour le Cameroun), a subsidiary of the French company Bouygues Offshore. The company was founded in 1964 and is based in Douala. The main activities are construction of steel structure, harbour and maritime works and modification of industrial plants, process facilities and offshore platforms. UIC has for example been involved in the engineering and construction of the Limbé oil terminal (1995), debottlenecking of a platform for Pecten/Shell (1996/1997) and construction, revamping, procurement and hook-up of the BOA Sud and Akano platforms for Elf Serepca Cameroon (1999-2000).

6.5 Oil revenues

Table 6.5 reveals that the oil revenues in Cameroon are in decline in line with production. Government efforts to attract new interest to the industry may potentially lead to increases in the revenues, though confirmed signs this has yet to come. The government has estimated that unless new reserves are discovered, the country's oil reserves will run out in 2010.

In 2001 oil exports contributed to 49 per cent of total export earnings (fob). In 2003, oil accounted for 33 per cent of governments revenue.

Table 6.5 Petroleum activities contribution to the Cameroonian government budget from 2000 to 2006

Contribution to government budget:	2000/ 2001	2001/ 2002	2002[14]	2003 (est)	2004 (est)	2005 (est)	2006 (est)
SNH (bill. CFA franc)	394,5	267,5	296,8	260,0	204,3	174,6	145,7
Oil companies profit tax (bill. CFA franc)	73,6	59,8	56,0	60,8	36,3	22,9	20,3
COTCO (transit fee) (bill. CFA franc)	0	0	0	1,1	15,5	16,0	16,1
Oil revenue (per cent of GDP)	6,9	5,2	5,4	4,3	3,3	2,6	2,1

Source: IMF

6.5.1 Transparency and accountability

There have been adjustment programs going on between WB, IMF and the Cameroonian government since 1987. However, they largely failed until a new program was initiated around 1996-97. The new program entailed that a system be put in place to calculate SNH's gross incomes and their "allowable costs" at the end of each fiscal year. The difference was expected to be transferred directly to the treasury.

The system worked well for some years, but then it was discovered that the calculations might have been somewhat erroneous. An annual audit of the SNH accounts by an independent auditor was therefore introduced. During the first audit, it was discovered that SNH was not using standard international accounting methods. A project was therefore put in place in 2002 to upgrade SNH's accounting system.

Since then, transparency around the oil revenues in Cameroon must be considered more or less satisfactory, and a big improvement from 10 years ago. However, the IMF representative in Cameroon states that the SNH needs to be monitored permanently to secure a degree of transparency.

The reform processes under the IMF programs have improved revenue mobilisation and conducted prudent expenditure policies. However, the process of transferring oil revenues to the budget is not completed, and the IMF is concerned about the slow pace in improving public expenditure management.

There are no programs for increasing transparency specifically around other petroleum revenues such as the tax payments, royalties, signing fees from

[14] Fiscal year from June to July until 2001/2002. After this calendar year.

international oil companies. This has not been a problem in Cameroon, since it is a petro-state in decline with very few or no new concessions over the last 20 years. It could become relevant if the country becomes attractive to petroleum investments again.

6.5.2 Financial management of the revenue flow

Where does the money go?

From interview with the WB:

"It is true that transparency around public budgets, revenues and expenses is poor in general in Cameroon. But this is a priority of the international community in Cameroon to do something about. IMF, WB, EU, and others are working under a large program for improved fiscal governance ("Programme de la Reforme pour l'amelioration de la gestion des finances public"). It is, however, a daunting task, and involves much more than just a publication in the newspaper every year. They are making progress, but it is slow, especially because of low know-how in the relevant bodies of public administration. WB does not prioritise tracking revenues from source (oil) to specific expenses. Once the money is in the treasury, it has no colour."[15]

There is an ongoing discussion in Cameroon for a Fund for future generations. In the current system, oil revenues in excess of programmed level is deposited in CNF franc in a treasury account at the BEAC to be used for priority infrastructure and social expenditure and to reduce arrears.

Possible negative effects on the economy

Cameroon is often mentioned as the African oil producing country that has avoided the Dutch Disease, and could perhaps be referred to as a model of Dutch disease avoidance. The country has a diversified base of export products that authorities have focused on maintaining competitive in addition to oil exports. This has been done by establishing sterilisation funds for oil revenues in foreign financial markets and by efforts to keep up peasants purchasing power.

Until 1978 agricultural products constituted the main part of exports in Cameroon. After the first oil shock the petroleum share overtook other sectors. However, the relative decline in exports of non oil sectors over the period, are rather caused by other factors (i.e. climate conditions and fall in prices of primary goods) than neglecting the sectors.

The Cameroonian government has been willing to make efforts to maintain a healthy economy since the commencement of the oil richness. However, after president Biya came to power in 1982 fiscal prudence weakened. Public expenditure rose significantly and subsidies to loss-making state owned companies increased sharply. Export revenues collapsed in 1986 when oil prices feel steeply. The government started to spent the savings in the sterilisation fund, which was emptied by the end of the 1980's. The external debt started to grow and reached 75 per cent of GDP in 1992/1993.

---

[15] Interview with David Tchinou, Country Economist, WB Cameroon March 19, 2004

The government has again started to focus on fiscal stability over the last years as part of the IMF and World Bank structural programs.

6.6 Risk of conflict/war

Political tension may arise from two sources in Cameroon. One is that two groups have appealed for the restoration of the federal state. The first group is in favour of the federal state in its original form before creation of the current structure of state established in 1972, and the other group has asked for the secession of two English speaking provinces. The government will accept neither of these solutions.

The other potential source for political tension is the fact that the legalisation of formation of political parties in 1991, resulted in the establishment of approximately 150 political parties, of which several are dissatisfied with the government's policies, especially the slow rate at which democracy is progressing in the country.

6.6.1 Oil and gas developments fuelling conflicts?

The dispute between the Nigerian and the Cameroonian government is heavily influenced by the oil reserves in the Bakassi oil field in Rio del Rey, situated on the border between the two countries.

Cameroon fought a border war with Nigeria over the oil-rich Bakassi Peninsula in 1994 and briefly in 1996. The conflict was settled by an International Court of Justice, which ruled in favour of Cameroon in 2002. Nigeria relinquished sovereignty over disputed lands to Cameroon by December 2003. However, tradition states that there are still possibilities for the conflict to resume in the future. In case the conflict resumes the affected companies would include Total, ExxonMobil and Addax.

References

BBC News (2004): Country Profile Cameroon (February 2004).

BP Statistics 2003

CIA (2003): The World Fact Book Cameroon, October 2003

Economist Intelligence Unit (EIU). Country Profile: Cameroon. September 2003.

Economist Intelligence Unit (EIU). Country Report Cameroon. April 2004

EIA (2002): Country Analysis Briefs: Cameroon (October 2002). Energy Information Administration, US Department of Energy. Washington, D.C.

EIA (2003): Country Analysis Briefs: Chad and Cameroon (December 2003). Energy Information Administration, US Department of Energy. Washington, D.C.

Gary, Ian and Karl, Terry Lynn. (2003): "Bottom of the Barrel – Africa's Oil Boom and the Poor". Catholic Relief Services. (http://www.catholicrelief.org/get_involved/advocacy/policy_and_strategic_issues/oil_report.cfm).

IMF (2003): "Cameroon" Country Report No. 03/401 (December 2003)

International Advisory Group (2003): "Chad-Cameroon Petroleum Development and Pipeline Project", report of visit to Chad. (December 2003)

Katz, M., U. Bartsch, H. Malothra and M. Cuc (2004): *Lifting the Oil Curse: Improving Petroleum Revenue Management in Sub-Saharan Africa*. International Monetary Fund, Washington, DC ECAM I and II

Koutassila. J. P :"Le syndrome Hollandais: theorie et verification empirique au Congo et au Cameroun", Centre d'economie du developpement. Universite Montesquieu-Bordeaux IV –France

Mbendi (2000): Cameroon Overview. (13. November 2003). Mbendi, Information for Africa. Cape Town.

Mobbs, Phillip M. (2002): "The mineral industry of Cameroon and Chad". US Geological Survey Minerals Yearbook- 2002

Petroleum Economist (2004):"Against all odds" Pipelines: Chad-Cameroon. (February 2004).

TOTAL (http://www.total.com/ho/fr/library/finance/pdf/da/2002/fact_book/0factbook.pdf)

US Department of State, Cameroon Profile. Bureau of African Affairs (November 2003)

World Bank and others (2003):"Rapport d'Etat du Systeme Educatif National Camerounais", (December 2003)

World Bank Group (2003):"Cameroon at a glance". (March 2003)

World Oil (2003): Online Article: Special Focus

7 São Tomé e Príncipe

Highlights

- São Tomé e Príncipe is a tiny "new-rich" island state that faces tough challenges in handling emerging inflows of oil revenues, with very narrow and shallow competence for handling exploration, extraction and revenue management;
- The prospects of future oil riches have fuelled an already unstable political climate in São Tomé, while democracy seems to survive and new military coups are not deemed likely;
- The country is extremely dependent on Nigeria, including through the Joint Development Zone (JDZ), but aims to balance Nigerian influence by courting Angola and non-regionals such as the US, Europe and Taiwan.
- The political elite seems seriously committed to responsible management of oil revenues, and draws heavily on international expertise and advice, including in formulating a petroleum law for the country;
- Both economic fundamentals and the record of economic management are precarious, with its IMF programme currently suspended;
- No official Norwegian presence (embassy in Luanda side-accredited), but one small Norwegian company in joint venture with a Nigerian company has been awarded a 9 per cent share in the most promising block;

Key Facts

- **Oil production and gas production:** Not yet, signature bonuses fothcomming
- **Oil and gas reserves:** No drilling undertaken.
- **Oil and gas dependence:** Not applicable
- **Main international oil companies:**
  - ExxonMobil
  - ChevronTexaco
  - Chrome Energy (Nigeria)
  - EER (Nigeria/Norway)
- **President:** Fradique d Menezes, (since 2001)
- **Population:** 140,000
- **GDP per capita:** 397 USD (2002)
- **Ranking in UNDP's 2003 Human Development Index:** 122 of 175
- **Ranking in TI Corruption Perceptions Index 2003:** Not Applicable.

Source: EIU (2004 a & b)

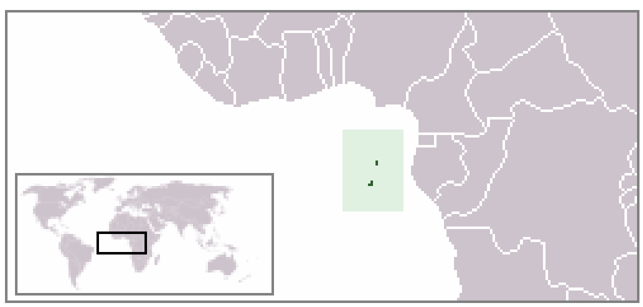
7.1 A poor country, waiting for oil

São Tomé e Príncipe, a small archipelago of two islands in the middle of the Gulf of Guinea has all the handicaps of a small island economy, and it has not begun to turn its few comparative advantages into a source of progress for its people. This tiny nation of about 140,000 people (EIU, 2004a, a recent IMF (2004b) estimate is 176,000) now stands at the threshold of an oil era. Its territorial waters constitute an important new oil frontier, and have attracted the interest of a wide range of foreign oil companies. The inflow of enormous oil funds into such a small country will transform social and economic life. The government faces the challenge of managing an enormous, but exhaustible, wealth against a background of weak institutional and absorbative capacities. Considering the negative patterns of political and economic governance linked to resource incomes elsewhere, this perspective is viewed with anxiety.

7.1.1 Politics in peril

A nation in the middle

Figure 7.1 Map of São Tomé e Príncipe



The island of São Tomé e Príncipe is located off the coast of Gulf of Guinea, not far from the two major regional players, Angola, and Nigeria. Both countries seek to influence São Tomé e Príncipe, with Nigeria having the most success so far. Sharing the same colonial heritage and language, Angola has traditionally been the closest partner. However, Nigeria's interest in São Tomé e Príncipe – not to mention its influence – has increased with the discovery of oil. Nigeria actively interferes in Sãotoméan politics, and Nigerian business is heavily involved in the oil sector.

A dispute over the maritime boarder is one example of how oil has changed the relationship between São Tomé e Príncipe and Nigeria. In 2000, the two countries reached an agreement to jointly develop the petroleum resources in the zone, named the *Joint Development Zone* (JDZ).

São Tomé and Príncipe joined the *Organisation of African Unity* (OAU) after independence, signed the *Lomé Convention* in 1977 and was a founding member of the *Communauté économique des États de l'Afrique centrale* (CEEAC) in 1983. In 1996 the country participated in the foundation of the seven-member *Lusophone Community*, the *Comunidade dos Países de Língua Portuguesa*

(CPLP). In 1997 it joined the 52-member community of Francophone countries, *Organisation de la Francophonie* (EIU 2004a).

International representation on the islands is limited, which is natural given the small size of the country. Only Portugal, France, Nigeria, Angola, Cape Verde and Gabon maintain diplomatic representations. Of the UN agencies, only the *UN Development Programme* (UNDP) and *World Health Organisation* (WHO) have full representation. The main offices for other UN agencies, the IMF and the World Bank responsible for São Tomé are located in Gabon or Angola.

Brief history

There was no indigenous population when the first Portuguese colonists settled in São Tomé and Príncipe in 1493. By the mid 16th century, they had turned the islands into the world's largest producer of sugar, using African slaves. In the 19th century, there was a boom in coffee and cocoa production, and indentured labour from Angola and Cape Verde replaced slaves.

The majority of Sãotoméans are Roman Catholic, mixed descendants of European colonists and African labourers. The population can be divided into forros (local Creoles), angolares (former indentured workers from Angola) and Cape Verdean settlers. After independence from Portugal most Europeans left the country, and many contract workers returned to Angola. There are important Sãotoméan emigrant communities in Lisbon, Luanda and Libreville.

After the Second World War nationalism developed among the local Creole population, the forros, and in 1972 the *Movimento de Libertação de São Tomé e Príncipe* (MLSTP) was formed. Following the military coup in Portugal in April 1974, the Portuguese government recognised the MLSTP as the sole representative of the Sãotoméan people, and installed a transitional government in which it dominated. An exodus of the Portuguese settler population, as well as of elite Sãotoméans, followed (EIU 2004a).

Independence was proclaimed on July 12th 1975. Transition to Marxist rule was almost immediate. The former colony developed close ties to other socialist countries such as Cuba, East Germany, China and most notably Angola, its close neighbour. The MLSTP government was riven by factional strife, and leading figures were forced into exile. The government claimed to have uncovered a series of coup attempts, and in 1977-79 Angola rushed troops to the island, where they remained as a highly unpopular praetorian guard for the president and party (EIU 2004a).

From 1985 and onwards, São Tomé e Príncipe faced economic deterioration. Economic reforms were introduced after pressure from the West. In 1991, the first democratic constitution was introduced, and the first democratic election held. The new opposition party, *Partido da Convergência Democrática-Grupo de Reflexão* (PCD-GR, now just PCD), won the election for the National Assembly.

A small nation with strategic importance

Relations to Western countries have improved since the mid-1980s, when São Tomé e Príncipe was forced, more or less, to adapt to market economy dynamics. Portugal, the former colonial power, remains a strong partner, while France and

Brazil have increased their influence. São Tomé is one of only 11 countries that officially recognise Taiwan as the legitimate government of China. This recognition–a unilateral decision by President Trovoada–has resulted in extensive assistance from Taiwan. The two countries currently have a co-operation programme covering the years 2003–06, under which São Tomé receives 35 million USD in assistance (EIU, 2004a).

Western strategic interest in São Tomé e Príncipe has greatly increased since the prospect of oil in commercially exploitable quantities. Particularly the US, which already has a *Voice of Ame*rica radio-relay station on the island, has been active. Influential US-based think-tanks have highlighted the importance of São Tomé e Príncipe and other oil suppliers in the Gulf of Guinea as an alternative to the Middle East. Nigerian and Angolan interests in the region have also increased, and both countries are seeking to establish influence over the development of its oil resources. Nigeria now exerts strong influence in the country, and actively meddles in Sãotoméan politics in order to secure its interests. Nigerian influence has tended to be at the expense of Angola, which has traditionally been the main regional power.

At their 10th Summit in Brazzaville in late January, the heads of state of the *Economic Community of Central African States* (ECCAS) promised to support the restructuring of the armed forces and national security in São Tomé e Príncipe–announcing that Angola would be in charge of this commitment. In addition, during a visit to the archipelago in early February, the Portuguese secretary of state for foreign affairs and cooperation, Manuela Franco, attended the signing of a new 2-year programme of bilateral technical-military cooperation destined for the restructuring and modernisation of São Tomé e Principe's armed forces. The programme includes assistance to the organisation of the defence forces; crisis management capacity building and supply of military transport vehicles. In the same month, after several years of inactivity, the local army organized a manoeuvre code-named Conóbia 2004 on São Tomé e Principe's northwest coast to combat arms and drugs traffickers (Seibert, 2004).

The US has also signalled an interest in military assistance. There are rumours that the US might establish naval facilities, and the two countries are planning several initiatives together (EIU, 2004b). Nigeria has also delivered supplies and equipment to São Tomé e Príncipe. However, this relationship is more disputed, and São Tomé has refused an offer of stationing 500 Nigerian troops in the country.

Political instability and fragmentation, but a functioning democracy

The political scene is, for such a small country, remarkably complex and divided. Since the first democratic election, political unrest has been characteristic. There have been several unsuccessful coups since independence. A major problem is the vague separation of powers between the president and the government, causing continuous political conflict. Instability has been further exaggerated by a fragmented party structure.

In September 1990, a multiparty constitution was adopted by referendum. It replaced the Marxist constitution that had been in force since independence in 1975. The constitution defines São Tomé e Príncipe as a sovereign, unitary and democratic state that grants many democratic rights and freedoms. Legislative power is vested in the parliament, the *Assembléia Nacional*, which has 55 members and serves for a four-year term. There are six district assemblies on São Tomé. The island of Príncipe has had a seven-member Regional Assembly since being granted political and administrative autonomy in 1994, although the poor performance of this body has been criticised. Executive power is vested in the government, and the president is nominally in charge of foreign affairs and defence. The highest judicial power is the Supreme Court, which is accountable to, and appointed by, the *Assembléia Nacional* (EIU, 2004a).

Since presidential and legislative elections in 2001-02, the country has been ruled by a political cohabitation: the presidency is held by a semi-independent candidate, Fradique de Menezes. As a self-made businessman having spent most of his career outside of São Tomé, he is not the most typical African leader. There is a hung parliament, divided almost evenly between the *Movimento de Libertação de São Tomé e Príncipe-Partido Social Democrata* (MLSTP-PSD), formerly the sole ruling party, and a number of other parties. A unity government has been established although this is highly unstable and there are frequent cabinet changes and clashes with the executive. (EIU, 2004a).

The extent of political instability in the country was further underlined when a military coup occurred on July 16th 2003. Mr de Menezes–who was abroad in Nigeria at the time–was deposed, and the prime minister, cabinet and other senior officials were arrested. Political opportunism by the armed forces was one of motivating factors behind the coup, as it occurred just as the country is on the verge of reaping enormous oil wealth. Widespread international condemnation of the coup, coupled with foreign mediation, resulted in it being reversed, peacefully, a week later. The coup plotters were granted an amnesty and Mr de Menezes and most of the cabinet were restored to power. The ending of the coup, however, included an agreement (*Memorandum of Understanding of 23 July 2003*) that a new government be formed and an *International Monitoring Commission* (IMC) be set up to review its progress and other issues (EIU, 2004a).

Fragile institutions and corruption

In proportion to the size of its economy and population, São Tomé e Príncipe has one of the largest public sectors in the world. This and the institutional legacy of Marxist rule have provided an environment in which corruption flourishes. Sharp economic decline, including a collapse in the value of real wages, from the mid 1980s to the late 1990s has also contributed to making corruption a prominent feature of public life.

In the mid to late 1990s there were several large-scale corruption scandals involving senior state officials, including those involved with the long-ruling *Movimento de Libertação de São Tomé e Príncipe–Partido Social Democrata.* Prominent among these scandals was the fraudulent issue of Treasury bills by the ex-governor of the central bank. Those involved have so far evaded prosecution and are believed to enjoy the protection of senior politicians. The international anti-corruption organisation, Transparency International, does not provide a ranking for São Tomé e Príncipe in its annual corruption perceptions index, but it does note the anecdotal evidence of a serious corruption problem there (EIU, 2004a).

However, the central bank and public enterprises are now committed to having their books audited every year by an independent external auditor. Strengthened internal audit procedures at the central bank will help increase the level of transparency in the management of public affairs. Furthermore, the streamlining of the customs tariff and domestic indirect taxation and the elimination of ad hoc exemptions, together with the strengthening of internal audit units at the *Directorates of Finance and Customs*, will help prevent and combat fraud and corruption more effectively (Seibert, 2004).

A promising sign is the performance of the country's Audit Office, which was set up in June 2003. In January 2004 it published a report to the National Assembly on irregularities in the management of funds administered by the Budget Office and the Public Treasury during 2003. The report highlighted contracting public works without the necessary public tender; random payments of housing subsidies for ministers; and the inflated mobile expenses by government ministers. (Seibert, 2004).

7.1.2 Poverty and decline, but some promising signs

A better social context than its neighbours, but …

São Tomé's level of poverty is significant, and it is ranked 122nd out of the 175 countries of the UNDP's *Human Development Index* (HDI). The HDI measures quality of life using real GDP per head (expressed in purchasing power parity terms), the adult literacy rate and life expectancy. This rank is still far higher than for some of its neighbouring oil-producing countries. The data situation upon which this ranking is based is weak and vulnerable, though. Among other challenges, a full analysis of the 2001 is still pending. Generally, however, by any measure São Tomé is a very poor country.

Life expectancy was almost 70 years in 2001, which is high in an African context and also in light of its HDI rank. São Tomé e Príncipe ranks high by African standards also on the adult literacy rate, which was 83,1 per cent in 2001. The main causes of sickness are malaria–there are about 40,000 recorded infections each year–and acute respiratory and diarrhoeal diseases. Poor management and inadequate attention to primary healthcare have traditionally undermined the health system.

A large receiver of aid

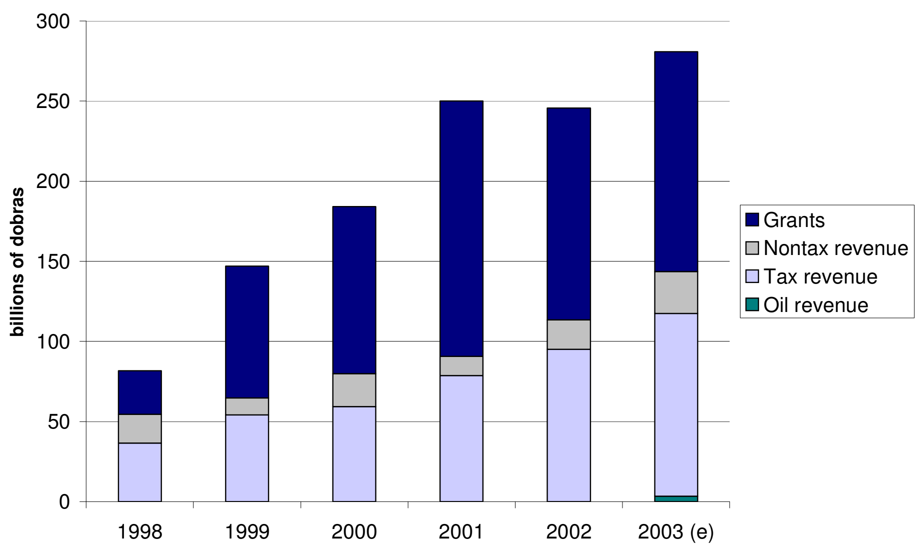
São Tomé is heavily dependent on development assistance. It receives one of the largest amounts of aid per head in the world. Figure 7.2 illustrates the important role of grants in Government revenues. According to the OECD, net official development assistance (ODA) to São Tomé reached a peak of US$ 84 million–almost twice the country's GDP–in 1995. The poor quality of governance on the islands–including rampant corruption, economic instability and institutional weakness–led to a decline in assistance in the mid 1990s to US$ 28 million in 1999 (EIU, 2004a).

Improved macroeconomic performance since 1999 has contributed to a sharp rise in international assistance. A roundtable conference of foreign donors in October 2000 led to pledges of assistance of US$ 49 million, of which US$ 35 million was disbursed that year. Portugal is the main bilateral donor, providing about US$ 11 million in net aid in 2000. Taiwan has also become a major donor, granting US$ 10 million in annual assistance under a three-year bilateral co-operation programme, which is to run until 2002. The EU and the IMF are the major multilateral donors (EIU, 2004a).

The Fund on its side suspended its program in 1997, due to lack of compliance. Only in March 1999 did the IMF and the government agree on a shadow programme as a condition for the eventual resumption of assistance; this included reducing year-end inflation to 10 per cent, reducing the fiscal deficit and establishing conditions for a return to growth.

The success of a shadow program from 1999 led to a three-year poverty reduction- and growth facility (PRGF) in 2000. From 1999 to 2001, São Tomé either met or exceeded the IMF targets. However, as the election approached in the end of 2001, the Government began to slip, with a loose fiscal and monetary policy. This led to a suspension of disbursements from the IMF. A staff monitored programme was established, and it concluded in December 2003 that the authorities in São Tomé e Príncipe could not commit to IMF's recommendations for medium-term macroeconomic policies. The programme will be reviewed again in mid 2004, which could result in the resumption of the PRGF. (IMF, 2004b) However, with the expected increased wealth from oil it is uncertain what the future IMF leverage will be.

Figure 7.2 Central Government revenue, 1998-2003



Source: IMF (2004a)

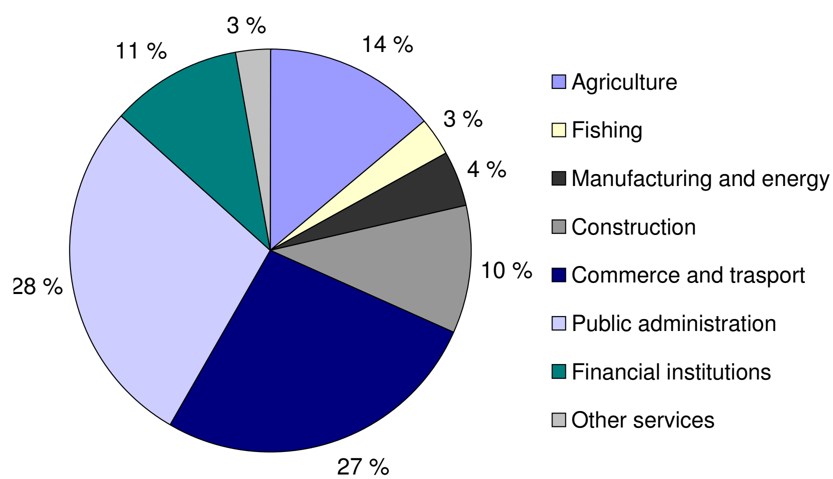
In 2000, the Government published an *Interim Poverty Reduction Strategy Paper* (I-PRSP) in co-operation with the IMF and the World Bank. The PRSP process, which forms the basis of all World Bank and IMF concessional lending, focused on three key activities: generation of employment and income of the poor; achievement of human development; and enhancement of institution development. (I-PRSP, 2000).

With a debt burden of 726 per cent, São Tomé e Príncipe has easily qualified for the IMF's and World Bank's heavily indebted poor countries (HIPC) initiative. However, access to HIPC was terminated with the suspension of the IMF program. It is likely to be resumed with at new IMF deal. In the meantime, relief from debt servicing has been unaffected.

Economic development has been erratic, but prospects are good

To summarise the country's recent economic history: with the Marxist approach chosen after independence in 1975, the state assumed a dominant role in the economy, and all businesses were nationalised. In 1985, economic liberalisation began, and in 1987, São Tomé adopted a structural adjustment programme with the IMF and World Bank. A second programme followed it in 1991, but despite a painful period of adjustment involving currency devaluation, price liberalisation, privatisation and the reduction of the budget deficit, policy performance was poor and the supply response remained weak. The annual growth rate was on average about 1.6 per cent (I-PRSP, 2000).

Figure 7.3 Sectors in the economy, as a per centage of GDP, 2003 estimates



Source: IMF (2004a)

However, recent years have given the rise to more optimism: growth slowly began to pick up in the later 1990s, with 4-5 per cent between 2001 and 2003. This is followed by a fall in inflation, from 42 per cent between 1995 and 1998 to between 5-7 per cent in the period between 2000 and 2003 (EIU, 2004a). Real GDP growth is expected to be 8 per cent in 2004, with estimates of 10 per cent in 2005. The state budget for 2004 includes total spending of 65 USD million (which is well above the expected GDP), of which donors will fund more than half (EIU, 2004b).

A steep decline in the cocoa sector, the traditional mainstay of the economy, accounting for over 85 per cent of total exports, have hampered economic performance in recent years. Current policies and programmes focus on diversifying agriculture towards other crops and promoting non-traditional sectors of the economy. The services sector, including the nascent tourism industry, is now making the strongest contribution to growth, while fishing has also seen some expansion.

The authorities emphasise improving the country's infrastructure. Transportation remains a bottleneck, with a road network in need of repair, infrequent and irregular service by both ships and planes, and a low capacity of the ports. The authorities have also considered establishing a loan guarantee fund to promote private sector growth. However, the IMF advises against that. Instead, it stresses the importance of strengthening governance and the rule of law, and it welcomes recent measures to promote judicial reform.

7.2 The new oil era

27 October 2003 marks a turning point in São Tomé e Principe's history. The country now stands at the threshold of an oil era. 20 companies submitted bids for the nine blocks in the *Joint Development Zone* (JDZ) administered jointly between São Tomé e Príncipe and Nigeria. Estimates of oil reserves in the nine blocks range from 6 to 11 billion barrels of crude oil, while the total JDZ is estimated to contain between 8 and 24 billion barrels.

The expected disbursement of oil signature bonuses dominate the medium-term macroeconomic outlook. The licensing round generated 510 million USD in signature bonuses in total, giving São Tomé e Príncipe 204 USD million. Fewer majors than expected participated in the licensing round, and the only bidding oil companies with a proven track record of exploration and production were C*hevronTexaco*, the US *Anadarko*, and the Norwegian *Statoil*. The first financial benefit could begin to flow in June 2004, but probably not the full amount. Oil production off the coast of São Tomé e Príncipe production could begin in 2012 (IMF 2004b, and Sandbu 2004).

7.2.1 Managing the oil sector

São Tomé e Príncipe is a midget compared to its dominant neighbour, Nigeria. In addition, Nigeria has long experience in the oil sector. Disputes over the delineation of the territorial waters have complicated and delayed the development of offshore energy resources in São Tomé and Príncipe. In March 1998, the parliament passed a law on an *Exclusive Economic Zone* (EEZ), which was not recognised by Nigeria. In August 2000, the two countries reached an agreement, according to which they will jointly develop petroleum resources in the disputed zone, the *Joint Development Zone* (JDZ).

The terms of this deal are regarded as favouring Nigeria, which has gained a dominant influence in the oil sector in São Tomé. Bilateral negotiations have since been concluded over the implementation of the agreement, including the delineation of the zone and the powers of a joint authority and a clearer definition has been given of the compensation owed by Nigeria (EIU, 2004a).

Another barrier to the development of petroleum resources has been a legal dispute with *Environmental Remediation Holding Company* (ERHC) with which the government signed a 25-year joint venture agreement in 1997 to help it develop the energy sector. In October 1999 the government rescinded the agreement, alleging that the company had failed to undertake contractual obligations. In 2001 ERHC was acquired by *Chrome Energy*, which has links to senior Nigerian politicians. International arbitration of the ERHC dispute was later dropped, and a highly controversial out-of-court settlement was reached between the two parties under the direction of the president, Miguel Trovoada, and his son Patrice, involving even worse terms than the original ERHC contract (EIU, 2004a).

The *Chrome* agreement is described by neutral observers as one of the most unequal ever signed by any government, as it grants the Nigerian company extensive rights and privileges over São Tomé e Principe's oil resources, in exchange for little if anything in return. The IMF has advised the government to review the agreement and to seek terms that will protect the country's national interest. (EIU, 2004a).

ExxonMobil and Nigerian companies prominent

In preparing for the management of the oil sector, the Government established a state petroleum company, *Petrogás*, in 1999, but this company has remained a paper company.

In as early as 1998 *ExxonMobil* signed an agreement for the exploration of 22 deepwater concession blocks. The results indicate that São Tomé e Príncipe has recoverable reserves. *ExxonMobil* managed to secure pre-emptive rights to some the blocks. *ExxonMobil* and *Chrome Energy* will both have a unique position in the future of São Tomé 's oil industry, as they managed to secure special rights to the country's oil resources. Other companies that put in bids for blocks in the October round are listed in the following table.

Table 7.1 Results of opening bids for nine blocks of the JDZ, 27 October 2003 (USD mill.)

	Blocks								
Company	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
Anadarko (USA)		30		40					
Atlas Petroleum (Nigeria	55			40					
Centurion Energy (Canada)	60	45		50					
CehvronTexaco (US)	123								
Conoil (Nigeria)	120								
ECL Int. (Australia)				100					
Energy E. R. (Australia)	61			33					
Chrome Energy (Nigeria)	60	60							
FiltimHuzod (Nigeria)						32			
Foby Engin. (Nigeria)		113				35			45
Fusion Oil (Australia)					10		10		
Burrel & Promo (France)						55			
NPDC (Nigeria)	50	30							
Ocean Energy (US)	57.5								
Oil and Gas (Nigeria)	40.2			41.5					
Petrocamak (UK)				70					
Sahara Energy (Nigeria)			35		35	35			
SEO International (US)	106.3								
Statoil (Norway	60								
Suntrust Oil (Nigeria)	45								

Source: Seibert, 2004

ChevronTexaco was awarded the operatorship of block 1, allegedly the most promising block. The company paid 123 USD million in signature bonus, and secured a share of 51 per cent. *Energy Equity Resources* (EER) had to pay 7 million NOK for its 9 per cent share. *ExxonMobil* got the remaining 40 per cent share.

EER is a little known company registered in Norway, headed by Olav Eimstad. The company is partly Norwegian owned, partly Nigerian, by a company called *Dangote Group*.

As **Error! Reference source not found.** shows, other Norwegian interest is represented by *Statoil*'s bid for block 1 in October. It is worth noting that while Statoil bid 60 million USD, the block was eventually awarded to C*hevronTexaco*, which was willing to pay the double. This indicates both the uncertainty of the actual value of the block, as well as *Statoil*'s low risk approach.

Several other companies have also showed some interest in São Tomé e Príncipe. In early 2004, the President made an official visit to Malaysia where he held talks were with the national oil company, *Petronas*, which is signalling an increased interest in oil in São Tomé.

Weak technical capacity

São Tomé's obviously has very weak capacity to manage the technical aspects of oil development, as well as the impact of enormous financial inflows. This is a concern both for the domestic elite, and for the international community. Efforts are under way to train Sãotoméans and build technical capacity. The World Bank is drafting plans for a three-year technical assistance project to help with this, which will include the strengthening of budgetary management and the setting up of an 'oil fund' to support the training of technicians at the national petroleum agency. The *Joint Ministerial Council* (JMC) of Nigeria and São Tomé e Príncipe has awarded seven scholarships to Sãotoméans to attend the *Nigerian Petroleum Training Institute*. Angola has also made space available to Sãotoméan students at its training institutes for the oil sector.

The US government has also funded a study, through its *US Trade and Development Agency* (USTDA), on infrastructure and other investments that will, or could be, made in the context of oil development in São Tomé. The resulting report, executed by the company *Capital Energy*, has identified a number of projects designed to cope with the expected expansion of energy-related activity, including the expansion of existing port and air facilities, the building of more power stations and the setting up of an oil services base facility. The report also identifies a number of American construction and engineering companies capable of undertaking such projects.

Willingness to promote transparency

The presidents of both Nigeria and São Tomé e Príncipe have endorsed the *Extractive Industries Transparency Initiative* (EITI) principles, and declared that the JDA will be open and transparent in its operations. The President of São Tomé e Príncipe has said that: "We have made it clear that even if oil companies will not publish what they pay, we will publish what we receive" (de Menezes, 2004). So far, the signature bonuses for the first licensing round have been published, which is a good sign. The President has also committed to annual audits of the accounts of the JDA, and indicated that the independent audits will be made public.

7.2.2 Managing the revenues

Dealing with both powerful neighbours and powerful IOCs, the small island of São Tomé e Príncipe is well aware that it will have to make the management of its expected oil wealth a high priority.

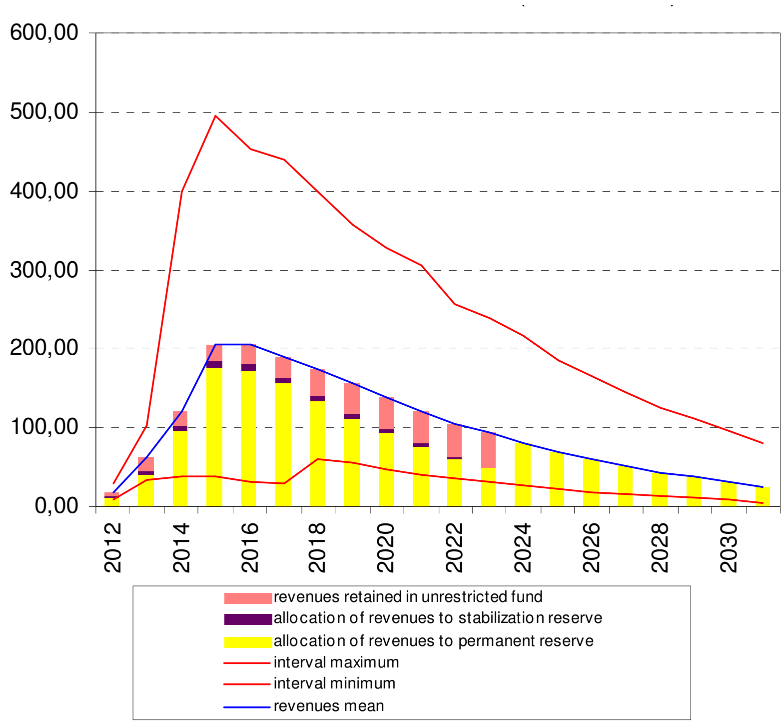
Large revenues are probable, but …

On 24 April 2004 Nigeria and São Tomé e Príncipe met in a *Joint Ministerial Council* (JMC). They were expected to announce the winners out of the 20 companies bidding in October. However, only the rights for block 1 were awarded. JMC declared that it would announce the remaining winnings binds in the near future. The process has taken some time as the JDA was waiting for a response from ExxonMobil and Chrome Energy on what they were going to do with their pre-emptive rights. Chrome Energy has decided to take a 35 per cent stake in block 2, and ExxonMobil possible a 20 and 25 per cent stake in two further blocks of its choice, in addition to a 40 per cent stake in block 1.

Based on the highest bids, a total of USD 500 million were offered in signature bonuses for the nine blocks covering about one third of the JDZ. The share for São Tomé e Príncipe will be more than USD 200 million, which amounts to nearly four times the present GDP.

However, it has become clear that the immediately available revenue from signature bonuses will be much lower than the sums offered. It is uncertain that all the companies will pay their signature bonuses. Within the Nigerian group of companies that submitted 23 of the 30 bids, many are suspected of merely being speculative real estate companies with little exploration and production expertise. The strategy of these companies could be 'rent-seeking' by selling their licences to international companies. Still, it remains clear that São Tomé e Príncipe will receive significant amounts in the coming years, and that the likelihood is high that exploration will lead to finds and to production and to large revenues for decades. See figure 4.

Figure 7.4 Possible revenues in an average scenario. Million USD



Source: Sandbu 2004

Avoiding the resource curse?

Both the Government and the elite of the country appear to be aware of the risks associated with sudden resource wealth. However, São Tomé e Principe's current problems of corruption and institutional weakness could hinder transparency and accountability in the management of oil revenue. There are several existing examples of corruption and fraud.

According to a recent IMF consultation: "The government faces the crucial challenge of managing this enormous, but exhaustible, wealth against the background of weak institutional and absorptive capacities" (IMF, 2004b). President de Menezezs, in a speech at a CSIS conference in Washington in March 2004, said: "We are not interested in the paradoxes of plenty, crude awakenings or ending up at the bottom of the barrel." (de Menezes, 2004). São Tomé e Príncipe has received advice from the World Bank, the IMF, UNDP, as well as the

Columbia Oil Advisory Group, headed by Professor Jeffrey Sachs at the *Open Society Institute*, which is supported by the *George Soros Foundation*.

For the time being the oil money will be set aside in a government trust. An oil fund is under establishment. The idea of preserving oil income for future generations is very much welcomed by the IMF. The IMF also emphasises the need to implement the envisaged legislation for oil income stabilization, and to regulate the spending of oil revenues. (IMF, 2004b) The Columbia Oil Advisory Group has assisted in the drafting of an oil revenue management law, to be proposed to the national assembly before the summer of 2004.

Wage restraint when wages are low

For several years, the government has been quite successful in maintaining wage restraint. It has sought to restrain the fiscal deficit, and to shift an increasing proportion of spending from staff and other fixed costs towards actual service delivery. Even so, wages account for the bulk of government spending, which, proportionally, is one of the highest in the world relative to its economy. A high level is unsurprising as it is somewhat typical for an island micro-state, although it has been exacerbated in São Tomé e Príncipe's case by the Marxist economic legacy left over from the era that followed independence in 1975 (EIU, 2004b).

This year, the government has given in to the pressure of increasing spending, as a result of the prospect of oil money. After IMF consultation, the revised 2004 (January) budget includes a 23 per cent increase in government salaries and an increase in total government investments of 32 per cent. These budget numbers are lower than what the Government originally proposed (53 per cent for wage bill and 60 per cent in total investments) (EIU, 2004b).

Still, state wages are hardly generous, and at the lower end of the scale are extremely low, having been eroded by high inflation from the mid to late 1990s. Even with the latest 34 per cent increase, they are still only Db 250,000 per month, less than 29 USD. A recently completed study states that an appropriate minimum wage, based on minimum nutritional and other needs, would be Db 900,000 (US$ 103) per month. However, the authorities are planning for another wage increase later in the year, after the first oil bonuses are received, probably in July. This will be the first of many substantial wage increases in coming years as the impact of oil wealth begins to be felt (EIU, 2004b).

7.3 Risks of conflict

Political conflict and instability

Political instability is endemic in São Tomé e Príncipe. Public life in recent years has involved bitter infighting among a small political class in which personal, professional and family ties are easily blurred. There have been several coup attempts since independence. Feeble or slow-moving state institutions on which investors and foreign actors depend for routine matters are compromised by administrative weakness and corruption (EIU, 2004a). These recent crises and coup attempts have revealed that political instability is a persistent feature of the country. The struggle for power between the president and the government, the fragile parliamentarian basis of the coalition government, and the government's internal disagreement and factional fighting all bode for testing times to come. The emerging inflow of oil revenues is adding new dimensions to the country’s governance challenges. While this has often implied bad news for fragile political systems in other emerging oil states, the spiralling international interest in the fate of São Tomé may in fact contribute to political stabilisation.

On the other hand, while the danger of new military coups is not deemed very likely, social instability might well be on the rise due to a widening gap between a small, rich elite and a continually impoverished population. Expectation management is no small challenge for any oil country, and the ruling elite in São Tomé e Príncipe may soon realise that managing expectations of poor people who see oil as beacon of future prosperity might well turn out as the most difficult dimension of overall petroleum management.

Maintaining the independence of a micro-state

The government’s main foreign policy concern is managing the development of its offshore petroleum resources. São Tomé, a micro-state with weak institutional and technical capability, is now locked into close commercial relations with more experienced and powerful international actors including Nigeria and Angola, Sub-Saharan Africa’s two largest oil producers; ExxonMobil, and ChevronTexaco, two of the world’s largest oil companies; and dozens of other companies that participated in the oil licensing round. It is uncertain whether the little nation of São Tomé e Príncipe effectively can exercise its own policy (EIU, 2004b).

The negative influence on São Tomé of Nigeria’s corruption-prone commercial and political elite is already apparent, highlighting the risk that São Tomé may import the governance problems of its neighbours. The highly unfavourable oil agreements made with a Nigerian company, Chrome Energy, (inherited from the previous administration), and Nigerian co-operation in the Joint Development Zone will also continue to be avenues for foreign influence and leverage over São Tomé (EIU, 2004b). Still, a democratic regime in Nigeria with solid international credentials and reputational sensitivities is far more benign for São Tomé than previous cynical dictatorships. Thus, US and other non-regional powers’ policy in the Gulf of Guinea will be an important factor for the integrity of this tiny island state. And within the region, there are clear indications that São Tomé aims to balance Nigeria’s dominance by courting Angola. Economic, military and cultural cooperation with the latter is presently strengthened, and Angola is just starting the construction of a new embassy building in São Tomé (May 2004).

References

EIU (2004a): Country Profile Sao Tome and Principe 05 Jan 2004. Economist Intelligence Unit, London.

EIU (2004b): Country Report Sao Tome and Principe 01 Apr 2004. Economist Intelligence Unit, London.

I-PRSP (2000): "Interim Poverty Reduction Strategy Paper for 2000-02". Prepared by the São Tomé e Príncipe Authorities. April 6, 2000. (http://poverty.worldbank.org/files/sao%20tome%20principe%20iprsp.pdf).

IMF (2004a): "Democratic Republic of Sao Tome and Principe: Statistical Appendix". 2004. International Monetary Fund. (http://www.imf.org/external/pubs/cat/longres.cfm?sk=17336.0).

IMF (2004b): "Democratic Republic of Sao Tome and Principe: 2003 Article IV Consultation - Staff Report; and Public Information Notice on the Executive Board Discussion". 2004. International Monetary Fund. (http://www.imf.org/external/pubs/cat/longres.cfm?sk=17337.0).

Seibert (2004): Seibert, Gerhard. "São Tomé e Príncipe Update". Institute for Security Studies Situation Report. Pretoria, 26 April 2004.

de Menezes (2004): "Creating a Stable Base for Transparency in São Tomé 's Oil Sector". Speech by H. E. Fradique de Menezes, President Democratic Republic of São Tomé e Príncipe. CSIS Conference "Promoting Accountability and Transparency in Africa's Oil Sector". Washington DC, March 30, 2004.

Sandbu, Martin A. et al.: "The Columbia Proposal for Oil Revenue Management Law for São Tomé e Príncipe: Projections and analysis of Fiscal Consequences of the Proposal", New York 2004