Governance of Oil in Africa: Unfinished Business

Gouvernance européenne et géopolitique de l'énergie

6

Edited by Jacques LESOURNE
and William C. Ramsay

Governance of Oil in Africa: Unfinished Business

© Ifri, 2009

© Ifri, 2009

Governance of Oil in Africa: Unfinished Business

GOUVERNANCE EUROPÉENNE ET GÉOPOLITIQUE DE L'ÉNERGIE
Tome 6

**Edited by Jacques LESOURNE
and William C. Ramsay**

© Ifri, 2009

The Institut Français des Relations Internationales (IFRI) is a research center and a forum for debate on major international political and economic issues. Headed by Thierry de Montbrial since its founding in 1979, IFRI is a non-governmental and non-profit organization.

As an independent think tank, IFRI sets its own research agenda, publishing its findings regularly for an international audience. Using an interdisciplinary approach, IFRI brings together political and economic decision-makers, researchers, and internationally renowned experts to animate its debate and research activities.

With offices in Paris and Brussels, IFRI stands out as one of the rare French think tanks to have positioned itself at the very heart of European debate.

⁂

The objective of the "European Governance and the Geopolitics of Energy" program is to promote a coherent and sustainable European energy policy through seminars, debates, and publications. This series covers the main aspects of the energy topic.

Tome 1: *Abatement of CO_2 Emissions in the European Union* (2007)

Tome 2: *L'énergie nucléaire et les opinions publiques européennes* (2008)

Tome 3: *The External Energy Policy of the European Union* (2008)

Tome 4: *Gaz et pétrole vers l'Europe. Perspectives pour les infrastructures* (2008)

Tome 5: *La gouvernance mondiale de l'énergie : enjeux et perspectives* (2009)

© All rights reserved – IFRI – Paris, 2009
ISSN 1962-610X
ISBN 978-2-86592-370-0

IFRI
27, rue de la Procession
75740 Paris Cedex 15 – France
Ph.: 33 (0)1 40 61 60 00
Fax: 33 (0)1 40 61 60 60
Email: ifri@ifri.org

IFRI Bruxelles
rue Marie-Thérèse, 21
B-1000 Bruxelles – Belgique
Ph.: 32 (2)238 51 10
Fax: 32 (2)238 51 15
Email: info.bruxelles@ifri.org

Website: *Ifri.org*

© Ifri, 2009

Contents

Introduction 7
Jacques Lesourne and William C. Ramsay

Oil and Political Violence in Nigeria 9
Yvan Guichaoua

Angola's Homegrown Answers to the "Resource Curse" 51
Nicholas Shaxson

The Use of Oil Revenues in Africa 103
Géraud Magrin and Geert van Vliet

Border Conflicts Tied to Hydrocarbons in the Great Lakes Region of Africa 165
Benjamin Augé

© Ifri, 2009

© Ifri, 2009

Introduction

A closer inspection of the world's oil and gas resources, tempered by a critical assessment of their accessibility, would lead many investors now focused on Russia and the Middle East to turn their attention to the Caspian Basin. But many of these oil and gas provinces are largely off limits to international investors, or investment conditions have become so unpredictable that investors are forced to look elsewhere for oil and gas to meet the world's increasing demand. Even if the current economic crisis has taken the urgency out of today's supply and demand balances, economic recovery will soon reveal the need for ever-increasing investment upstream.

While other parts of the world may not hold huge hydrocarbon resources equal to the Middle East's, there are nevertheless substantial opportunities elsewhere. This volume is dedicated to sub-Saharan Africa, where considerable resources have been found and more will no doubt be discovered. Specifically, the countries of the Gulf of Guinea have long been in the oil business, and some are now in the gas business. What have been the experiences in the oil and gas sectors of these countries? Has governance evolved over the years? Why have some of these countries been unable to realize the full benefits of their resource endowments?

The Gulf of Guinea holds considerable promise for more oil and gas for world markets, but the experiences of the past decades suggest a need for substantial reform. Income distribution, welfare, and development are not generally the business of energy companies, but if governments do not see to these basic requirements of their populations, energy

© Ifri, 2009

Table 1. Oil Production Levels of Sub-Saharan Africa, by Country

Country	Production (millions of barrels per day)	Production (millions of tons)
Nigeria	2,356	114.2
Angola	1,723	84.1
Cameroon	82	4.2
Chad	144	7.5
Congo-Brazzaville	222	11.5
Equatorial Guinea	363	18.0
Gabon	230	11.5
Total	5,120	251.0

companies will not be able to bring those energy commodities to the market.

The table above summarizes, in barrels per day and tons, the production levels of this region in 2007, as indicated by the *BP Statistical Review of World Energy* from June 2008.[1]

This region produces 7.1% of total world production, a significant figure considering that its domestic consumption is quite modest and exports are near the same as production.

Quality of governance, corruption, income distribution, and corporate roles are delicate topics, and the ways in which they are dealt with in the papers presented here reflect each author's specific vision of Africa. The thoughts and ideas expressed by the authors are their own, and are not necessarily shared by IFRI.

The IFRI Energy Program hopes that this book will shed light on the role of hydrocarbon production in Africa.

JACQUES LESOURNE
AND WILLIAM C. RAMSAY *

* Jacques Lesourne is Chairman of the Scientific Committee of the IFRI Energy Program.
William C. Ramsay is Senior Fellow, Director of the Ifri Energy Programme "European Governance and Geopolitics of Energy".

1. Available at http://www.bp com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf (accessed February 15, 2009).

© Ifri, 2009

Oil and Political Violence in Nigeria

YVAN GUICHAOUA*

For several months now, the chronic political instability in the Niger Delta, the principal area of hydrocarbons exploitation in Nigeria, the world's eleventh largest oil producer, has provided the media with spectacular stories of violence. Hardly a week goes by without an act of sabotage against an industrial facility, the kidnapping of an employee of an oil company (foreign or otherwise), or deadly clashes between security forces and militants from a complex network of heavily armed insurgency movements. Each day, tens of thousands of barrels of oil are stolen, sometimes illegally refined, and sold on the black market, robbing Nigerians of considerable revenue. It is estimated that between 100,000 and 500,000 additional barrels of oil per day, depending on the time period, could be produced if the country were secure. Before the current global financial crisis hit, the Niger Delta's recurrent political problems significantly contributed to the spike in crude oil prices, in a global energy supply context that was already problematic due to political tensions in the Middle East.

* Yvan Guichaoua is researcher at the Oxford Department of International Development, University of Oxford, and holds a Ph.D. in economics from EHESS (Paris). His current research concerns non-state armed groups and processes of violent mobilization in West Africa. The author would like to thank Emma Samman for her invaluable research assistance.

© Ifri, 2009

The backdrop for these events is a human and ecological disaster. Nearly half of the Niger Delta's 28 million inhabitants live on less than a dollar a day, while annually the region produces the equivalent of one-fifth of US energy needs. Life expectancy among this population is less than 45 years; one in ten infants dies before its fifth birthday (UNDP 2006). These numbers are not out of the ordinary in this part of the world; yet they are obscene in view of the revenues generated from this territory. In addition, pollution tied to oil exploitation has severely altered the traditional activities of the Niger Delta's marshland, notably fishing, which is the foundation of the economic and social systems of many village communities. The faulty state of pipelines and their sabotage cause hydrocarbon leaks into environment, the volume of which – for the period from 1999 to 2004 – would fill four supertankers (Watts 2007). A lack of drilling facilities forces operators to burn one-third of the natural gas that is extracted at the same time as the oil, which is more lucrative than the gas. Authorities' repeated promises to put an end to this practice of "gas flaring" have yet to be realized. Large amounts of carbon emitted into the air have caused respiratory infections, skin diseases, and acid rain, which has degraded arable land (UNDP 2006).

This human and economic catastrophe illustrates the idea, now more widespread, that economies with an abundance of natural resources suffer from a "curse." While the first version of the *resource curse thesis* concerned only the economic performance of states that were rich in natural resources – notably, through the "Dutch disease"[1] – recent versions of it now link an abundance of natural resources to an increased probability of civil conflict: a country's dependence on natural resources not only interferes with its economy but also poses a threat to the nation's political stability.

How does this curse work which has such serious political effects? A plethora of journalistic reports indicates that mineral resources (such as the infamous blood diamonds of

1. The "Dutch disease" corresponds to the risk of the deindustrialization of an economy following an increase in the exchange rate depleting the domestic manufacturing sector from its competitiveness, hence contributing to its decline.

© Ifri, 2009

Sierra Leone) give rise to villainous interests and provide illegal support to campaigns to seize national resources. The dominant scholarly framework, which the World Bank popularized, largely endorses this idea. Based on statistical correlations, it postulates that combatants' desire for profits is the main cause of insurgencies. As for the rebel forces, the incentive to fight the incumbent authorities – whether or not they were democratically elected – is held to increase proportionally with the revenues expected from extraction.

But the path linking oil exploitation to the occurrence of conflicts is more complex than such superficial journalistic interpretations and scholarly correlation calculations suggest. No one denies that the current problems in the Niger Delta have brought private, mafia-style interests into play. However, it is necessary to determine whether this applies to all those involved in the crisis affecting the region (from low-level militants of violent movements to local political figures, as well as official security forces); whether it has always been the case; and lastly how it came to be. It is thus necessary to examine the initial social, economic, and political conditions under which the Nigerian oil economy was created and to detail the subsequent terms and implications of the growth in production, both locally and nationally. Finally, it is necessary to identify the main contemporary actors in this crisis and analyze their motives.

Thus in the present chapter, which is divided into two main sections, we shall focus first on recently proposed theoretical analyses of a causal relationship between a national abundance of mineral resources and the rate of civil conflict. Next, we shall examine the Nigerian situation in particular and identify the different national compromises, more or less concerted, historically carried out over oil revenue management, and the concrete conditions of oil exploitation. They both intermingle to produce the current tragic situation.

Natural Resources and Civil Conflicts: Complex Causalities

The idea that an abundance of natural resources can be more detrimental than beneficial to an economy that possesses them emerged at the end of the 1970s and finally gained

© Ifri, 2009

strength in the 1990s through the multidisciplinary work of researchers such as Richard Auty (1993), who detailed the underlying mechanisms of the "paradox of plenty." Their work focused on the effects of extractive industries on economic growth. Towards the end of the 1990s, however, the idea of the natural resource "curse" was further complicated by a consideration of political outcomes, specifically the apparent fact that civil wars are relatively more frequent in countries whose economies depend heavily on the export of primary goods (Collier and Hoeffler 1998). The reason for this, according to Collier and Hoeffler (ibid.), is that natural resources not only give rise to groups seeking the national rent, but they also directly finance the rebel movements.

This idea was rapidly embraced – before being progressively, if not debunked, at least seriously nuanced – thanks to numerous analytical and comparative studies. Two contributions, released three years apart, illustrate the weaknesses of the initial resource curse paradigm.

First, Michael Ross (2003a: 19), supported by available econometric analyses, made the following observation:

> Any given conflict is brought about by a complex set of events; often poverty, ethnic or religious grievances, and unstable governments also play major roles. But even after these factors have been taken into account, studies consistently find that natural resources heighten the danger that a civil war will break out and, once it breaks out, that the conflict will be more difficult to resolve.

More recently, however, other works have questioned the degree to which such analyses apply. Andrew Rosser (2006), who examines the natural resource curse in its broadest sense (i.e. economic and political), lists them. Economies that are highly dependent upon natural resources do experience problems, Rosser admits, but it is impossible to say with certitude whether their resources lead to the observed political and economic hardships, or whether the direction of causality runs the other way around. Nor can one exclude the hypothesis that these two phenomena are in fact the product of a third, unseen

© Ifri, 2009

factor. In the end, it seems that to establish empirically the correlation between these two phenomena, it would be necessary to delve deeper into its inner workings (Ron 2005) and identify its conditions of validity, which are certainly not universal.[2] Such an endeavor would, of course, have to employ arguments that are more complex than the unequivocal determinism of the earlier models. In this section, we present the core ideas of the most recent models, which will provide the framework for our examination of Nigeria in the next section.

Natural Resources and Rapacious Temptations: The Extractive Gift as an Object of Desire

Whereas the aforementioned idea – that political instability, brought about by natural resources, results from private lust for a nation's wealth and the ease of financing rebel activities – has been subjected to major analytical modifications, its central logic has nonetheless been preserved. The hypothesis closest to the initial paradigm was outlined by Macartan Humphreys (2005) and applied by Jeremy Weinstein (2006). It refers to the "feasibility mechanism," the theoretical basis of which Collier and Hoeffler (1998) laid out, and according to which the capture of natural resources represents an opportunity for rebels rather than their motivation. The issue of feasibility is independent of the rebels' motives: access to natural resources makes latent rebel movements possible, no matter the origins. In fact, the feasibility mechanism is more likely to affect the duration of the conflict rather than its outbreak. The Angolan Civil War provides a useful example: its warring parties were able to arm themselves through illegal diamond trade, even when their foreign support dwindled. This mechanism also has an impact, according to Weinstein (2006), on the organizational structure of rebel movements: with secure financing – through either natural resource contraband or a generous foreign benefactor, which is just as effective – rebel leaders are able to recruit fighters who have mainly material

2. Larsen (2006) has showed that Norway, far from suffering a decrease in economic performance or political stability, was able, beginning in 1971 and thanks to oil exploitation, to catch up economically with its Scandinavian neighbors.

© Ifri, 2009

concerns, are undisciplined, and are prone to violence. The Mozambican National Resistance (RENAMO), which committed numerous atrocities against civilians during Mozambique's civil war (1975–1992), illustrates this point: financed from abroad, by South Africa, it had armed men in its ranks who were not politically driven, had little loyalty, and were quick to loot and pillage the population. Similar movements exist elsewhere, such as in Peru, where drugs are produced, or in Nigeria, where oil resources can be easily diverted.[3] Weinstein (2006) notes that when combatants cannot be offered immediate material rewards, the only way to sustain insurrectionist movements over the long term is to mobilize followers around a strong ideological framework or other preexisting, nonmonetary bonds, such as ethnic ties. This type of rebellion encourages more targeted acts of violence and causes fewer deaths than opportunistic rebellion. The significance of Weinstein's approach with regard to the Nigerian case will be discussed below.

The feasibility argument can be filled out with the theory of "booty futures." Resource exploitation need not be effective for the development of misappropriation strategies concerning the expected revenues from a territory known to be rich in mineral resources. This argument has the benefit of putting at the heart of the analysis potential foreign parties to the conflict that are interested in mineral exploitation, such as multinational companies. Local dynamics of political conflict can indeed coincide with more global economic competition. Thus, although links between militants and foreign companies have yet to be demonstrated conclusively, the backdrop of the current conflict in northern Niger is doubtless the end of the monopoly on uranium exploitation previously held by the French operator AREVA (active in a very limited region of the country) and the award to other firms, notably Chinese, of new exploration or exploitation permits covering large areas of territory.

3. It goes without saying that the intrinsic characteristics of the exploited resources or the geography of their exploitation (closer to or further away from the power center in the considered region, for example) will in turn make stealing them and taking control of their production by rebel interests easier or more difficult. These characteristics consequently affect the type of conflict that is likely to emerge (secessionist or guerrilla, e.g., see Ross 2004 and Le Billon 2007).

© Ifri, 2009

Natural Resource Exploitation and the Social Destitution of Local Populations

The aforementioned factors that make the rebel movement attractive (pull factors) can be replaced by or combined[4] with factors that push the parties affected by natural resource exploitation – most often local populations – to opt for violent action (push factors). These dissenting actions are fed by the discontent brought about by the development of extractive industries. Such discontent generally has it source in at least one of two kinds of negative effect: those directly produced by the presence of extractive industry complexes, and/or those deriving from the redistribution of revenues collected from natural resources.

The direct impact of extractive activities on a given region is never neutral. First of all, it involves the allocation of legal rights to land. The issue of who is the owner of territory affected by mineral or forest exploitation systematically sparks tension, particularly when customary law or informal arrangements alone – as is often the case in sub-Saharan Africa – previously regulated land access. It is tempting for central states to arbitrarily take away the local population's traditional land, sometimes by cynically exacerbating its internal divisions, especially in areas that are already socially or ethnically strained or fragmented. In addition, the compensation that the communities populating exploitation sites can legitimately demand is not limited to land issues or to the agriculture income that they must give up. Extractive activities can have other negative impacts, such as environmental damage or, in a much more complex manner, social inequalities brought about by structural shocks to the local economy. Territories maintain complex and closely linked interdependencies with social identities and practices, particularly in rural areas (Le Billon 2007). Thus, in Niger, yellowcake exploitation threatens to accelerate the decline of pastoral farming and, with it, the ancient nomadic way of life with which specific social hierarchies are

4. The simultaneous existence of diverse rationales for mobilization can cut through the hierarchies of insurgency movements. For example, although rebel leaders in Sierra Leone lined their pockets with diamonds, Humphreys and Weinstein (2008) show that the diamonds were only a marginal source of motivation for the rebel fighters' involvement: the desire for extractive rents applied directly only to the rebel leaders.

© Ifri, 2009

associated. For the affected populations, the end of pastoralism means not only the end of an economic activity but also the forced, and consequently painful, abandonment of their culture and the reversal of an ancient social order.

An additional source of conflict comes from the distribution of the local benefits drawn from the industrial presence: employment and subcontracting (notably security). The local population is not always able to fill the positions for skilled, on-site workers and thus must settle for the lowest paying jobs. Even where the human resources would be locally available, companies sometimes prefer personnel from elsewhere, drawing them from the clients of elite leaders, which further fuels the local community's feelings of alienation. This last point raises the considerable issue of the particular methods of governance adopted by the national authorities of states that have gained sudden access to extractive revenues. State behavior is thus an important source of resentment brought about by natural resources.

Natural Resources and Institutional Failures

The main disagreement likely to lead to conflict between the population of the production area and the central authorities pertains to the manner in which the latter distribute the revenues resulting from the extractive activities. A literature examines the optimal terms of use for national resources between the various administrative levels of public power. Economies of scale, risk sharing, and the provision of universally desired goods suggest that at least part of the resources be centralized, whereas the classic argument in favor of the devolution of power supports satisfying local desires as much as possible (Oates 1999; Ahmed and Singh 2003). There are numerous ways of putting these principles into practice that crystallize resentments, particularly when they reinforce or bring about "horizontal inequalities."[5] Post-colonial African

5. *Horizontal inequalities* are inequalities between social groups (ethnic, religious, etc.), as opposed to *vertical inequalities*, which are between individuals or households. The former can manifest themselves in several ways (political representation, access to basic public services, economic poverty, etc.) and fuel feelings of collective marginalization that are frequently exploited in civil conflicts, particularly in Africa (Stewart 2008).

© Ifri, 2009

states were often built by the center, according to a rentier system of resource monopolization by narrow social groups – especially ethnic groups. From the perspective of these elites, collecting revenues that were acquired without having to industrialize encourages them to maintain exclusive domination of the state by buying the allegiance of potential opponents or by repressing them even more (Rosser 2001; Auty 2004). In such a power system, it is vital to avoid redistributing the wealth to the groups most threatening to the incumbent authorities. Natural resources favor centralized and highly militarized political regimes, as Jensen and Wantchekon's (2004) econometric analysis attests. As we shall see, Nigeria (despite its apparent federalist structure) displays symptoms – more or less acute depending on the era – of this type of governance.

Along with the use of extracted resources for explicitly political ends, economic dependence on raw materials, the international price of which fluctuates greatly, obscures the economic forecasts of private and state operators and leads them to make sub-optimal investment decisions so as to protect themselves against this risk. The abundance of revenues from natural resources also makes for poor management of public funds due to excessive spending[6] or opportunistic behaviors that are collectively harmful: administrations that are propped up by extractive profits are not encouraged to provide their citizens with quality services, since there is no risk of being punished by the citizens in such situations (Mehlum et al. 2006). A strong and protected industry is also likely to take the most skilled workers away from potentially more dynamic entrepreneurial activities (Baland and François 2000). These effects thwart economic growth, cement poverty, and consequently expose the country to political instability.

The range of causalities likely to link an economy's dependence on natural resources to civil conflicts is very wide and brings interrelated mechanisms into play from different fields

6. Described by Tornell and Lane (1999), this phenomenon is called the "voracity effect." It is a more-than-proportional increase in redistribution following a rise in revenue. It is likely to occur particularly in countries where power is disputed by different ethnic or regional groups who must satisfy demands – a situation that describes post-colonial Nigeria rather well, as we shall see below.

© Ifri, 2009

(political, economic, societal, environmental, etc.) and at variable levels of social decision-making and interaction (macroeconomic, state, local). The reasons why one mechanism prevails over the others are often connected to the initial conditions in which resource exploitation began. A weak or socially fragmented democratic state ex ante has a greater chance of experiencing the "resource curse." The role of natural resources in conflicts must thus be contextualized. In this regard, case studies that rely on history can shed more light on the web of causes that lead a raw resource producing region or country to civil war, as the Nigerian case illustrates.

Oil Exploitation and Political Violence in Nigeria

The Acute Symptoms of the "Curse"

Oil was discovered in Nigeria in 1956 and was first exported in 1958. But it did not take on a strategically decisive dimension in the political and economic landscape until the 1960s, when it became the main source of state revenue. Today, oil accounts for two-thirds of the nation's revenues and makes up 95% of its export revenues. Meanwhile, considerable amounts of money have made their way into the state's coffers only to be taken back out, without improving the standard of living for the general population. Sala-i-Martin and Subramain (2003) have provided striking figures on this state of affairs. In Nigeria, the GDP per capita in 2000 was roughly the same as in 1970. But the proportion of the population living on less than a dollar a day went from 36% to 70% over the same period. However, between 1965 and 2000, the per capita oil revenue increased from $33 to $325. At the same time, income inequalities exploded. In 1970, the top 2% of income earners made as much as the bottom 17%; in 2000, the income of this top 2% was equivalent to the income of the bottom 55% combined.

In terms of structure, agriculture (cotton, peanuts, palm, cocoa), which was the main pillar of the economy before oil exploitation, declined dramatically, mainly under the effect of the constant underdevelopment that was part of the "urban bias" specific to the development ideologies during the era of

© Ifri, 2009

independence and made possible by the extractive boom (Joseph 1978). The state apparatus was consolidated, much infrastructure was constructed, notably in the area of education, but a great deal of waste was also produced. Industrialization was not encouraged due to the ease in access to imported consumer goods – a mechanism similar to the "Dutch disease." The few industrialized projects that were developed using the import substitution model failed (Bevan et al. 1999).[7] Budina et al. (2007) confirmed the mediocre economic management of oil revenues and condemned the lack of fiscal discipline that the Nigerian authorities demonstrated. In the 1970s, state spending was more volatile than revenues, further exacerbating the country's economic instability, in accordance with the "voracity effect" described above. But beginning in 1984, a new problem affecting the development of the non-oil sector emerged, tied to its excess debt. Credit dried up at this time, as lenders feared that their funds were being used only to pay off past debt rather than being invested productively (debt overhang).

The distribution of prebend and endemic corruption are other symptoms of the rentier behaviors encouraged by oil specialization – which often relegate the country to the bottom of Transparency International's Corruption Perceptions Index (CPI).[8] Following a more objective method of evaluating unproductive spending, Ayogu (2000) developed an economic approach that measures the importance of political influence in investment decisions. He identified clear biases towards the north of the country, that is to say, the region most leaders since independence have come from. The prebendary state, accomplished through nominations or clientelistic investments, was transformed, at the end of military rule, into a

7. The most famous of these Nigerian "white elephants" is the Ajaokuta metallurgy factory, which has squandered several billion dollars since 1979. It is still not economically profitable 30 years later (Noble 1992).
8. It should be noted, however, that Nigeria's position on the CPI has improved over the last few years, following President Obasanjo's creation in 2004 of the Economic and Financial Crimes Commission (EFCC), a body that has extensive powers for fighting corruption. While the EFCC was initially accused of being a weapon for Obasanjo to use against his political opponents, it has nonetheless been effective, its work being at the heart of ambitious proceedings against high ranking political figures, such as governors of states and the daughter of ex-President Obasanjo.

© Ifri, 2009

predatory state, allowing for the personal enrichment of its leaders (Bach 2004): at General Abacha's death in 1998, his and his family's total wealth was estimated at $4 billion.

To the poor economic and institutional situation is added (and combined with) a chaotic, post-colonial history marked by the very violent Biafra War,[9] six successful coups d'états, and violent repression of civil uprisings, such as with the Ogonis in the 1990s, by successive military regimes. Since 1999, Nigeria has officially been a democratic country, having adopted a multiparty system in which political representatives are elected by universal suffrage. There are many Nigerians, however, who have not reaped the benefits of democracy (Lewis 2006). Three presidential electoral cycles have occurred since 1999, yet the elections, especially in 2003 and 2007, were seen as highly suspect (Human Rights Watch 2003, 2007b). Democratization exacerbated old regional nationalistic aspirations, which cropped up all over the country and led to multiple episodes of violence carried out by ethnic and religious militias as much as by security forces. In the north of the country, bloody religious riots accompanied demands for the application of Sharia in criminal proceedings coming from radical Islamic followers;[10] in the southwest, and particularly in Lagos, the economic capital of the country, repeated confrontations occurred between members of the Oodua People's Congress (OPC, the main Yoruba militia), security forces, or youths from non-Yoruba communities.[11] Above all,

9. The Biafra War left more than a million dead (directly or indirectly) between 1967 and 1970. It began after the southeast region, with a majority of Igbo, declared its secession from the Nigerian Federation. Control of oil resources found in this very region was only one of many aspects of this civil war, which generally reflected the mutual distrust that the Federation's different ethnic groups kept alive.

10. In 2000, 12 northern states with Muslim majorities expanded Sharia (Islamic law), which had been reserved for private and civil matters, to cover criminal matters as well. Beyond the media outcry that this created, this decision did not lead to degrading punishments handed down by the Islamic courts (e.g. stoning for adultery), notably due to the Nigerian system's appeal procedures (Suberu 2005). In addition, Sharia represented more credible and understandable access to justice for the affected populations than did the formal courts.

11. The conflicts between the OPC and other militias concern much more than just nationalistic aspirations. These violent movements also aim to control territories and consequently the rents associated with the "taxation" of economic actors in these areas. The proliferation of ethnic militias thus highlights the failure of state regulations (Guichaoua 2009).

© Ifri, 2009

democracy did not put an end to the political tensions and violence that had simmered for nearly 20 years in the oil producing region of the Niger Delta. Conflicts over the distribution of oil revenues are as acute as ever. Violent military repression, though less intense than in the mid-1990s, continues while insurrectionist movements have multiplied and gained in military strength. The Movement for the Emancipation of the Niger Delta (MEND) is today's best known example of this.

Three major causes combine to produce the somber reality just described. First and foremost, the oil economy is built on precarious institutional foundations, inherited from the colonial era. This original institutional weakness not only prevented the mitigation of the impacts of oil dependence but in fact increased under such dependence. Secondly, since independence, oil has been managed through a sterile, political control game between the regional, then local, entities that make up the Nigerian state. No paths that are stable and capable of achieving the country's development potential have been able to emerge. Lastly, the current conflict in the Niger Delta is in many respects the product of institutionalized violence accompanying oil exploitation in which both the state and multinational companies have played a part.

Nigeria before the Oil Boom

Nigeria, with its current borders, has existed since 1914, the year when the Colony of Lagos and the British Protectorates of Northern and Southern Nigeria were unified, respectively, including the country's savannah and tropical zones.[12] This tripartite organization has indelibly marked the political life of the country. It is common, even today, to refer to the "Big Three" when speaking of the three large ethno-regional entities around which economic and political negotiation takes place. These three areas and their respective zones of influence are culturally, politically, and economically differentiated. Colonization brought about major social transformations (such

12. This section is based largely on Falola and Heaton (2008), as well as Bevan, Collier, and Gunning (1999).

© Ifri, 2009

as accelerated urbanization and the development of cash crops cultivation) but did not erase these differences. It even established them institutionally at the dawn of independence. Oil exploitation thus took its place, in the 1950s, in what is formally a state but not a unified nation: its main factions remain heterogeneous and are represented by political leaders that are suspicious of each other.

Northern Nigeria fell into the hands of the British troops ten years or so before unification. It is a political entity that was created through a union, following a holy war initiated by Usman Dan Fodio a century earlier, of Hausa states placed under the rule of an elite Fulani leader who advocated the application of strict Islam in the private as well as the public sphere. Though incomplete, Usman Dan Fodio's Islamic revolution produced a vast area, the Sokoto Caliphate, that was relatively homogeneous economically, culturally, and politically. The British conquered it and then imposed a system of indirect rule, theoretically respectful of the traditional local institutions. This principle, however, did not prevent the practice of keeping on only those indigenous chiefs who were cooperative. The Caliph was thus removed, but the political superstructure was nonetheless retained, not only to maintain social order but also because this method of governance was less costly. The emirs, formerly sworn to the Caliph, from then on had to answer to the British High Commissioner.

The population in the southwest (including Lagos) is religiously mixed (Christian and Muslim) and is composed mostly of the Yoruba ethnic group. Beginning in the mid-19th century, the southwest, undermined by long rivalries and internal wars, was placed under the firm control of the British. The British occupation of this region was strategic: they needed to address the expansionist desires of other imperial powers, France and Germany. But it was also encouraged by missionaries, who had decided to convert the populations to the "civilizing" principles of Christianity with the goal of, among others, replacing the slave trade that was very active in the region with the "legitimate" trade of raw resources. Since the allegiance of traditional chiefs could not always be obtained, military force was often used (in Lagos in 1851; in Ijebuland in 1891; and in

© Ifri, 2009

New Oyo in 1894) to subject indigenous leaders to the colonial power or to install a British administration that passed through local intermediaries. Thus, the theoretical indirect rule of the British colonizers was in fact often converted into direct rule, particularly in Lagos, which was officially a British territory as opposed to a protectorate. The early installation of missionaries in this region and their desire to promote education allowed for the rapid emergence of privileged indigenous assistants in the colony who became, in the 1930s and 1940s, the vanguard of the anti-colonial national movement. The spread of "modernist" ideas was also accompanied by the establishment of educational and health infrastructures at a much faster pace than in the north. Indeed, Lugard, the British administrator of unified Nigeria, explicitly prevented missionaries from penetrating the Muslim north. The southwest – and, more broadly, the south – thus had an early advantage over the north in terms of development. This modernizing trend was strengthened with the approach of independence, as Yoruba nationalism incorporated it into its emancipation discourse (Peel 1978). At independence, there were 700 functioning secondary schools there, whereas there were only 40 in the north.

Lastly, the southeast is mostly Christian and is ethnically dominated by the Igbo, next to which, on the coast and in the Niger Delta, live numerous smaller groups, such as the Ijaws, the Urhobos, and the Itsekiris. As elsewhere in Nigeria, this region was militarily conquered. It was also subsequently subjected to indirect rule. However, this system took on a strange appearance in the Igbo country, which was traditionally organized in a very decentralized manner around village councils without a designated chief. To make indirect rule compatible with this power structure, the colonial authorities held "consultations," allowing them to choose a chief with whom they could collaborate. Those that were chosen had no legitimacy in the traditional political order. Political authority thus emerged almost ex nihilo, which paved the way for intercommunal conflicts that are still unresolved (Ukiwo 2006).

As in all colonized territories at the time, the economic crisis of the 1930s and especially the Second World War brought about increasingly intensified nationalist demands. Pan-Nigerian

© Ifri, 2009

ideas, embodied in the 1930s and 1940s by the Igbo intellectual and activist Nnamdi Azikiwe, did not last. The preferred channels for protest, especially in the south, were first and foremost support movements or ethnically homogeneous unions that would later make up political parties with strong regional attachments. Faced with an increase in restlessness, the British authorities gradually built a political structure that sanctioned the divisions of the country during its unification, first by creating regional assemblies (the Richards Constitution of 1947), then a House of Representatives that replicated the regional demographic balances (the Macpherson Constitution of 1951), then by officially establishing a federal structure, grouping together the northern, western, and eastern regions, each with considerable autonomy (the Lyttleton Constitution of 1954). Out of the federal structure emerged three strengthened political forces, each in charge of one of the three regions: in the north, Tafawa Balewa and Ahmadu Bello's Northern People's Congress (NPC); in the west, the Action Group (AG) of Obafemi Awolowo; and in the east, Nnamdi Azikiwe's National Council of Nigeria and the Cameroons (NCNC). Each one led its region in a patrimonialist manner. In particular, they harnessed the profits from marketing boards, which were bodies that regulated the price of agricultural commodities, guaranteeing producers stable prices but generating substantial profits due to the difference between the prices given to farmers and the higher global prices.[13]

With the approach of independence, each of these forces feared that another would gain power over the country. The north especially, due to its lag in development, was weary of a federal administration where its citizens would be excluded. It was finally Tafawa Balewa, a consensual representative of the north (he did not belong to the Fulani aristocracy), who presided over the fate of the Federation immediately after independence, with the temporary support of the NCNC. But the Nigerian Republican era quickly turned into a fiasco. The southern regions soon accused Balewa of leading the country only for the benefit of his region. In fact, the implemented

13. Cotton and peanuts were produced in the north, cocoa in the southwest, and palm oil in the southeast. These agricultural products mostly end up on the international market.

© Ifri, 2009

investment plans, as well as the use of recruitment quotas in the army guaranteeing half of the officer positions to those coming from the north, seem to prove this. At the same time, measures were taken (with the help of some Yoruba leaders allied with the NPC) to exclude Obafemi Awolo, the charismatic representative from the west, from the political equation. Simultaneously, censuses taken in 1962 and 1963 to set the number of the elected officials from each region to the House of Representative and to decide on the division of revenues to each part of the Federation were grossly manipulated and inflamed tensions. The north came out the winner of the dispute, with 30 million supposed inhabitants out 55 million. In 1964, elections were violent and fraudulent and were partially boycotted by the NCNC and the AG, then united in the United Progressive Grand Alliance (UPGA). In 1965, a mini civil war broke out in Yoruba territory between the partisans of Awolowo and those of Akintola, allied with Tafawa Balewa, which was violently suppressed by the federal forces, who supported Akintola. Political instability peaked in January 1966 when officers overthrew the regime and brought Major General Ironsi, an Igbo, to power. Akintola, Balewa, and Ahmadu Bello were assassinated. Ironsi quickly surrounded himself with officers from his ethnic group and declared his intention to put an end to "tribalism" by building a unitary state, a decision perceived in the north as an attempt by the elites of the south to seize the state. Seven months later, a counter-coup overthrew him and installed Lieutenant Colonel Yakubu Gowon, who was from the north (but not Muslim). Anti-Igbo pogroms followed in the north of the country. Ojukwu, the military governor of the east, decided to secede from the Federation and declared the independence of the Republic of Biafra, with its majority Igbo population. Military hostilities soon followed.

The prospect of having access to oil revenues was probably one of the elements that convinced the secessionist Biafran people of the economic viability of the nation that they anticipated building. The preceding historical reminder nonetheless indicates that oil is at worst only one exacerbating factor in a structural crisis rooted in the colonial experience. National cohesion cannot be imposed from above on entities that are culturally, politically, and economically heterogeneous,

© Ifri, 2009

were put together by the British administration, and are each tied to the patrimonial management of its own resources. The Nigerian "national question" was not resolved at independence and has since haunted the political life of the country. It forms the backdrop of the economic specialization around oil extraction that generated more and more revenues, to the point of supplanting all other sectors of the economy. In terms of the competition that has given life to the country's three major ethno-regional entities since its creation, it is quite understandable that oil has become a focal point for demands and resentments. As will be seen below, constant changes in the formula for revenue-sharing between regions and then between the different administrative levels highlight the growing centrality of oil in post-colonial political regulation and explains continuing resentments.

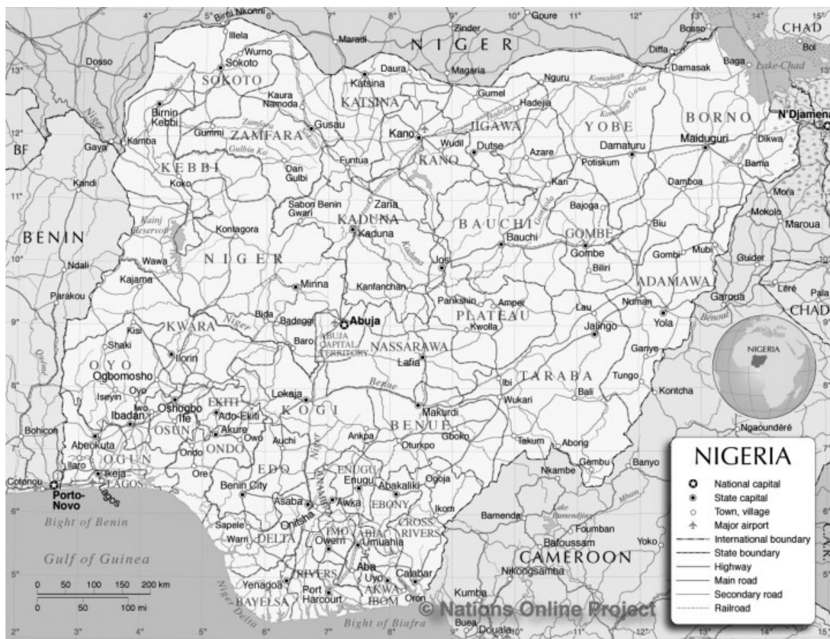
How to Share the Rent? The Political Economy of Nigerian Oil and the Vicissitudes of "Derivation"

In addition to military action to put an end to the Biafran Secession, in 1967 the Gowon regime decided to do away with the regional division of the country and replaced it with a federation of 12 states. This decision deprived Biafra of possible support from minority groups that now had the prospect of partial self-governance.[14] This set the precedent for the strategy that would from then on be followed by the center to preserve national unity: erode potential uprisings by multiplying administrative units that have relative autonomy as well as ad hoc budgets and infrastructure (and therefore prebends). Thus was born what Bach (1988) has called "fissiparous federalism," obtained not through the voluntary adhesion of initially independent entities but rather by the fragmentation of larger territories that were already members of the federation. The number of states went from 19 in 1976 to 21 in 1987, 30 in 1991 to 36 in 1996. The capital, Abuja, enjoys the unique status of Federal Capital Territory. Today's political configuration is shown on map 1.

14. The "minority groups," particularly numerous in the Middle Belt and the Niger Delta, make up one-third of Nigeria's total population.

© Ifri, 2009

Map 1. Current Political Map of Nigeria
(the names of the 36 states are in capital letters)



Source: Nations Online Project 2009.

In 1976 a new administrative level was created that divided the states themselves into Local Government Areas. Crucially, the economic viability of these administrative units was not a prerequisite to their creation: oil income, distributed from above, took care of this issue. Oil profits became the main instrument of keeping these new intra-federal administrations (states and local governments, or lower tiers) under the financial thumb of the central state. This reasoning was explicitly summarized in 1975 in the report by the Irikefe Commission (cited in Suberu 2004: 33), in charge of examining the administrative reconfiguration of the country:

> Each state is not, and should not, be required to function as a self-contained or self-sufficient unit. In other words, the country as a whole constitutes a single economic system and so long as this system is viable the viability of the component units can be assured through the distributive

© Ifri, 2009

> actions of the Federal Government. Considerations of the overall economic viability of individual states [therefore] may not be critical to this exercise [of creating states].

The principle outlined by the Irkefe Commission was rapidly put into practice as shown by table 2. Between 1980 and 2002, the percentage of federal financial contributions (besides special transfer payments) to state budgets fluctuated between 46% and 86%, averaging 67% for the period. Local governments were even more dependent on the central government, as on average 76% of their revenues were from federal transfer payments between 1993 and 2002. Oil resources were clearly the cornerstone of this system, which represented, depending on the year, between 56% and 85% of the federation's total revenues. It should be noted, however, that these figures mask significant regional differences, which vary depending on the year. The state of Lagos, home of the headquarters of numerous secondary and service activities and thus has access to a large tax base, is least dependent on federal transfer payments (less than 50% of its revenue comes from federal contribution). The states of the Niger Delta (e.g. Bayelsa and Akwa Ibom) are, in general, more dependent on federal transfer payments. Broadly speaking, by creating states and local governments, the regime delegated part of the management of territories to local representatives, but above all it held onto a privileged if not powerful part of their sovereignty, thanks to oil profits.

The increase in the central government's power over local finances implies the abandonment of the derivation principle, a central concept in Nigeria according to which the federation returns to each state the revenues that it itself generated. At the end of the civil war, the increase in the number of administrative units went hand in hand with a drastic centralization of revenues and the progressive abandonment of derivation (Suberu 2001).

Broadly speaking, the tripartite federal structure of independence relied on generous derivation, without being absolute. While revenues mostly made their way to the center,

© Ifri, 2009

Table 2. Percentage of Federal Transfer Payments in the Revenues of States and Local Governments (1980-2002)

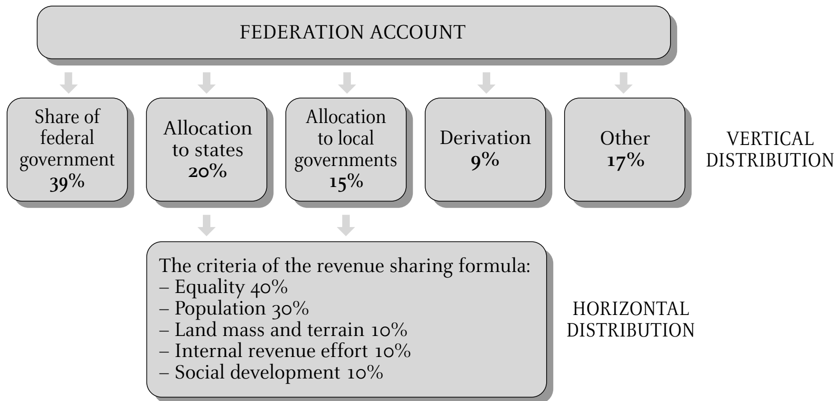
Year	States (%)	Local Governments (%)	Percentage of Oil Revenue in the Federal Government's Total Annual Revenue (%)
1980	76	Not Available	Not Available
1982	75	N/A	N/A
1986	60	N/A	57
1987	76	N/A	70
1988	79	N/A	67
1989	86	N/A	79
1990	82	N/A	82
1991	80	N/A	80
1992	75	N/A	85
1993	70	92	83
1994	59	90	79
1995	57	73	70
1996	46	69	71
1997	52	68	71
1998	46	67	70
1999	61	72	76
2000	70	78	83
2001	70	75	76
2002	58	75	71
Average*	67	76	75

Table based on author's calculations, using the annual reports of the Nigerian Central Bank.
* Averages were calculated based on available years.

they were then redistributed at the level of the regions' respective contributions. In 1964, while oil specialization of the economy was under way, the Tafawa Balewa regime abandoned complete derivation and set a redistribution breakdown of the federal account (now called Distributable Pool Account) with vague specifications, which allocated 42% of revenues to the northern region, 30% to the east, 20% to the west, and 8% to the newly created center-west region. In 1969, the marketing boards – which still fell under regional authority – were taken over by the federation. The centralization of revenues was accentuated even more immediately after the Biafra War. The central government received an increasing amount of resources through vertical redistribution – which determines the allotment of the national "cake" among administrative levels. At the same time, in terms of "horizontal" distribution – which specifies how revenues should be distributed within the two sub-federal administrative levels (states

© Ifri, 2009

Figure 1. Federal Revenue Distribution in 2007



and local governments) – the population criterion (despite doubts over the reliability of census figures) and equality between states criterion (each receives the same fixed amount) were strengthened. As for derivation, it was virtually abandoned. In 1971, a distinction was made between offshore (in Nigeria's territorial waters) and onshore (on Nigerian soil) oil production that further minimized the calculation base for derivation. Only onshore production was from then on included in its calculation. Derivation fell to 2% of federal revenues in 1981, then to 1% between 1989 and 1999. Since the return of democracy, the level has jumped back up to 13% and offshore revenues are once again included in the calculation. Negative effects of oil extraction are also formally recognized and are the subject of separate compensation. Two development agencies, the Oil Mineral Producing Area Development Commission (OMPADEC) and the Niger Delta Development Commission (NDDC), funded by special federal funds, were finally created to aid the oil-producing area. These transfers have little to do, however, with the policy of complete derivation that prevailed at independence.

Figure 1 above encapsulates the current distribution situation of federal revenues. Rather than specifying theoretical percentages, which in practice are often elastic and determine vertical distribution, we have opted to show the respective amounts of actual transfer payments for 2007, as was recorded

© Ifri, 2009

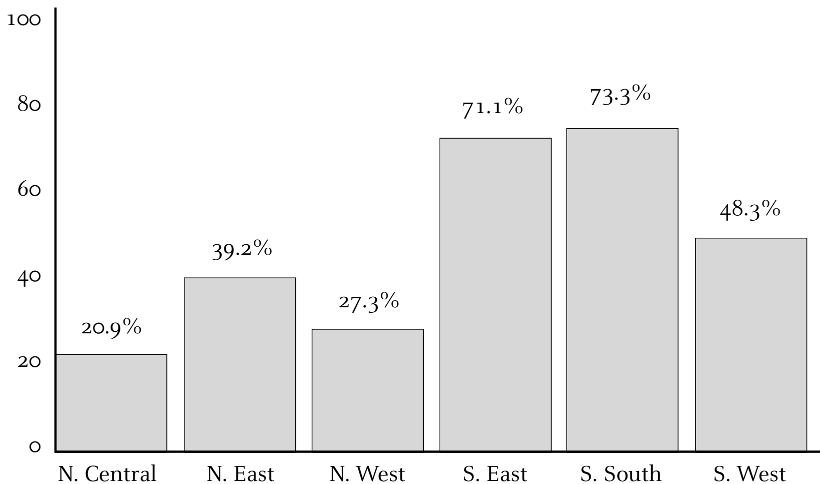
by the Central Bank of Nigeria (2008: 69). As noted for that year, 78% of the Federal Account came from oil income. In 2007, derivation did not reach the planned level of 13%. The percentages of horizontal redistribution indicated in figure 1 are theoretical. They correspond to the respective weight of the different criteria used for carrying out horizontal distribution. In addition to the population and equality criteria, there are, first, the physical characteristics of the territory, which are aimed at making up for handicaps (long distances, desert regions) that are likely to affect a given locality. Second, there is the "internal revenue effort," which rewards the most economically dynamic localities. Lastly, there is "social development," which allows regions with the least amount of education and health infrastructure to catch up with the others.

The distribution formula for federal revenues now in force combines with a sophistication of principles that are ethically quite justified: equality between states assures each a minimal revenue; demographics guarantee that the most populated areas receive more than the less populated areas. Nonetheless, the successive decision-making relative to the distribution of oil revenues, constantly modified since the end of the war,[15] has always been carried out without consulting the population, instead being decided from above through the federal structure. The process is not consensual. Homogeneity in the social preferences of members of the national community that pool their resources, a vital condition for the proper functioning of a central state according to experts on "fiscal federalism," does not translate to Nigeria. At the beginning of the 2000s, calls were made to hold a Sovereign National Conference aimed at overhauling the terms of fiscal federalism that relied on petroleum specialization. Instead of this conference, the Obasanjo administration organized in 2005 a consultative meeting of the country's local representatives, the National Conference on Constitutional Change, whose debates were explicitly restricted. Envoys from the Niger Delta, who came to defend resource control, that is to say, a return to the idea of widespread derivation (over 50%), left the meeting

15. Ross (2003b) lists 18 method changes between 1946 and 2003.

© Ifri, 2009

Figure 2. Popular Support for "Resource Control" by Region, in February 2001 (percentage of favorable opinions)



Source: Akindele et al. 2002: 559.

without achieving anything. Their demands however benefited from strong local support: it is clear from figure 2 above that citizens from the petroleum producing areas (the south-east, that is to say areas with majority Igbo populations, and south-south, that is, the Niger Delta) are the most attached to "resource control."

Discourse from leaders in oil areas prolongs the debate over the "national question": it denounces, among other things, the misappropriation of resources, which they believe they own, to the benefit of the north. Indeed, this transfer seems to have taken place due to the simple fact that there is a higher concentration of local governments in the north than in the south (Ukiwo 2006). However, there is a lack of meticulous, large-scale evidence that would support the claim that the population has significantly profited from it (Bevan, Collier, and Gunning 1999; see Ayogu 2000; Wantchekon and Asadurian 2002). Much more than enriching the north, oil revenues seem to have enriched the military elite and their clients, and have allowed them to remain in power. No matter the index used (rates of poverty, education, health, infrastructure, etc.), the north remains clearly behind coastal regions, a

© Ifri, 2009

common imbalance in countries of the Gulf of Guinea, which was not reversed by the long post-colonial domination by the northern military elites.

Downstream from the fundamental and unresolved question of the "fair" distribution of oil revenues is the clearly more prosaic question of the benefits to be gained locally and in the short-term from the redistributive system that the center has set up. The scope of corruption and institutional opacity in Nigeria was discussed above. The administrative system put in place in the wake of the oil specialization of the economy is largely responsible for it: the multiplication of administrative units created baronies that were dependent on the central government – and their guardianship state when it comes to local governments – and not on their electoral base, which is mobilized during elections through violence or patronage networks funded by federal redistribution (Human Rights Watch 2007b). Bach (2004: 66) noted that "The financial rewards associated with the creation of new territorial units have triggered a self-perpetuating stream of demands." Capturing these places of power became an issue in the tug-of-war between local elites in complete contradiction with the close management of the people's concerns, which decentralization was supposed to promote (Ukiwo 2003). Moreover, once granted, these powers became exclusive: political recognition of a community is derived from its recognition as a cultural entity. According to an official plan in force, only "indigenous" people from a given zone can demand partial self-governance. Each state and each local government is consequently made up of indigenous groups and non-indigenous peoples removed from the governance of their community (Human Rights Watch 2006). This imposed "second-class citizenship" fuels resentment on the part of non-indigenous peoples and pushes them to spread their own ethnic rhetoric so as to obtain a bit of autonomy, consequently keeping the fissiparous dynamic alive.

"Fissiparous federalism," of which oil revenues are the keystone, has preserved national integrity. No centrifugal protest movement today has the means to bring about a genuine secession, contrary to the era when the country was

© Ifri, 2009

divided into only three regions. In this regard, Nigeria's political structure has been astonishingly resilient. Far from having suppressed conflict, however, Nigeria's institutional structure has lowered the scale at which demands and mobilizations are seen while fueling the flames.

The Niger Delta has not escaped this pattern. Ukiwo's (2006) detailed monograph, for example, points out that the bloody intercommunal conflicts between the Ijaw, Itsekiri, and Urhobo groups located in Warri between 1997 and 2004 were not expressions of ancestral interethnic hatred but were directly linked to the creation of local governments and the struggle for autonomy and access to the rent.[16] Along with the rest of the country, the Niger Delta suffers from an imperfect federalist organization produced by the nation's political history. It has the peculiarity, however, of hosting the oil production sites and consequently is subject to their direct effects, to which we will now turn.

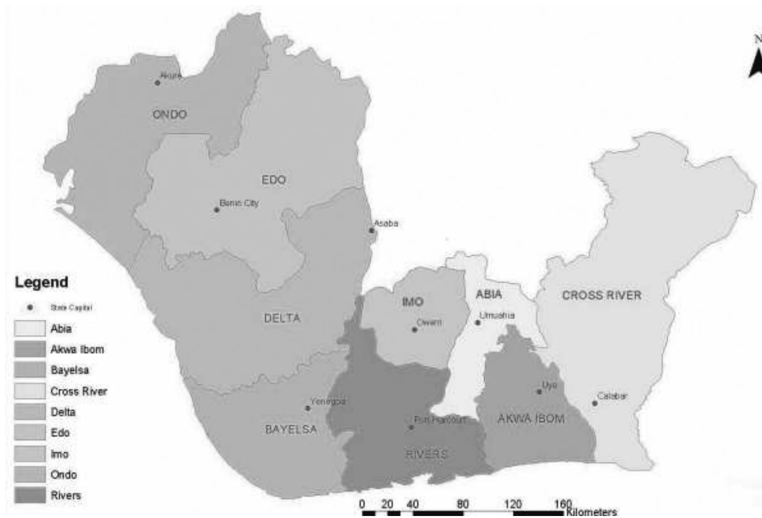
Coercion, Suppression, and Civil Protest: The History of Violence in the Niger Delta

The Niger Delta is a vast coastal zone in the south of Nigeria made up of nine states (see map 2) and with 28 million inhabitants spread over 13,329 areas of concentrated population, 95% of which have less than 5,000 people. The physical characteristics of the zone largely explain why its people are so spread out: half of the territory is covered in mangroves divided by a complex network of rivers running between islands with dense tropical vegetation. The Delta's main city is Port-Harcourt, which has a population of nearly 4 million. Half of the Niger Delta's population is ethnic Ijaw and the rest is

16. See Ukiwo (2006), 32: "In the context of demands from all interest groups, the process of creation of local government became less transparent and it seemed that military rulers dispensed local governments as patronage to favoured groups. This situation alienated some groups who felt they have lost out from successive local government exercises and that new local governments have not met their aspirations for self-government and development. It is in this context that creation of new local governments triggered violent conflicts between ethnic and communal groups." The conflict between the Ijaws, Itsekiris, and Urhobos annually left several hundreds of people dead between 1997 and 2004, and ended only under the intense pressure of Nigerian military forces (IRIN 2004).

© Ifri, 2009

Map 2. The States of the Niger Delta

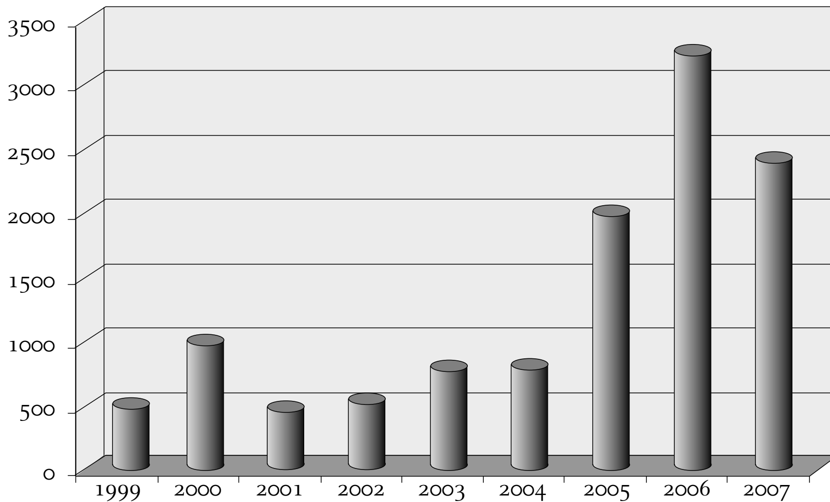


divided up between the Urhobo, Itsekiri, Efik, and Ibibio. For 40 years now, this region has been an El Dorado of hydrocarbons exploitation where excellent quality oil, called Bonny Light, is extracted at an attractive price. Thus far, 6,000 oil wells have been drilled there, four refineries constructed, and 7,000 km of pipeline run through it; 1,500 areas are home to infrastructure related to the extractive industry, and 100,000 people work in the sector, either employed by the state company (Nigerian National Petroleum Corporation, NNPC) or by multinational companies that are in joint ventures with it: Shell, Mobil, Chevron, Total, Agip (Watts 2008). As was noted at the outset of this chapter, petroleum exploitation takes place in a bleak ecological, economic, and social landscape after the ground under which hydrocarbons are located was seized by the federal government through legislation (the Petroleum Act of 1969).

Since 2005, as was mentioned in the introduction, the Niger Delta has been a particularly volatile pocket of political and social upheaval. MEND is leading a violent struggle for "resource control." Its members, equipped with AK47 machine guns, shuttle quickly between coves, leading armed operations against multinational firms or security forces, taking hostages,

© Ifri, 2009

Figure 3. Annual Number of Acts of Vandalism on Pipelines



Source: Graph based on data from NNPC 2007.[17]

or sabotaging infrastructure almost daily (see figure 3). Ransom and trafficking (oil,[18] arms, and probably drugs) ensures the organization's economic sustainability. The militants, mostly young Ijaw men, are said to be paid 50,000 nairas per month (around €330), which is much more than a young educated Nigerian could make in the formal sector. The relative affluence created through trafficking renders the sincerity of the "cause" suspect, making it difficult to distinguish here between strictly political motives and the desire to protect quasi-mafia interests. Oyefusi (2007) is the first, to our knowledge, to have tried to quantitatively estimate the rebels' motives for involvement by conducting a survey for the World Bank of 1,337 individuals from 18 different communities in the Niger Delta. The study showed that the proportion of respondents who were willing to join the rebellion increases as their income and level of education decreases. The presence

17. The actions listed in this table were not necessarily carried out by MEND or organized militant groups. They could have been carried out by civilians to protest, to profit from diverting oil, or to obtain financial compensation from oil companies in case of environmental harm.
18. In the framework of the fight for "control of resources," militants consider oil bunkering a legitimate practice, as it returns to local populations what rightly belongs to them.

© Ifri, 2009

of oil infrastructure in the respondents' communities is also a significant factor in the likelihood of their becoming involved, highlighting the direct role that petroleum exploitation plays in their decision to fight.

MEND is not the only rebel movement in the region, however: other groups, more or less inclined to use violent means and generally organized by their territorial base, are also active. They sometimes resemble cults, fraternities that in many ways function like criminal gangs (Courson 2007; Ukiwo 2007). Little is still known about the connections and interactions between these different groups, whether at the level of the leadership or at that of the fighters. It seems, however, that the sometimes bizarre acronyms that habitually enter the media's spotlight are only the surface of complex dynamics that reflect not only anger at the federal state, its security forces, and multinational companies, but also intra-communal disputes between leaders, particularly generational or even interpersonal rivalries.

Yet these groups, whose local popularity seems genuine,[19] are far from being the only contributors to the apparent prevailing disorder. The practices of the political, economic, and military elites, as well as the multinational corporations, are no less dubious than theirs. The regional development agency, OMPADEC – which has been severely criticized for the approach it used at its inception in 1993,[20] but also for its governance structure, which was hardly representative of local interests – was a notoriously corrupt organization (Suberu 2001). Because of this, it was replaced in 1999 by the NDDC, whose chairman was recently suspended for embezzling $5 million and for having used a traditional witch doctor who promised to enrich and protect him from his enemies by performing a ritual in which he burned $1 million in cash

19. Of the respondents in Oyefusi's (2007) study, 36% said that they were ready to take up arms. It is possible, then, that the proportion of those who sympathize with the struggle is much higher.

20. The reasoning that casts doubt on the justification of such a structure is clearly summarized in the fervent speech of the Ogoni activist Ken Saro-Wiwa in 1993 (cited in Suberu 2001: 74): "OMPADEC is illogical, an insult, and an injury. If you have your own money, why should government set up a commission to run your money? [...] They are treating us like babies here... OMPADEC is [designed] to bait us and destroy our will to resist injustice."

© Ifri, 2009

(Stakeholder Democracy Network 2008). Nor is the military to be outdone. In November 2008, seven soldiers of varying rank were found guilty by a court in Kaduna of having sold 7,000 arms to MEND militants (Afrique en ligne 2008). Three years earlier, two admirals were stripped of their rank for having "overlooked," in August 2004, the inspection of a ship that had earlier been intercepted off the coast of the Delta, filled with 11,000 tons of stolen crude, which then sailed to the Port of Lagos. In Lagos, the vessel escaped the navy's attention after its cargo was transferred to another ship offshore and its oil tanks were filled with ocean water, under the supervision of complicit Nigerian naval officers (IRIN 2005a). In addition, local political figures also profit from illegal oil seizures. In 2005, British authorities arrested the governor of Bayelsa and the torchbearer for the Ijaw cause, Diepreye Alamieyesigha, for money laundering in a London residence, where the equivalent of $3 million in liquid was found. Paradoxically, the arrest of Alamieyesigha is considered to be one of the reasons for the creation of MEND that same year. Lastly, oil money abundantly flows between oil companies and the youth activities of the "host communities," the term given to localities that host extractive infrastructure and are eligible for financial compensation. By his own admission, an executive at Chevron said in 2005: "Young, unemployed community men were being paid salaries as ghost workers for doing nothing at all, except that some are often found to be involved in threats, extortion and disruption of operations" (IRIN 2005b). This practice was confirmed by Zalik (2008: 4), who recorded the following declaration from militants in 2006: "If you negotiate with an AK47 they will pay you a price for that, with a pistol, a bazooka, a gunboat... they will pay you based on your coercive power." This short-term thinking will only temporarily appease discontent, and it also foments new anger among the groups excluded from the benefits allocated by the companies, feeding a perpetual cycle of demands and violence.

It would thus seem that the criminalization of major actors in the region, regardless of what side they are on, is extremely widespread, if not standard practice. However, this apparently Hobbesian situation – which instead of a chaotic order is rather a form of order founded on the exclusive and violent

© Ifri, 2009

capture of oil profits – is typical of only relatively recent developments in a local political history marked by the growing brutalization of the relationship between communities that host the petroleum infrastructure on the one hand and the federal authorities and oil operators on the other. This evolution seems to have been prolonged by the "democratization" of methods for accessing violence by taking advantage of elections.

While historically it is not the first, the struggle against petroleum exploitation that received the most media coverage was that led by the intellectual and activist Ken Saro-Wiwa in the name of the ethnic Ogoni people, a community of 500,000 members living in the Rivers State. Saro-Wiwa's movement, the Movement for the Survival of the Ogoni People (MOSOP), was created in 1990 in the wake of the publication of the Ogoni Bill of Rights. It combined demands for compensation for ecological disasters caused by Shell's oil exploitation on Ognoi soil and for a fairer redistribution of hydrocarbons revenues. MOSOP, a non-violent movement, achieved the mass mobilizations of local populations, uniting 300,000 protestors under its banner in January 1993, or more than half of the Ogoni population! However, it suffered merciless repression by security forces explicitly connected to Shell, through bloody punitive operations (Human Rights Watch 1999b; International Crisis Group 2008). In 1995, Saro-Wiwa was arrested on false charges, sentenced before a court on the orders of the military dictatorship of Sani Abacha, and then hanged along with eight other activists. At the end of the 1990s, the son of Ken Saro-Wiwa confided in the British journalist Karl Maier (2002) that ultimately his father was, because of his pacifist methods, the "best friend" that Shell and the other oil companies could have hoped for. Indeed, the fate of MOSOP's leader seems to have convinced many inhabitants of the Niger Delta, and notably young Ijaws, to opt for a systematically violent approach.

Ijaw activism has in fact prolonged Ogoni dissent since the end of the 1990s until today.[21] In 1998, the "Kaiama Declaration" was announced; like the Ogoni Bill of Rights, it

21. A brief episode of Ijaw dissent did take place in 1966, however, under the leadership of the nationalist Isaac Boro, who declared, over the course of a dozen days, the independence of the People's Republic of the Niger Delta.

© Ifri, 2009

laid out a set of Ijaw demands. This declaration, the result of extensive dialogs between Ijaw civil society groups, calls for resource control and self-determination. Here, too, the state's response was violent, even after the transition to democracy. In November 1999, Odi, an Ijaw community of 15,000 people, was attacked by armed forces; women were systematically raped and hundreds killed (Human Rights Watch 1999a). Although less severe, frequent and similar episodes of repression by Nigeria's security forces were documented in reports by human rights organizations, either local (Civil Liberties Organization 2002) or international (Human Rights Watch, International Crisis Group), throughout the 1990s and the beginning of the 2000s. In many cases, the indirect actions of oil companies were to blame: they certainly did not perpetrate these violent acts themselves, but they often chose the victims. This era seems to be nearing its end, however. Under pressure from international public opinion, multinationals have promised to begin cooperating with local populations, promoting development programs with the host communities, which, as noted above, are not exempt from pernicious effects. Their positive impact over the long term remains to be seen (Zalik 2004).

Parallel to the increase in nationalist and environmentalist unrest, young people were subjected to political manipulation following the democratic transition in 1999, particularly concentrated around electoral periods, in 1999, 2003, and 2007. During each of these elections, territorial struggles between political parties (including the ruling party, which was simultaneously the source of the repression) rallied gangs who were given arms, material benefits, or informal authorization to traffic various items (including oil) in exchange for their services in "mobilizing" (often coercively) the electorate (Human Rights Watch 2005, 2008). Failed promises, interruptions in the distribution of prebends, and struggles for supremacy between rival gangs fostered the use of mercenaries and political violence, making the use of force the commonplace method for settling disagreements.

This short overview has shown that the inextricable state of corruption and violence that currently reigns in the Niger Delta stems from the combined effects of local political authorities,

© Ifri, 2009

multinational corporations, and federal security forces. The oil companies have engaged in consultations with local populations regarding their industrial operations; President Yar'Adua's new government has showed a clear will to settle the conflict by naming a citizen of the Delta, Jonathan Goodluck, as the country's vice president in 2007. However, violence has not decreased. The situation will probably only calm down with initiatives spread out over the long term.

Conclusion

Nigeria has numerous traits that researchers usually associate with the "resource curse." They are organized in table 3 below, along with a look at their application to Nigeria. It should be clear from the foregoing, however, that "curse" is not the term that best characterizes the Nigerian situation. In this chapter, we have used a historical approach to trace the political trajectory that Nigeria has followed and of which the current bleak situation is only an incidental product. Set up as a federal state on the eve of its independence, the country was progressively undermined by the mutual distrust that its constituent parts kept alive. The period following the Biafra War cemented the existence of a political structure aimed at preventing any future secessionist movement, an extreme form of centralized federalism in which each administrative unit earns its partial political autonomy only at the price of an almost complete dependence on financial transfers from the central government. Such an institutional structure could only exist and be maintained over time thanks to abundant oil rents, taken by the federal level before serving as the preferred tool for regulating local aspirations for self-governance. While it preserves national unity, this system generates many harmful effects, in particular the accentuation of the struggle to create new administrative entities along ethnic lines and capturing the benefits that are associated with it by the local elites. This micro-political management of the "national question" had particularly disastrous consequences in the Niger Delta, where it was combined with the direct consequences of oil exploitation: land seizure, the destruction of traditional activities, ecological damage, etc. The vicious repression of

© Ifri, 2009

uprisings, jointly led by federal authorities and oil companies until quite recently, largely explains the radicalization of today's active movements in a zone where now conflicts that are not settled with money are settled by force.

Several encouraging signs of change are perceivable on the side of multinationals and the Nigerian government, though to date they have not been able to stop the deterioration of the local political climate. There is no guarantee that satisfying the activists' demands, particularly by giving them access to a larger proportion of oil revenues, would lead to a real improvement in the situation. The governments of the Delta states in fact already receive substantial revenues that their leaders, while being the heralds of self-determination, have been incapable of using justly (Human Rights Watch 2007a; Watts 2008), prolonging at the local level the patrimonial practices at work at the national level. There is little hope for improvement as long as a rationale for the misappropriation of a large part of the "national oil cake," in the absence of any cooperative dialog and democratic validation on its uses, persists among the concerned parties.

© Ifri, 2009

Table 3. Summary of the Effects of the "Resource Curse" and its Application to Nigeria

Effect of oil specialization	Underlying mechanism	Application to the Nigerian case
Economic effects	Dutch disease, voracity effect, etc.	The voracity effect then debt overhang more likely than the Dutch disease as is.
	Sectoral imbalances	Short-term strategies of revenue accumulation at the expense of productive industrial investment ("White Elephants") or agriculture (the near destruction of cultivated land profits, "urban bias"). But these practices existed before oil exploitation (notably through marketing boards).
Institutional effects	Low development of state capacities	Important initial efforts in education and health, but overall ineffective.
	Clientelism	Institutional plan that generates and strengthens local baronies, organized around an ethnic base, the only identity that is capable of political success due to the legal arrangements benefiting "indigenous" groups.
Effects on rebel movements (rapacious temptations)	Predatory campaigns	Evident criminalization of the attitudes of local actors, whether dealing with militants or officials (oil bunkering and trafficking). Need however, to place these behaviors in a historical context.
	"Booty futures" hypothesis	Not applicable – exploitation already under way. Possibly still applies to underexploited areas such as the Bakassi Peninsula.
	Feasibility hypothesis	Trafficking, refining, and the flow of oil on the black market (oil bunkering)
Social destitution of populations (feelings of injustice)	Production of local negative externalities	Land seizures, environmental degradation (gas flares, oil spillages, etc.)
	Production of "horizontal inequalities"	At the national scale, not because of major changes in inter-group disparities due to oil specialization, but the continuation of the same elites holding power à inequalities in political representation.
	Democratic deficit	Yes: centralization, authoritarianism, military repression

© Ifri, 2009

Bibliography

Afrique en ligne. 2008. Des militaires condamnés à la prison à vie pour vente d'armes au MEND. *Afrique en ligne*, November 19. http://tinyurl.com/66wnt7 (accessed February 15, 2009).

Ahmad, E. and R. Singh. 2003. *Political economy of oil-revenue sharing in a developing country: Illustrations from Nigeria*. International Monetary Fund Working Paper, WP/03/16. Washington, DC: International Monetary Fund. http://www.imf.org/external/pubs/ft/wp/2003/wp0316.pdf (accessed February 15, 2009).

Akindele, S. T., O. R. Olaopa, and A. S. Obiyan. 2002. Fiscal federalism and local government finance in Nigeria: An examination of revenue rights and fiscal jurisdiction. *International Review of Administrative Sciences* 68, no. 4: 557–78.

Auty, R. M. 1993. *Sustaining development in mineral economies: The resource curse thesis*. London: Routledge.

—. 2004. Natural resources and civil strife: A two-stage process. *Geopolitics* 9, no. 1: 29–49.

Ayogu, M. D. 2000. The political economy of infrastructure investments in Nigeria. Annual Bank Conference on Development Economics, Washington, DC. http://siteresources.worldbank.org/INTABCDEWASHINGTON2000/Resources/ayogu2.pdf (accessed February 15, 2009).

Bach, D. C. 1988. Les effets pervers du federalisme nigerian. *Politique Africaine* 32: 22–30.

—. 2004. Inching towards a country without a state: Prebendalism, violence and state betrayal in Nigeria. In C. Clapham, J. Herbst, and G. Mills, eds., *Africa's big states: Angola, DRC, Ethiopia, Nigeria, South Africa, Sudan*, 47–79. Johannesburg: Witwatersrand University Press.

Baland, J.-M. and P. François. 2000. Rent-seeking and resource booms. *Journal of Development Economics* 61: 527–42.

Bevan, D. L., P. Collier, and J. W. Gunning. 1999. *The political economy of poverty, equity, and growth: Nigeria and Indonesia*. New York: Oxford University Press.

Budina, N., G. Pang, and S. van Wijnbergen. 2007. *Nigeria's growth record: Dutch disease or debt overhang?* World Bank Policy Research Working Paper 4256. Washington, DC: World Bank. http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/

© Ifri, 2009

2007/06/15/000016406_20070615145303/Rendered/PDF/wps425.pdf (accessed February 15, 2009).

Central Bank of Nigeria (CBN). 2008. *Annual Report and Statement of Accounts for the Year Ended 31 December 2007*. Abuja: Central Bank of Nigeria. http://www.cenbank.org/documents/cbnannualreports.asp (accessed February 15, 2009).

Civil Liberties Organisation (CLO). 2002. *Blood trail: Repression and resistance in the Niger Delta*. Lagos: Civil Liberties Organisation.

Collier, P. and A. Hoeffler. 1998. On economic causes of civil war. *Oxford Economic Papers* 50, no. 4: 563–73. http://team.univ-paris1.fr/teamperso/sponcet/SciencesPo/Collier%20war%20causes.pdf (accessed February 15, 2009).

Courson, E. E. 2007. *The burden of oil: Social deprivation and political militancy in Gbaramatu Clan, Warri South West LGA, Delta State, Nigeria*. Economies of Violence Working Paper No. 15. Berkeley, CA: University of California, Institute of International Studies. http://geography.berkeley.edu/ProjectsResources/ND%20Website/NigerDelta/WP/15-Courson.pdf (accessed February 15, 2009).

Falola, T. and M. M. Heaton. 2008. *A history of Nigeria*. New York: Cambridge University Press.

Guichaoua, Y. 2006. *The making of an ethnic militia: The Oodua People's Congress in Nigeria*. CRISE Working Paper No. 26. Oxford: Centre for Research Inequality, Human Security and Ethnicity (CRISE). http://www.crise.ox.ac.uk/pubs/workingpaper26.pdf (accessed February 15, 2009).

—. 2009. Self-determination group or extra-legal governance agency? The multifaceted nature of the Oodua people's congress in Nigeria. *Journal of International Development* 21, no. 4: 520-33.

Human Rights Watch. 1999a. The destruction of Odi and rape in Choba. Washington, DC: Human Rights Watch. http://www.hrw.org/legacy/press/1999/dec/nibg1299.htm (accessed February 15, 2009).

—. 1999b. *The price of oil: Corporate responsibility and human rights violations in Nigeria's oil producing communities*. HRW Index No. 1-56432-225-4. New York: Human Rights Watch. http://www.hrw.org/legacy/reports/1999/nigeria/nigeria0199.pdf (accessed February 15, 2009).

—. 2003. *Nigeria's 2003 elections: The unacknowledged violence*. Washington, DC: Human Rights Watch. http://www.hrw.org/en/reports/2004/06/01/nigeria-s-2003-elections (accessed February 15, 2009).

© Ifri, 2009

—. 2005. *Rivers and blood: Guns, oil and power in Nigeria's Rivers State*. A Human Rights Watch Briefing Paper, February. New York: Human Rights Watch. http://pwypdev.gn.apc.org/sites/pwypdev.gn.apc.org/files/RiversandBlood_HRW_2005.pdf (accessed February 15, 2009).

—. 2006. *"They do not own this place": Government discrimination against "non-indigenes" in Nigeria*. Washington, DC: Human Rights Watch. http://www.hrw.org/en/node/11354 (accessed February 15, 2009).

—. 2007a. *"Chop fine": The human rights impact of local government corruption and mismanagement in Rivers State, Nigeria*. New York: Human Rights Watch. http://www.hrw.org/en/node/11042 (accessed February 15, 2009).

—. 2007b. *Criminal politics: Violence, "godfathers" and corruption in Nigeria*. Washington, DC: Human Rights Watch. http://www.hrw.org/en/reports/2007/10/08/criminal-politics (accessed February 15, 2009).

—. 2008. *Politics as war: The human rights impact and causes of post-election violence in Rivers State, Nigeria*. Washington, DC: Human Rights Watch. http://www.hrw.org/en/reports/2008/03/26/politics-war (accessed February 15, 2009).

Humphreys, M. 2005. Natural resources, conflict, and conflict resolution: Uncovering the mechanisms. *Journal of Conflict Resolution* 49, no. 4: 508–37. http://www.columbia.edu/~mh2245/papers1/MH8JCR05_paper.pdf (accessed February 15, 2009).

Humphreys, M. and J. M. Weinstein. 2008. Who fights? The determinants of participation in civil war. *American Journal of Political Science* 52, no. 2: 436–55.

International Crisis Group. 2008. Nigeria: Ogoni Land after Shell. *Africa Briefing* 54. Brussels: International Crisis Group.

Integrated Regional Information Networks (IRIN). 2004. Nigeria: Rival delta militia leaders agree peace amid security crackdown. June 1. New York: UN Office for the Coordination of Humanitarian Affairs. http://www.irinnews.org/Report.aspx?ReportId=50088 (accessed February 15, 2009).

—. 2005a. Conviction of admirals confirms navy role in oil theft. January 6. New York: UN Office for the Coordination of Humanitarian Affairs. http://www.irinnews.org/report.aspx?reportid=52598 (accessed February 15, 2009).

—. 2005b. Nigeria: Oil giant admits aid policies helped fuel violence. May 4. New York: UN Office for the Coordination of

© Ifri, 2009

Humanitarian Affairs. http://www.irinnews.org/Report.aspx?ReportId=54244 (accessed February 15, 2009).

Jensen, N. and L. Wantchekon. 2004. Resource wealth and political regimes in Africa. *Comparative Political Studies* 37, no. 7: 816–41.

Joseph, R. A. 1978. Affluence and underdevelopment: The Nigerian experience. *Journal of Modern African Studies* 16, no. 2: 221–39.

Larsen, E. R. 2006. Escaping the Resource Curse and the Dutch Disease? When and why Norway caught up with and forged ahead of its neighbors. *American Journal of Economics and Sociology* 65, no. 3: 605–40.

Le Billon, P. 2007. Geographies of war: Perspectives on "resource wars." *Geography Compass* 1, no. 2: 163–82.

Lewis, P. M. 2006. *Performance and legitimacy in Nigeria's new democracy*. Afrobarometer Briefing Paper No. 46. http://www.afrobarometer.org/papers/AfrobriefNo46.pdf (accessed February 15, 2009).

Maier, K. 2002. *This house has fallen: Nigeria in crisis*. Oxford: Westview Press.

Mehlum, H., K. Moene, and R. Torvik. 2006. Institutions and the resource curse. *Economic Journal* 116, no. 508: 1–20.

Nations Online Project. 2009. *Administrative map of Nigeria*. http://www.nationsonline.org/oneworld/map/nigeria_map2.htm (accessed February 15, 2009).

Nigerian National Petroleum Corporation (NNPC). 2007. *Annual statistical bulletin 2007*. Abuja: Nigerian National Petroleum Corporation, Corporate Planning and Development Division (CPDD).

Noble, K. B. 1992. Nigeria's monumental steel plant: Nationalist mission of colossal mistake. *New York Times*, July 11. http://query.nytimes.com/gst/fullpage.html?res=9E0CE0DB1130F932A25754C0A964958260 (accessed February 15, 2009).

Oates, W. E. 1999. An essay on fiscal federalism. *Journal of Economic Literature* 37, no. 3: 1120–49.

Oyefusi, A. 2007. *Oil and the propensity to armed struggle in the Niger Delta region of Nigeria*. Post-Conflict Transitions Working Paper No. 8. Washington, DC: World Bank. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2007/04/09/000016406_20070409112904/Rendered/PDF/wps4194.pdf (accessed February 15, 2009).

© Ifri, 2009

Peel, J. D. Y. 1978. Olaju: A Yoruba concept of development. *Journal of Development Studies* 14, no. 2: 139–65.

Ron, J. 2005. Paradigm in distress? Primary commodities and civil war. *Journal of Conflict Resolution* 49, no. 4: 443–50.

Ross, M. L. 2001. Does oil hinder democracy? *World Politics* 53, no. 3: 325–61. http://www.sscnet.ucla.edu/polisci/faculty/ross/doesoil.pdf (accessed February 15, 2009).

—. 2003a. The natural resource curse: How wealth can make you poor. In I. Bannon and P. Collier, eds., *Natural resources and violent conflict: Options and actions*, 17–42. Washington, DC: World Bank. http://www.sscnet.ucla.edu/polisci/faculty/ross/Bannon&Collier_chap.pdf (accessed February 15, 2009).

—. 2003b. Nigeria's oil sector and the poor. Unpublished background paper for the UK's Department for International Development (DfID). http://www.sscnet.ucla.edu/polisci/faculty/ross/NigeriaOil.pdf (accessed February 15, 2009).

—. 2004. What do we know about natural resources and civil war? *Journal of Peace Research* 41, no. 3: 337–56.

Rosser, A. 2006. *The political economy of the resource curse: A literature survey*. IDS Working Paper No. 268. Brighton: Institute for Development Studies, University of Sussex. http://www2.ids.ac.uk/gdr/cfs/pdfs/wp268.pdf (accessed February 15, 2009).

Sala-i-Martin, X. and A. Subramain. 2003. *Addressing the natural resource curse: An illustration from Nigeria*. NBER Working Paper No. 9804. Cambridge, MA: National Bureau of Economic Research (NBER).

Stakeholder Democracy Network (SDN). 2008. *SDN Newswire: News and analysis direct from the Niger Delta*. London: Stakeholder Democracy Network. http://www.stakeholderdemocracy.org/uploads/SDN%20Publications/news%20and%20analysis/sdn_nov2008_enews.pdf (accessed February 15, 2009).

Stewart, F. (ed.). 2008. *Horizontal inequalities and conflict: Understanding group violence in multiethnic societies*. New York: Palgrave Macmillan.

Suberu, R. T. 2001. *Federalism and ethnic conflict in Nigeria*. Washington, DC: United States Institute of Peace.

—. 2004. Pseudo-federalism and the political crisis of revenue allocation. In A. A. B. Agbaje, L. Diamond, and E. Onwudiwe, eds., *Nigeria's struggle for democracy and good governance: A festschrift for Oyeleye Oyediran*, 29–46. Ibadan: Ibadan University Press.

© Ifri, 2009

—. 2005. Reinventing the architecture of Nigerian federalism. *Brown Journal of World Affairs* 12: 139–54.

Tornell, A. and P. R. Lane. 1999. The voracity effect. *American Economic Review* 89, no. 1: 22–46.

Ukiwo, U. 2003. Politics, ethno-religious conflicts and democratic consolidation in Nigeria. *Journal of Modern African Studies* 41, no. 1: 115–38.

—. 2006. Creation of local government areas and ethnic conflicts in Nigeria: The case of Warri, Delta State. Unpublished paper presented at the CRISE West Africa Workshop in March in Accra, Ghana. http://www.crise.ox.ac.uk/copy/decentralization%20conference/ukiwo.pdf (accessed February 15, 2009).

—. 2007. From "pirates" to "militants": A historical perspective on anti-state and anti-oil company mobilization among the Ijaw of Warri, Western Niger Delta. *African Affairs* 106, no. 425: 587–610.

United Nations Development Programme (UNDP). 2006. *Niger Delta Human Development Report*. 229. Abuja: UNDP Nigeria. http://hdr.undp.org/docs/reports/national/NIR_Nigeria/NIGERIA_2006_en.pdf (accessed February 15, 2009).

Wantchekon, L. and T. Asadurian. 2002. *Transfer dependence and regional disparities: The case of Nigeria*. Working Paper No. 152. Stanford, CA: Center for Research on Economic Development and Policy Reform, Stanford University. http://scid.stanford.edu/pdf/credpr152.pdf (accessed February 15, 2009).

Watts, M. 2007. Petro-insurgency or criminal syndicate? Conflict and violence in the Niger Delta. *Review of African Political Economy* 34, no. 114: 635–58.

—. 2008. Sweet and sour. In M. Watts, ed., *Curse of the black gold: 50 years of oil in the Niger Delta*, 37–47. New York: Powerhouse Books.

Weinstein, J. M. 2006. *Inside rebellion: The politics of insurgent violence*. New York: Cambridge University Press.

Zalik, A. 2004. The Niger Delta: "Petro-violence" and "partnership development." *Review of African Political Economy* 31, no. 101: 401–25.

—. 2008. Labelling oil, reconstituting governance: The global Memorandum of Understanding, Legal Oil.com and the contested representation of profiteering in the "global Niger Delta." Paper presented at the International Workshop on Violent Conflict in the Niger Delta, in Oslo, Norway, August 18–19.

© Ifri, 2009

© Ifri, 2009

Angola's Homegrown Answers to the "Resource Curse"

NICHOLAS SHAXSON*

Many outside experts have long regarded Angola as suffering from a classic case of the "resource curse," the thesis that countries dependent on natural resources like oil are cursed by their patrimony – they are held to grow more slowly, to be more authoritarian, more conflict-prone, more corrupt, and more volatile, in economic and political terms, than their peers. Angolans themselves tend to resist this view, and indeed recent history lends their claims credibility, at least on the surface: this oil-rich, former Portuguese colony has enjoyed Africa's fastest GDP growth rates over the last three years, according to traditional measures of GDP. In the present chapter, we shall examine the evidence for and against the applicability of the resource curse thesis to Angola, and conclude that the resource curse is very real in Angola's case. This examination will entail a broad exploration of Angola's economic and political history, with a focus on oil, and a discussion of Angola's diverse economic partnerships, notably with China. In the course of our presentation, we shall also

* Nicholas Shaxson is an Associate Fellow with the Africa programme at Chatham House. He has been active as a journalist, researcher, and consultant, who has lived in and written about the economics and politics of oil producing countries in West Africa since 1993.

© Ifri, 2009

have cause to challenge some of the prevailing opinions about Angola in the media, and provide pointers for the future.

Background

For the last three years Angola has easily been Africa's fastest-growing economy, averaging just under 20% GDP growth from 2005 to 2007 (OECD 2008). Years, and even decades, of severe macroeconomic instability and hyperinflation have given way to a period of sustained improvement in state revenues and finances, sharply lower inflation, and far better economic stability in purely macroeconomic terms.

Angola's economic growth is heavily dependent on its fast-growing oil industry, which is, at the time of this writing, producing just under 2 million barrels per day (bpd), with an annual export value that will probably reach almost $70 billion in 2008. Angola is also developing its capacity to export liquefied natural gas (LNG), having started construction of a project in May 2008 that will begin supplying the US market by around 2012; and it is boosting its refining capacity, with plans for one, and possibly two, new refineries with a capacity of 150,000–200,000 bpd each, complementing the old Luanda refinery, which currently processes about 35,000 bpd. Angola also exports diamonds: data are opaque and scarce, but official exports set the value at approximately $1 billion per year. Though this makes Angola one of the world's major producers of diamonds, it is still tiny when compared to oil.

Angola is recovering from a long and bitter civil war, which erupted upon gaining independence from Portugal in 1975 (after a violent anti-colonial struggle) and continued – punctuated by two periods of temporary peace in 1991–1992 and 1994–1998 – until the Angolan army tracked down and killed Jonas Savimbi, leader of the rebel party União Nacional para a Independência Total de Angola (UNITA) in 2002. The war with UNITA is definitively over, and there is no chance that it will re-ignite. (The sudden departure of President dos Santos, however, would create new potential for instability, though there is no clear sign that this is likely any time soon.) The end of the war, which has ushered in a period of political

© Ifri, 2009

stability and economic reconstruction, has been a major factor contributing to recent economic growth, setting the stage for major investments, mostly but not exclusively in the oil and diamond sectors.

Political power is highly centralized and almost uncontested in Angola. President José Eduardo dos Santos sits atop an extensive and sophisticated patronage network, through which power is exercised by playing off different constituencies against one another. None is especially powerful in political terms. The key constituencies are: the ruling party Movimento Popular para a Libertação de Angola (MPLA), whose members significantly overlap with all the other constituencies; the public sector ministries, notably the ministries of the economy, finance, and planning; the state oil company Sonangol and, to a lesser extent, the state diamond company Endiama; the armed forces, the intelligence services, and the office of the presidency. The only sources of significant opposition (or alternative viewpoint) to President dos Santos are the former rebel movement UNITA, which received a pitiful 10% of votes in legislative elections in September 2008; the Partido de Renovação Social (PRS), which produced a healthy result in its traditional northeastern, diamond-rich strongholds; and the Catholic Church, which is independent-minded but rarely raises its voice in overt opposition to the MPLA. These alternative poles, however, have only very limited influence on national politics and economic management.

Angola's international profile and image has also been evolving rapidly in the early years of the 21st century. From the late 1990s, a series of campaigns by Western transparency activists successfully painted the oil-rich African country as a poster child for international corruption, pointing to the extreme wealth of an oil-rich elite amid a sea of poverty, a terrible civil war, and economic mismanagement. After the war ended in 2004, these perceptions began slowly to shift, and Angola is now increasingly being viewed through a somewhat different lens. While the corruption story remains alive, with the new "Angolagate" corruption trials in Paris from October 2008 as the latest installment, an alternative narrative is emerging alongside it: one that casts Angola as a land of

© Ifri, 2009

opportunity for risk-taking foreign investors. Inflation is falling, and public financial management was, at least until the emergence of the new economic crisis, becoming more stable and less opaque, albeit from an exceedingly low base.

Angola's government is pursuing a homegrown approach to economic management. According to popular Western perceptions, Angola has been "let off the hook" on corruption and IMF-styled reform by China, which has extended large loans, partly in the hope of securing upstream oil licenses. Yet these perceptions are largely misplaced: Chinese lending, at several billion dollars spread out over several years, is currently flowing at a rate of about $1 billion per year, dwarfing Angola's budget. In reality, what Angola has been doing is to look at the advice offered by IMF, Brazilian, Portuguese, Chinese, and other consultants, the UNDP, and many other outsiders, and then select the advice (and technical support) that it likes, while rejecting the rest. What has insulated it from outside "pressure" is not Chinese lending but its oil.

It is also hardly surprising that Angola takes a hard-line approach to outside advice and pressure. First, while outsiders with some justification point to Angola's scandalous corruption, Angolans correctly point out in return that their country has been the victim of scandalous interference from outsiders over the past decades, most notably some Western governments' military and other support for UNITA during the war, especially in the two decades after independence. Second, much of the advice from the IMF and others that has been implemented has (rightly) been seen as producing disastrous outcomes in Angola. Western theoretical models for approaching the resource curse are regarded as simply inapplicable in Angola from a political and even an economic point of view. An example of such advice comes from the World Bank's (2006) major document on Angola, its *Country Economic Memorandum* from October 2006. The very first recommendation in the report reads: "Angola needs to complete the transition to a market economy." While this might seem like a good idea in theory, it completely ignores the political and economic realities of an oil-rich, developing African country. Such a transition is simply not likely to happen as long as the

© Ifri, 2009

oil lasts. As will be discussed below, Angola, almost inevitably due to its mineral resources, will take a highly statist, planned approach to economic management.

Some of the most obvious manifestations of economic reform – amid fast-growing sophistication of economic management and spectacular headline GDP growth (that is, growth measured in gross macroeconomic terms, potentially masking very different realities for different sections of the population) – have occurred since the end of the war in 2002, one might be tempted to conclude that it was ultimately the end of the war that spurred the changes. This conclusion would be incorrect, however. The end of the war, and rising oil prices, certainly helped to push change forward, but the real sea change for reform in terms of political will, following the tumultuous economic changes at the beginning of the 1990s, happened around 1997–1999. This became evident to the author through a series of interviews in Luanda with senior Finance Ministry, Central Bank, and other officials in 2005 and 2007.[1] The most important reasons for the new reform impetus seem to be the disastrous economic turbulence of the mid-1990s, and especially hyperinflation, which peaked in peacetime in 1996. Inflation started to fall really only in 1997, and has maintained a generally downward trend ever since. The other major bifurcation in economic policy at around the same time was the near-abolition in 1998 of the wide divergence between official and black market exchange rates – which had been hitherto exploited by well-connected elites to obtain what was, in essence, free money from the state through legal means. It was hyperinflation and economic instability, in the context of an imminent return to war, that finally convinced President dos Santos to surrender a large measure of political power to the technocrats at the Ministry of Finance: that appears to have been the point at which the current phase of economic reforms properly began. True to his instincts, Dos Santos allowed the changes to be introduced

---

1. Vines, Shaxson, and Rimli 2005. A *Drivers of Change – Angola* follow-up was conducted by Nicholas Shaxson, João Neves, and Fernando Pacheco in 2007, but has not yet been published. The reports were commissioned by the UK's Department for International Development (DfID).

© Ifri, 2009

Table 1. Angola: Basic Data, 2006 (unless otherwise indicated)

Population (millions)	16.4
GNI per capita, Atlas method, current US$	1,980
GDP (current US$ billion)	45.2
GDP growth (annual, % 2007)	19.7
Annual inflation (%)	12.0
External debt ($ billion)	9.5
International Reserves (end-2006, $ billion)	8.6
Oil production ('000 bpd)	1.43
Price of Angola's oil ($/b)	61.4
Current-account balance (including transfers, as % of GDP)	+23.3
Oil production (million barrels per day, 2007)	1.7
Diamond production ($ million)	1,200
Social indicators	
Under-5 mortality rate per 1,000 live births	260
Life expectancy at birth (2005)	41
Adult literacy report (%, 2000–2004)	67
Health expenditure (public + private, % of GDP, 2003)	2.8
Composition of GDP (2006)	
Agriculture, etc.	7.8
Extractive industries	59.4
Industry	4.9
Electric energy	0.1
Construction	4.4
Services	23.3

Sources: World Bank Angola at a Glance 2007, IMF (various, 2007), OECD African Economic Outlook 2008, UNDP Human Development Report statistics 2007, OGE (Orçamento Geral do Estado) 2008.

only gradually, for fear of a repetition of the appalling economic outcomes stemming from rapid economic policy change after the abandonment of official Marxism-Leninism at the start of the 1990s.

Angola's state budget has grown very fast in recent years: the 2009 budget puts revenues and expenditures at 3.2 trillion Kwanzas, or about US$43 billion at current exchange rates. To put this in perspective, this figure – based on an oil price of just $55 per barrel, significantly exceeds *all* OECD countries' annual overseas development assistance to *all* of Africa (OECD 2007). Yet despite all this money, and the economic growth, many of Angola's social and human indicators remain among the world's worst. For example, according to current official data, over 260 of every 1,000 Angolan children born alive die before their fifth birthday – the world's second worst infant mortality rate.

© Ifri, 2009

Angola's great wealth and rapid growth, combined with extremely poor social outcomes and widespread international findings that the country is poorly governed and highly corrupt, suggest that Angola may well be suffering from a bad case of the "resource curse."

Many Angolans strongly reject this notion, however. Angolan state media, and many of Angola's leaders, strongly promote the view that the oil wealth is almost unequivocally a blessing. It is the history of war that is at the root of Angola's problems, it is argued; the oil wealth will enable Angola to overcome its problems in time. Many ordinary Angolans, when asked, believe their oil is good for their country. Who is right?

The Resource Curse

The resource curse involves several symptoms and causes, and has led to certain policy prescriptions. According to the resource curse literature, a large endowment of resource wealth relative to the size of the economy tends to, or can, lead to:

- *long-term economic growth*
- *greater economic (and political) volatility*
- *more corruption*
- *more authoritarianism*
- *greater violence*

The notion of a resource curse is widely, though not universally, accepted: some mineral-rich countries (such as Norway or Botswana) seem to have avoided its worst effects; others dispute some of the evidence (the economist Jeffrey Sachs [2007], for example, now argues that the problem is not that resource-rich countries perform worse, but simply that they do not live up to their potential).

Three main generic explanations are typically given for the resource curse. The first is the "*Dutch disease*." When oil money floods into a country, local price levels rise (economists talk about appreciation of the real exchange rate: either the nominal exchange rate appreciates, or inflation rises, or both).

© Ifri, 2009

The end result is that costs rise in sectors that produce goods that can be traded (manufacturing, in wealthier countries; agriculture, in poorer nations) such that those sectors cannot compete with imports; these sectors then tend to wither away as imported goods replace their output, leaving the economy even more dependent on the mineral sector.

The second explanation focuses on *volatility*. Commodity prices fluctuate wildly over time. For example, by July 2007 oil prices had risen more than fifteen-fold since 1999, from under $10 per barrel to $147 per barrel, and by the end of October 2008 it had fallen to $60 per barrel. This plays havoc with national accounting – no country can absorb such volatile revenues, let alone a conflict-ridden African nation. This economic volatility, in a country so utterly dependent on one commodity, develops into political volatility.

The third element is the most complex: the effect on *political conditions*. This has several parts, and analysts are divided as to which is the most important. One is the principal-agent problem. As the financier George Soros (2007: xii) put it: "the rulers are not the principals. They are the agents of the people. The rulers get their rewards from the [oil] companies, not from the people whose interests they are supposed to safeguard." The key here is *taxation*. Students of European and American history are well aware of the role that taxation plays in building strong, accountable states, epitomized in the cry of early American settlers: "no taxation without representation." In resource-rich states like Angola, rulers tax oil companies, not citizens, with the result that they are less dependent on, and accountable to, their people.

A related political concept is one developed by scholars of Middle Eastern politics: that of the *rentier state* – a state based on economic rents, or "unearned income." It is also discussed in the context of *patronage politics*: the downward allocation of resources, permissions, or positions by rulers to underlings in exchange for political support. This phenomenon is not restricted to mineral-rich or African states. Many other countries are also rentier or quasi-rentier states: the most common source of alternative non-resource rents are "strategic rents," that is, rents obtainable from outside, such as foreign aid.

© Ifri, 2009

Generally, these rents do not entirely *cause* the problems: to a large degree, they exacerbate existing latent tensions and schisms and malign political tendencies.

There are five leading Western policy prescriptions currently recommended for tackling the resource curse. They are: first, set up oil funds (such as Norway's) to keep money outside of a producer economy and to smooth volatility; second, boost transparency; third, diversify the economy away from the natural resource. A fourth approach (related to the third) was pioneered by China in Africa but not yet widely recognized in Western policy circles as a mechanism for mitigating the resource curse; it is to use a form of barter: foreign companies build infrastructure in exchange for oil cargoes or oil concessions. (Whether this self-interested approach is effective or not is another matter.) A fifth, more radical proposal – distribute oil revenues directly to a nation's citizens – so far has made less headway in international policy debates.

Angola's Oil Industry

Angola's entire post-independence history has been shaped by oil. It was first exploited and produced (onshore) in the 1950s. By 1973, two years before independence, production had reached 173,000 bpd, and oil was already the country's largest export sector, despite a robust colonial agricultural and manufacturing sector. Oil production rose slowly but steadily after that, despite the fact that the country slipped into civil war soon after independence. Over time, Angola's production profile shifted steadily away from the more vulnerable onshore sites to offshore sites, where the geological potential has been shown to be greater. Oil's growth was not reversed by the fact that the Portuguese colonial administration was replaced by an official Marxist-Leninist government. While the newly independent nation nationalized most things in the economy after the Portuguese left, oil was treated as a special case, and the national oil company Sonangol was allowed to carve out a special role for itself, isolated and protected from predatory political interests and from the Marxist-Leninist system.

© Ifri, 2009

Production grew slowly through the 1980s and 1990s, dominated by the giant Cabinda Gulf (Chevron) "Block Zero" shallow water license off the northern enclave of Cabinda, which for many years accounted for more than half of Angola's oil output. By 1994, the end of a two-year period of war, production had risen to half a million bpd – all from relatively shallow-water licenses near the mouth of the Congo River, either immediately north of it (Cabinda Gulf's Block 0), or immediately south of it (Blocks 2 and 3, off the northern town of Soyo).

In the mid-1990s, something else happened. World oil technology had been advancing apace, and now a range of new offshore territory in deep water, mostly in depths of over 1,000 meters, was now coming within range. The world's major oil companies began to sign new deep-water licenses: Block 17 (Elf, now Total, signed January 1993); Block 15 (ExxonMobil, August 1994); Block 14 (operated by ChevronTexaco) was signed in February 1995; and Block 18 (BP, October 1996). These licenses first bore fruit in April 1996, when Elf discovered the giant, billion-barrel Girassol oilfield 150 km offshore, in water at depths of 1,350 m. This marked the start of Angola's second oil age: Girassol was followed by discovery after discovery, with major successes recorded in all of the above licenses (Shell had also won a license, Block 16, but it was unsuccessful). Chevron's vice chairman, Richard Matzke (cited in Ahmed 2000), reflected the common industry view at the time when he described Angola as "one of the world's best areas for frontier oil exploration and production."

Because of the scale of these projects, and the extreme water depths, it took several years before any of these discoveries could be brought into production. The first of Angola's deep-water fields to start up was Chevron's Kuito field in Block 14, which produced its first cargo at the turn of the millennium, in January 2000. At that point, Angola was already producing 750,000 bpd from its shallow water and onshore oilfields.

By 2004 oil production had reached 990,000 bpd; this then rose fast: 1.2 million bpd in 2005, 1.4 million bpd in 2006, 1.6 million bpd in 2007, with an expected 1.9 million bpd in

© Ifri, 2009

2008, and a forecast 2.0 million bpd in 2009, bumping up against a new 1.9 million bpd quota assigned after Angola joined OPEC in January 2007.

Four of the world's five oil majors – the US companies ExxonMobil and Chevron, the UK's BP, and France's Total; Shell is the exception – see their Angola operations as among their greatest production growth areas in the world. Plenty of other oil companies are seeking entry. Among the foreign companies, BP has the widest dispersion of stakes in the main oil-producing assets. It has therefore participated in the largest number of discoveries: the company has announced 55 discoveries in Angola so far, the largest of which contain in excess of 1 billion barrels of recoverable oil (BP 2008: 35).[2]

A third oil age is now dawning: in April 1999 Sonangol confirmed that BP, Elf (now Total), Exxon (now ExxonMobil), and Sonangol/Norsk Hydro would operate new "ultra-deep" oil licenses even further offshore, and before long the oil companies were making a series of major oil discoveries there too, some of which are currently under development. The first of these to enter production will probably be BP's Plutão Cluster in the ultra-deep Block 31, which is expected to come on stream in about 2011.

A fourth Angolan oil age is possible: Sonangol launched a licensing round in 2007, offering a series of "ultra-ultra-deep" licenses even further offshore than Blocks 31–33 (as well as a series of licenses onshore and in areas already explored). The awards appear to have been delayed until after the legislative elections, at the earliest. If discoveries were made there, production would be unlikely to start before 2015 at the earliest.

Angola's best years as an oil exporter certainly still lie ahead of it. The World Bank's 2006 *Country Economic Memorandum* forecasts a rapid rise in production to over 2.5 million bpd by 2010–2011, declining sharply thereafter. This is conservative, however: the data does not take into

2. BP (2008) reports 53 discoveries; more have been made since.

© Ifri, 2009

account several discoveries made before and since then, or the fact that as technology advances oil companies are able to squeeze more and more oil out of existing fields. Less than 7.5 billion barrels of Angola oil have been produced since the first discovery in the 1950s (IMF 2007: 47; and author's estimates), and current estimates of proven and probable reserves lie in the range of 13–15 billion barrels (though these estimates vary greatly, depending on how they are measured). Nor do such estimates include many of the recent discoveries, particularly in the ultra-deep blocks.

By 2008 Angola's oil industry was able to claim a string of world-beating successes. Not only will Angola hold the OPEC presidency for a year starting in January 2009, but in the first quarter of 2008 Angola outpaced Saudi Arabia to become China's largest oil supplier, exporting 688,000 bpd to the Asian country, compared to Saudi's 664,000 bpd (Zhu 2008).[3] In April 2008, it was widely reported that Angola also became Africa's largest oil exporter, overtaking Nigeria. This may be a temporary blip, however, for Nigeria's oil and gas potential is much larger: Nigeria's proven and probable reserves, at over 35 billion barrels, are three times the size of Angola's 13.5 billion barrels (OECD 2008a: 124)[4] – though a series of very large Angolan discoveries, not yet included in the data, will undoubtedly boost this figure substantially. Nigeria's production *capacity* is also much larger, compared to Angola's 1.9–2.0 million (probably rising to 2.5 million bpd if Angola's future OPEC quotas allow it). Nigeria also has even bigger gas reserves: it was half-jokingly referred to by one oil consultant as "a gas province, with some oil, while Angola is an oil province, with some gas." The reason for Nigeria's poor production performance is political: it has suffered tremendously both from onshore militant activity in the oil-producing zones of

3. Saudi Arabia is likely to regain the top spot, perhaps even in 2008, as new refineries in China, designed to process Middle Eastern crudes, enter production. Angola will probably lose its top spot, eventually, as a series of ongoing Chinese refinery upgrades will steadily make heavier, sourer Middle Eastern crudes more attractive to the Chinese market.

4. This figure is still widely used but is based on slightly old data; a figure of 13.6 billion proven plus probable reserves was cited by IHS Energy as 2004 data; a string of major discoveries since then has undoubtedly boosted this number considerably. See IHS Energy (2005).

© Ifri, 2009

the Niger Delta, which has curbed its production, and from the peculiarities of Nigerian joint venture oil contracts, which make it harder for companies to raise financing for exploration and production than Angola's more modern Production Sharing Contracts (PSCs).

Angola's Oil: Resource Nationalism

Another way of looking at the oil figures is to consider Angola's "government take" from its oil industry *after* costs. This gives a much higher percentage: 85%, according to the World Bank (2006: 38). This figure illustrates how successful Angola has been in negotiating with foreign oil companies, discrediting claims by some in the past that Angola's problems stem from big, powerful Western oil companies trampling over naive African states. This 85% figure illustrates that Angolans, or at least Angola's rulers, are firmly in control of their oil industry.

According to one well-informed analysis, global trends in government take (meaning the evolution of how favorable oil contracts have been to countries, versus oil companies, in terms of the share of export revenues that accrue to each) have generally followed world oil prices: during 1974–1984, prices rose strongly, and this was accompanied by major improvements in producer countries' government take. The next phase, 1984–2003, saw producer countries cede some ground – offering contracts that gave them a relatively lower share of each barrel – in order to attract oil exploration in an environment where rewards for oil companies were not so great because of lower oil prices and where political and technological changes meant that oil companies had a large array of new acreage to choose from. The latest phase, from 2004 on, has already seen many instances of resource nationalism, along with stronger terms for oil-producing countries, amid higher oil prices and tighter availability of new acreage.[5] Another factor that increases a government's current share is the structure of oil contracts: government takes (shares of

5. For a concise history, see Van Meurs (2007).

© Ifri, 2009

each barrel) adjust upwards automatically as oil prices rise: producer countries capture a greater share of any price windfall; this is not necessarily better for producer countries' citizens, because it means that the oil contracts tend to make government revenue streams even more volatile than oil prices.[6]

Natural Resources in Angola's Economy

Today oil completely dominates Angola's economy (and, as a result, its politics and international relations). Oil accounted for 57% of GDP in 2007, and 80% of government revenue in 2006. These statistics are dramatic enough – but it is nothing compared to its export statistics. Crude oil accounted for 94% of Angola's exports in 2006 – and if one includes *all* petroleum products (including refined oil) plus diamonds, this figure rises to a quite astonishing 99.5% – and even this may underestimate the share of all natural resources in Angola's exports (IMF 2007: 56).[7] Although more current statistics are not available, the share of petroleum and diamonds is only likely to have *increased* since then, given the very sharp rise in world oil prices. So Angola is firmly in the category of mineral-*dependent* (as opposed to merely resource-*rich*) states. The only other non-resource export sector deemed big enough to be counted in the IMF statistics – coffee – was recorded at just $200,000 in 2006 – just 0.0006% of the country's $31.8 billion of exports. This is a very dramatic fall from Angola's heyday before independence, when the country was the world's fourth largest coffee exporter, employing nearly a quarter of a million people; Angola exported over 400,000 tons of maize annually, making it one of the largest staple food producers in sub-Saharan Africa. This astonishing near-annihilation of Angola's non-resource export sectors is a further, dramatic indication that Angola may be suffering from the resource curse.

6. A table showing the "government take" for various countries can be seen in US GAO (2007).
7. The contents of the "Other" section of Angola's exports, making up the remaining 0.5%, is not detailed in the IMF statistics. However, this will contain further natural resource exports, such as gold and marble.

© Ifri, 2009

Discrepancies?

Angola's estimated production in 2008 of 1.95 million bpd of crude oil would be worth a total of about $74.5 billion at oil prices of $105 per barrel, which is the current Economist Intelligence Unit (EIU) projection for the average price in 2008. However, Angola's 2008 budget forecasts oil fiscal revenues at only Kz 1.46 trillion, which is only about $19.5 billion. Why the big difference?

Two factors help explain this apparent discrepancy: $75 billion versus $20 billion. First, Angola currently receives just under half[8] of the value of each barrel of oil as revenue. This is because costs have to be taken into account: a very large share of early oil production from the new fields is earmarked for paying off investment costs for the giant production infrastructure; once these are paid off (and the first of them, the $2.5 billion Girassol development, is already paid off), Angola's share will rise sharply. Assuming a 48% share reduces Angola's revenue figure to around $36 billion. In addition, Angola's 2008 budget uses a $55 per barrel oil reference price – factoring in this cuts the expected figure down to about $18.7 billion, which is close enough to the budget's $19.5 billion.

Though this discrepancy disappears with analysis, other gaps may be as important. Aside from IMF and World Bank reports, there has been relatively little independent monitoring of Angola's retrospective budgets and expenditure programs (analysis of which is far beyond the scope of this chapter). These matters have been hardly noticed for years by the extremely weak civil society organizations and even by the National Assembly itself, though this is starting to change: aside from foreign organizations, such as Human Rights Watch and the Open Society, which have produced some analyses, the Angolan Observatório Político Social de Angola (OPSA),

8. According to Angola's 2008 budget, Angola will produce 710 million barrels of oil in 2008. At a budget price of $55 per barrel, this would be worth $39.05 billion. However, oil revenues are only estimated at Kz 1.46 trillion, or $19.46 billion – which is 49.9% of the total. This percentage is slightly higher than a 45% estimate provided by the IMF for 2006, a percentage that has been rising gradually since then. I will use 48%, midway between the two.

© Ifri, 2009

founded in 2004, became somewhat more active in 2007 and 2008, though their analyses have not been widely disseminated in the media or even strongly supported by political parties, such as UNITA, which presumably have an interest in working in this field. MPLA officials have been wary of independent analysis: Elias Isaac of the Open Society, which co-sponsored a seminar in May 2008 on budgetary management, said he was disappointed that no MPLA officials turned up (VOA 2008).

Another factor that may be of interest is the huge difference between the $55 per barrel reference price in Angola's 2008 budget, and the oil price that likely will be realized – probably something like $50 more than that. At 710 million barrels expected production in 2008, with Angola receiving about half the value of that production as revenue, that difference is likely to be worth at least $18 billion, or about $1 billion excess per month. Until the 2008 budget execution report is made available (perhaps in 2010), it will not possible to know how much of this excess has gone into extra expenditures, though IMF data since the beginning of the year suggests that relatively little of this is going into official reserves: over the six months up to December 2007 these reserves rose only by about $1.2 billion (IMF 2008: 97), or around $200 million per month, while the excess over the 2007 budget should have been running at about $550 million per month.[9] It is not yet clear what happened to this difference – whether it was channeled into additional spending, or was invested overseas using alternative mechanisms (such as through Sonangol, acting as a Sovereign Wealth Fund), or leaked out elsewhere.

Another factor that has rarely been raised by civil society in the context of transparency is the issue of costs in the oil industry. The IMF, as previously noted, estimates Angola's share of each barrel currently at around, or slightly under, 50%, with the rest flowing to the foreign oil companies. But the World Bank (2006: 38) estimates government "take" – the

9. The 2007 budget forecast 736 million barrels at $45 per barrel in budget – value $33 billion, leading to state revenues of about $16.3 billion; the reality was $73 per barrel at 626 million barrels or $45.7 billion total value, with state oil revenues of $22.9 billion. The difference was $6.6 billion, or over $500 million per month.

© Ifri, 2009

percentage share due to Angola from each barrel – at over 85%, one of the highest shares in the world. The difference between this nearly 50% and the 85%+ relates to the *costs* of oil exploration. Angola currently receives close to 50% of the share of gross oil export revenues (total number of exported barrels multiplied by the oil price) and this share will rise over time as costs are paid off. The remaining 50%+ flows to the oil companies to pay for their costs and contribute to their profits. *After* costs are factored in, Angola receives a net 85%+ of the revenue surplus as state budget revenue, with the remaining 15% or so going to oil company profits – but this split is calculated over the lifetime of an oilfield, and so it is not directly comparable with the 50% figure that is the current rate. However, no civil society organization has undertaken a sustained investigation into what is inside the black box of costs to see whether or to what extent nefarious flows are involved there – which is quite possible, and even likely, given the lack of public data. It is hard to see how anyone without detailed inside knowledge could get inside that black box; costs are certainly audited, but the audits, and even their terms of reference, are generally not published.

Still other sources of discrepancy may be found elsewhere. The foregoing analysis bears only on the oil sector and its financial flows. Many of the most widely publicized discrepancies identified by the IMF, transparency campaigners, and others, relate to complexities that arise from Angola's borrowing arrangements, often through the national oil company (NOC) Sonangol. These are discussed below.

Oil and Centralized Politics

Angola's economy has for years employed a highly centralized, paternalistic, statist model of government, and oil is a major reason for this. While a heavy statist model was rather predictable during the period of official Marxism-Leninism before 1990, the model has endured, even after a supposed opening to a "free market" economy. This legacy, following a long experience with Portuguese bureaucracy and the subsequent period of Marxism-Leninism, is hardly a surprise. However, the main reason for the persistence of this highly

© Ifri, 2009

state-led approach is that the government has so much oil money to spend that the government will inevitably have a disproportionate presence in the economy; government spending as a share of GDP has been around 40% in recent years, as compared to a more typical 15% for other non-petroleum based countries in the region. In addition, the politics of oil-financed political patronage can be played at all levels, and this is a powerful driver of expenditure – especially ahead of elections – and militates against saving and smaller government. As noted above, no serious policymaker in Angola sees the potential for the domestic application of a workable imported Western-style small-government, free-market economic and political model. Freeing markets too much from state control, it is widely believed, would simply result in further entrenchment of monopolistic private sector interests, and even stronger "capture" of policy-making and the legislative apparatus by private interests. Angolan policy-makers believe that with a strong, centralized government, it is possible for political control to mitigate what they would see as the tragedy-of-the-commons outcomes that would ensue, they fear, if market forces were allowed too much leeway, leading to a "capture" of the state by private interests. An example of the statist approach is the Presild project, a government-sponsored and financed initiative to set up 31 giant supermarkets, along with a nationwide distribution, storage, and logistics network and numerous smaller retail outlets, which has cost $202 million just in its initial stages. Presild officials have said that the project's aim is to "organize and modernize commercial activity in all national territory" (Angola Press 2008). Presild was launched not long after a speech by President dos Santos (2004), in which he said:

> We still import almost everything. The prices of essential imported consumer goods continue to rise without any justification. Three or four big business groups, controlled by foreigners, dominate commerce at a wholesale level and manipulate prices, creating avoidable difficulties for the government's macroeconomic management, and complicating the lives of Angolans who have received them with hospitality and friendship.

© Ifri, 2009

> The fabulous profits that these groups make are not, at least partly, reinvested in the country. There is, therefore, a constant bleeding of foreign exchange from our economy.

Two main aspects of this statement are worth noting here. First, aside from the tinge of xenophobia in it, the statement could be read as an admission by President dos Santos of his relative powerlessness: that flushing out price-fixing vested interests and introducing proper market competition is politically difficult in the economy, which naturally tilts towards monopolism in certain sectors. Second, the statement suggests that the preferred solution to such market failure can be found through state spending – in Presild's case, by investing large amounts of money to create a powerful state-sponsored competitor in the marketplace to help to bring prices down. This is certainly not a scheme that would be approved of under conventional IMF thinking – and there is a good chance that it will fail and prove to be just another sink-hole for the oil money – but this project undoubtedly has an internal, homegrown logic and coherence of its own. Oil makes schemes such as this one – and other examples of expensive state-financed approaches to correcting perceived market failures could be cited (such as the Angolan Development Bank, BDA) – possible, and even almost inevitable. Similar schemes, such as the now-defunct state bank Caixa de Crédito Agropecuária e Pescas (CAP), have been regarded as failures; they simply created new opportunities to channel money to political elites. It is too early to judge whether the new schemes will be more successful.

Natural resources also have clearly played a key role in inducing some of the other purely economic effects of the resource curse, such as the "Dutch disease," which involves a rise in local price levels (through inflation or appreciation of the exchange rate or both) that makes local tradable goods from sectors such as agriculture or manufacturing uncompetitive against imports. Indeed, Angola suffers from a very strong overvaluation of the "real" (inflation-adjusted) exchange rate: the IMF reports that it rose by a cumulative 50% from 2003

© Ifri, 2009

to 2006 alone. And it has certainly appreciated strongly since then: the exchange rate, at Kz 75:$1, has hardly budged since then, while inflation has exceeded 10% in each of those years, suggesting a real appreciation (taking into account foreign price levels) of an additional 15% or more. One indicator of this high-cost environment is the exorbitant cost of housing: according to an ECA International (2007) survey, Luanda is the world's most expensive city for expatriates to live in, ahead of Moscow, Oslo, and Tokyo.

Before independence, and before oil was a major contributor to state finances, the country was an export powerhouse: one of the world's top coffee exporters, but also a significant African producer of manufactured goods. That these sectors have collapsed is, of course, largely a result of war, a post-colonial exodus of skilled managers, Marxist-Leninist economic policies in the 1990s, hyperinflation, and much more. It is notable, however, that since the war's end, agriculture has grown (as was inevitable, since a large proportion of the population returned to their fields after the war), but not nearly as much as might be hoped. At the time of this writing, the UN's Food and Agriculture Organization (FAO 2008) was forecasting a total cereals import requirement for Angola of 698,000 tons, almost the same as the estimated requirement for the 2005–2006 season (701,000 tons), which represented more than half of domestic cereals consumption. In terms of manufacturing, as is common with economies afflicted by the Dutch disease, there has been impressive growth in sectors producing bulky or heavy goods where the costs of imports are prohibitive – such as in drinks and cement – while there has been little growth elsewhere. A senior foreign economist said that he regarded Angola as a "classic case" of the resource curse.[10]

Oil, Governance, and the Parallel State

Angola's reputation for grand, widespread corruption is well deserved. It has not, for example, joined the Extractive Industries Transparency Initiative (EITI), and this has helped

10. Interview with the author, August 2007, in the context of the "Drivers of Change" project. Interviewees agreed to be questioned on condition of anonymity.

© Ifri, 2009

to reinforce widespread negative international perceptions of the country. There is certainly plenty of substance to these external perceptions. Yet they should be qualified in two ways.

First, it is probably fair to say that Angola's corruption is not as bad as some other oil-producing states, such as that in Nigeria or Equatorial Guinea. The Angolan government is able to meet its specific spending goals more easily than can Nigeria, and probably with a smaller share of the money disappearing along the way (though nobody has ever tried to measure this). In Nigeria's case, this is largely because political power is more diffused between competing power centers than in Angola, and that leads to "free-for-all" competition between factions which yields in turn worse governance outcomes. In Angola, stronger central control mitigates this. In Equatorial Guinea's case, the difference is largely because Angola has far greater and longer experience in dealing with oil income, and more competent and capable personalities in positions of power.

Second, Angola's financial management has improved significantly since the days of the war, when state finances were chaotic, and made even more so by high inflation. International perceptions of Angola's corruption stem by and large from wartime assessments, notably by the widely quoted London-based NGO Global Witness. Thus the external perceptions have lagged behind the improvements to a degree. Nevertheless, the problems remain immense.

It is important to understand what corruption means in the Angolan context, to trace what underlies it, and to look at how it has changed over time. One of the central elements of Angola's governance problems is what the World Bank has called its dual financing system, where part of the state budget is managed through the conventional mechanisms involving the Treasury, the Ministry of Finance, and the Central Bank, whereas another part, involving oil sales outside normal budgetary processes, is managed by other bodies – notably by Sonangol. This has also been referred to as the "Bermuda Triangle" (where money disappears without a trace). This triangle has been variously depicted, but the most accurate account places the presidency at the top vertex, Sonangol and

© Ifri, 2009

the state diamond company Endiama at another (subordinate) vertex, and the Finance Ministry and the rest of the conventional revenue and spending apparatus at the third, also subordinate, vertex.

There are two main explanations for the existence of this divided system. One is historical and relates to the war. The other is generic and relates to the nature of minerals and the resource curse.

History and the Emergence of the Dual Financing System

A look at history helps to explain the phenomenon, with events in the mid-1980s setting the stage for today's dysfunctional political economy. Faced with a massive exodus of Portuguese settlers at independence, and a dire shortage of skilled personnel, Angola's once strong agricultural and manufacturing industries all but collapsed. The civil war that emerged after independence meant that the Angolan state had severe financing needs from the beginning. This was mitigated during the 1970s by the fact that both oil production and world oil prices were rising, and Angola was successfully starting to secure improved contract terms from international oil companies. This lasted until about the mid-1980s, when the drop in world oil prices, combined with official policies and a state of war, created a new crisis.

The most obvious outward sign of crisis came in the mainstream economy (with goods becoming scarcer in the shops, poverty rising, and the black market growing) and in the political arena, where it helped to accelerate a recognition that the centrally planned economic model favored by the Soviets was unsustainable in Angola, and the seeds were sown for the MPLA government's eventual decision in 1990 formally to abolish Marxism-Leninism as official state policy. This was, of course, hastened further by the changing international climate before, during, and after the fall of the Berlin Wall in 1989. Some MPLA insiders also helped to hasten the end, for they knew that a shift to a market model could provide them personally with fabulous economic opportunities. This set the stage for the emergence of an open, mineral-fed political patronage system, which endures in Angola today.

© Ifri, 2009

Patronage politics is essentially about the "downward" allocation of resources or permissions, or access, in exchange for political support. Allocating resources according to political, rather than market, criteria looks to outsiders like corruption, and in a sense it *is* corruption. A productive and lucrative oil industry was an ideal basis for building a strong system of this kind (in other countries, aid money, rather than oil, has played a similar role) – and corruption was therefore almost a logical consequence. Outsiders regularly point the finger – a recent example came from the former Irish rocker Bob Geldof, who provoked a furious response in the Angolan state media when he stated at a conference in Lisbon in May 2008 that Angola is "run by criminals." While Geldof is right to identify large-scale corruption and poverty amid great wealth, ultimately it is not so helpful from a policy perspective to frame the problem in terms of personalities and personal greed. It is better to frame it instead in terms of systemic factors related to the fundamental bases of the Angolan economy. Systemic approaches are needed if this is to be tackled.

Also in the 1980s a more hidden crisis happened in the oil industry, which played into the system of patronage politics in a rather specific, but profoundly important, way. After oil prices fell in the early and mid-1980s oil price crises, the oil industry itself had a problem. The oil contracts in Cabinda and elsewhere used the joint venture model, whereby all the equity participants in the block, including Sonangol (which holds, for example, a 41% equity share in the giant Block 0 Cabinda shallow water concession), put up their share of financing for investments in the block. During the general financing crisis in the mid-1980s amid low world oil prices, Sonangol struggled to find the cash to put up its share of the investments – problems that are recurring with Nigerian joint ventures today (see Green 2008).[11] The lack of cash meant that investments were not being made, raising the specter of declining Angolan oil production, and foreign bankers were extremely reluctant to lend to Angola: they had little confidence

11. Angola has solved these problems today, largely through the use of more modern Production Sharing Contracts (PSCs) under which the oil companies provide the cash up front.

© Ifri, 2009

that they would be paid back by a then officially Marxist-Leninist African government in the throes of civil war and a financing crisis, with secretive and chaotic state finances.

A solution was found: to enable the fields to be developed, foreign investors set up new financing structures to pay for Sonangol's share in up-front investments. It is generally believed that the Takula field off Cabinda, discovered in 1971, was the first development to use such financing in the mid-1980s, though it is possible that earlier financing was arranged. It was necessary to set up special structures because of bankers' reticence to lend to Angola.

The new structures made it possible to route the repayments for loans *outside* Angola's financial system – namely, by making the repayments directly in oil cargoes, guaranteed by Sonangol. The company had already started to develop for itself a reputation for having carved itself out as an island of relative competence in a sea of chaos, and this gave bankers an important extra layer of confidence that they would be repaid. President dos Santos, who had clearly understood the strategic importance of Sonangol's preserving its reputation, was ready to back this new system politically and to protect Sonangol from other potentially predatory interests in the economy.

Initially, the oil-backed financing system was simply used to guarantee financing for the oil industry, with repayments made very quickly. But over time, as more of these kinds of loans were signed, bankers grew more confident, and President dos Santos began to build on this mechanism. First, the period of repayment for new loans was expanded (meaning that bigger loans were possible), and second, the financing was broadened, away from just the oil industry and towards more general government expenditure. This was partly driven by an imperative to secure arms for the war, particularly after the collapse of the Bicesse peace accords in 1992, but also by a generalized hunger for money within the Angolan political system. Oil-for-arms arrangements, which have been the subject of the "Angolagate" trials in France as of October 2008, are examples of exactly this kind of thing.

© Ifri, 2009

It was not just the loan repayments that were made outside the system: a number of other expenditures – including foreign embassy building construction, foreign intelligence service operations,[12] and many others – used this system, with the president's approval, though often without the Finance Ministry's knowledge. Many such expenditures were also routed through foreign oil-backed credit lines, notably through Brazil and Portugal in the early years. These, too, were often not recorded at all or not properly recorded in state budgets, even though the expenditures were real ones: bridges and roads were built, and arms were imported. Because of the hidden nature of these finances, there was also incentive for great corruption. Only anecdotal evidence of this is available – the most colorful coming from the "Elf Affair," where one of those involved in the financing, the French official Jean-Bernard Curial (cited in Shaxson 2007b: 181), described one of these arrangements as "a gigantic fraud... a vast cash pump," generating a 65% margin on arms contracts.

The loans kept coming, and during the 1990s nearly every oil cargo available to Sonangol was attached to one of these arrangements.[13] Once one financing arrangement was paid off, the oil stream that had backed it was quickly made available to produce new loans. Sonangol and President dos Santos maintained an iron will in protecting Sonangol's reputation for repayment security, even in the toughest of times. Angola's 1999 budget amid world oil prices close to $10 per barrel reflected one of the toughest periods, with the budget preamble saying, "Angola's access to external financing is almost at its limit... lines of credit from Portugal and Spain are blocked because there is no oil to service them for now; commercial lines of credit are over-saturated" (EIU 1999). Apart from the politically sanctioned, oil-backed credit lines, the commercial lines were being repaid, while the rest of the country was suffering extreme hardship.

12. As confirmed to the author by an Angolan intelligence official in 2004.
13. The author has seen a copy of cargoes accruing to Sonangol for a period between 2001 and 2002; almost all were attached to a financing arrangement.

© Ifri, 2009

Angola was effectively jumping from loan to loan (though the Ministry of Finance was receiving oil taxes – taxes on the oil companies' profits, paid in dollars, that were separate from Sonangol's revenues as concessionaire, which it received in kind; Angola was not able to borrow against these oil taxes), and this "lumpy" revenue stream led to recurrent periods of relative feast and famine for Angola's politicians, and difficulties for the Central Bank's management of inflation and the exchange rate. By the end of the 1990s, Angolan oil-backed loans were being repaid typically over three years (depending on oil prices: when prices rose, repayments were accelerated), but over time this repayment term period was extended. Most recently, repayment terms of seven years have been reported, allowing for much more collateral to borrow against, and consequently much bigger loans.

What was set up as a mechanism for improving efficiency – getting projects financed, bridges built, and arms supplied, by routing the payments outside the inefficient and treacherous Angolan financial system – also had a dark side: it created a major bifurcation in state finances, a bifurcation that is the origin of many of the most widely aired criticisms of Angolan governance in the world's media. Having part of the financial system cloaked in unusual secrecy was a recipe for corruption. One of the most widely reported statistics – $4 billion of money that was said to have "disappeared" from Angolan state coffers – was a result of this system. As a confidential internal IMF report said in 2002:

> A general lack of transparency in public finances – with scant data being officially published and a complex set of offshore finances – has generated the perception of a poorly managed treasury. During the last five years, extra-budgetary expenditures and residual unexplained discrepancies in the fiscal accounts have averaged 11% and 12% of GDP per year,[14] respectively; budget execution data has yielded a large share of expenditures as unclassified; substantial funds received as

14. The IMF (2002) identified discrepancies (the excess of inflows over recorded spending) of 23.1% of GDP, or $1.78 billion.

© Ifri, 2009

> signature bonuses for oil contracts and oil royalties have been outside the control of the treasury; and nontransparent external debt transactions have been made. In addition, the mechanism for awarding diamond concessions is opaque; oil companies are pressed to donate sums to funds and foundations with little independent oversight and the recent creation of a company with monopoly rights on the purchasing and marketing of diamonds has raised concerns about nontransparent practices that could adversely affect investments from other, reputable companies. (IMF 2002)

Media reports automatically equated these quoted extra-budgetary expenditures with plain-vanilla corruption, and some would argue that they were corrupt simply by virtue of being outside the formal system. Nevertheless, many of these extra-budgetary expenditures were directed towards legitimate, or at least quasi-legitimate, construction contracts, arms purchasing deals, covert payments for Angola's extensive intelligence apparatus, and other matters. Some, of course, did simply "disappear" into offshore private bank accounts.

As indicated, transparency is now improving, within limits, and there appear to be important reasons for this improvement. One senior Angola-based oil company official, in an interview with the author in 2007, put it like this:

> I believe the dynamic in the oil sector indicates that Sonangol is now becoming a more multinational company... they are absorbing the multinationals' attitudes, competences, policies... (also) I believe that the political community today has an appetite to have a better understanding of the oil industry: about reserves, production, expectations – all these elements – it means that in the future Sonangol will be much more scrutinized by the political community and institutions and civil society – in the past they isolated the entity.

This should also be understood in the context of Sonangol's apparent aspiration to be listed on foreign stock exchanges as part of its plans for international expansion. International

© Ifri, 2009

investors' preferences do seem to be playing a positive role, then, insofar as they foster greater transparency in Angola. As usual, however, this notion should be qualified: Angola's leaders hope to give the *appearance* of change and greater transparency while essentially continuing to play the game of patronage politics. As one informed insider said, referring to the Finance Ministry's publication of an unprecedented amount of oil data on its web site:

> The web site is just meaningless – how many people in Angola have a computer? It's just for [the international financial institutions and external consumption]. What they should be doing is more consultation – more participatory approach to budgeting, seeing what the provinces need, contacting the communities: a more bottom-up approach.

It is likely, then, that much (but not all) of the shady business has simply been shifted away from Sonangol and the oil sector itself, and into other sectors of the economy, such as the public expenditure program, where it is harder to spot and less directly linked to Sonangol itself (with consequently reduced risks to Sonangol's reputation).

The Role of Sonangol

The national oil company Sonangol has generated its own institutional dynamics at the heart of Angolan politics. As Ricardo Soares de Oliveira (2007: Abstract) has described it, Sonangol:

> was from the very start protected from the dominant (both predatory and centrally planned) logic of Angola's political economy. Throughout its first years, the pragmatic senior management of Sonangol accumulated technical and managerial experience, often in partnership with Western oil and consulting firms. By the time the ruling party dropped Marxism in the early 1990s, Sonangol was the key domestic actor in the economy, an island of competence thriving in tandem with the implosion of most other Angolan state institutions.

© Ifri, 2009

Another key point about Sonangol, Soares de Oliveira continues, is that despite Sonangol's remarkable and growing sophistication, this has "not led to the benign developmental outcomes one would expect from the successful 'capacity building' of the last thirty years. Instead, Sonangol has primarily been at the service of the presidency and its rentier ambitions."

Sonangol has become a major actor in the Angolan economy, a power center in its own right, and it has expanded far into sectors beyond its core oil industry focus. It is involved in banking, air transport, telecommunications, catering, insurance, offshore financing, as well as in many of the more traditional areas of focus, such as oil industry helicopters, drillships, and floating production, storage, and offloading (FPSO) vessels for oil production. The emergence of these "Sonaventures" is an old phenomenon, but it gained momentum during the 1990s, amid a wider set of economic opportunities, and as the company grew in sophistication and complexity. Sonangol's expansion outside its core focus areas in the Angolan economy has been accompanied by a later trend, probably starting in earnest in around 2005: Sonangol has sought to expand its operations substantially overseas, resembling more and more a Sovereign Wealth Fund (SWF). After initially testing the waters with minority participation for its exploration and production subsidiary Sonangol P+P (Pesquisa e Produção) in foreign oilfields, such as in Gabon from 2005, it has made a number of foreign acquisitions – notably in Portugal, where it has been acquiring and seeking to acquire stakes in Portuguese banking and other interests, but also in the oil sector: in mid-2008, news emerged that Iraq's Oil Ministry had pre-qualified it to bid on some of Iraq's large oilfields. It has teamed up with foreign companies in overseas ventures, such as is the case with China Sonangol International Holdings (CSIH), a Hong Kong-registered company in which Sonangol has a 30% stake, which has sought, among other things, to explore for oil in Argentina and to purchase stakes in a Tanzanian airline.

Though the details of these expansions will not be examined here, they are important for several reasons. One is that Sonangol, being the island of competence, with unparalleled access to financial capital, technology, skilled Angolan staff,

© Ifri, 2009

and political connections, was almost inevitably going to spread into other areas in which it faced no serious competitors. This expansion would have been significantly greater if President dos Santos had not been careful not to allow any power center to grow too strong and had not recognized the importance of at least some competition in the market. He would not tolerate the emergence of a counterweight powerful enough to challenge him in any sense.

Another reason for Sonangol's expansion, and especially the growth of the Sonaventures inside and outside the oil industry, relates to the deep-water oilfields. As one well-connected oil executive put it,[15] Sonangol (and President dos Santos) were surprised by the size of the signature bonuses they were able to command for the ultra-deep Blocks 31, 32, and 33, whose operatorships were awarded in 1999 to BP, Total, and ExxonMobil, respectively – and this during the height of the Angolan war, a period of exceptionally low oil prices. The deep-water oil licenses that were just then starting to come on-stream – Blocks 14, 15, 17, and 18 – had commanded signature bonuses only in the millions of dollars, whereas the ultra-deep blocks earned a billion dollars or more. While larger signature bonuses do not necessarily result in larger revenues for a country overall (oil contracts compensate for the bonuses in the long run), this was taken as a signal that Angola probably had not negotiated as strong a deal on the deep-water licenses in the early and mid-1990s as it could have. The Sonaventures, then, according to at least one influential foreign official, could be seen as a way for Angola to rake in more of the oil revenue from the companies without formally breaking the oil contracts – not just because they presented new commercial opportunities but also because they put Sonangol on both sides of the table in negotiations for new helicopters, drillships, and the like, creating conflicts of interest and opportunities from which Sonangol could then profit.[16]

15. Oil executive, who wished to remain anonymous, in interview with author, 2002.
16. Oil company officials say that Sonangol has not overly abused its conflict of interest, but they are a factor in raising overall price levels.

© Ifri, 2009

Another reason for the Sonaventures and general expansion is a long-running policy of Angolanization of local content, a complex area that involves Sonangol (and the Oil Ministry, which is far weaker in terms of technical competence and political power) in seeking to increase Angolan content in the oil sector: the oil companies are constantly being pushed to hire more Angolan staff, train more Angolans, contract more Angolan suppliers, and open the way for more Angolan private companies to enter the oil sector.[17] Likewise, Sonangol P+P has for years been seeking to expand its abilities as an equity participant and as an operator in Angolan oilfields (first becoming an operator of the Kiabo field in Block 4 in 1994), then starting to expand into bigger oilfields, and overseas.[18]

Though an objective for many years, this long-term strategy is now bearing fruit. Sonangol CEO Manuel Vicente has said that Sonangol E.P. (Empresa Pública, the holding company) eventually intends to float shares (while still being a majority state-owned company) on a foreign stock exchange, such as in New York, and to list some of its subsidiaries on the forthcoming Luanda stock exchange. The objective is first of all to obtain access to new pools of capital, but it is also to subject the company to more investor scrutiny and market discipline as part of its drive to become more sophisticated and efficient and able to hold its own in the global race for oil exploration. Listed shareholdings may also offer new ways for Angolan officials to own shares in Sonangol anonymously, such as through tax haven companies whose ownership is concealed from the public.

One senior oil company official noted[19] that the timing of the proposed moves described by Vicente suggests that the electoral cycle is a factor in the pace of reform at Sonangol, and indicated there were demands for transparency from inside

17. Several private Angolan oil companies and oil service companies, with varying degrees of competence and connections to the Angolan political elite, are now entering the oil licences, but still only in a small way.
18. Indeed, Sonangol P+P's two stated objectives on its website (http://www.sonangolpp.com/pnpEstrategia_en.shtml, accessed March 17, 2009) are "to increase Sonangol Group share of domestic oil production" and "to construct the framework of an oil company that can operate on a global scale."
19. Interview with author, 2007, for the Drivers of Change project.

© Ifri, 2009

the Angolan political community: "My understanding is that there has been a vague, general aspiration to list shares in around 2010 – which means in the new political cycle: after legislative and presidential elections." If the analysis is correct, this is likely to be highly significant. During the war, Sonangol's good reputation in financial markets (which enabled it to raise large oil-backed loans) was seen as a crucial strategic asset. Now that the war has ended, appetites in the Ministry of Finance, and elsewhere, may be growing to get more from the oil sector. As one participant put it:

> We are now operating in a post-war environment and all is changing; legislation is changing, and there is some uncertainty. Up to now, when the country was engulfed in civil war, the sanctity of PSAs [Production Sharing Agreements] was strictly respected. Today, the environment is different, so the government and the national assembly is changing the legislation – there is an appetite for the fiscal authorities to get more. There are some conflicts inside government and now we are in an in-between zone – a battle between Sonangol, the concessionaire, and the Ministry of Finance regarding fiscal tax issues. Up to now, Sonangol is standing strongly on the side of the oil companies, to preserve the sanctity of the contracts.

It seems counter-intuitive that an atmosphere of peace should lead to shakier contracts, but oil produces many paradoxes. This may be a matter of concern for the oil companies. One example of this happening has hardly been reported in the media. In 2004, an Angolan official attached to the Central Bank announced to an assembly of oil company officials in Luanda that the oil companies would henceforth be required to route their international payments – many of which are made offshore – through the Angolan financial system. There were suggestions that these payments would then be subject to exchange rate calculations that could be decided by the Angolan authorities – a clear and serious threat to the sanctity of existing oil contracts. The oil companies, in a very rare show of unity, sent a letter to the authorities strongly rejecting this

© Ifri, 2009

proposal, and it has since been watered down. Nevertheless, the proposal appears to continue to loom as a threat on the oil companies' horizon.[20]

An earlier conflict between Angola and the oil companies came in November 2000, during the war, when Oil Minister José Maria Botelho de Vasconcelos (cited in Shaxson 2000) said that Angola would delay some of the massive deep-water developments: "We have to define our maximum production in the coming years, and not just keep developing fields so they get exhausted as fast as possible," he said. "We need production rates which mean we have the oil for much more time, to guarantee the well-being of future generations."

In fact, subsequent investigations have shown that Angola's prime concern here was not to save for a rainy day but to use the threat of delay (which would have been extremely expensive for the companies) as a source of leverage over the oil companies, perhaps partly but not entirely in response to the emerging transparency campaigns, as well as for other purposes. Most of the delays were resolved and the threat removed, though France's Elf (now Total) suffered extended delays to its Dalia deep-water field as a result of emerging corruption investigations in France involving the controversial arms dealer Pierre Falcone and the financier Arcadi Gaydamak.

Two things should be noted from these episodes. First, the threats to the oil companies have come not from Sonangol but from other agencies – the Central Bank in the first case, and the Oil Ministry in the second, and each was reporting to the president. Second, the conflicts that pit the oil companies against the Angolan authorities tend to be far removed from the concerns of civil society campaigners and transparency activists, which barely noticed, or took any interest in, these powerful clashes between company and country.

20. Author interviews with foreign oil company officials and Angolan public officials, 2005 and 2007 for "Drivers of Change."

© Ifri, 2009

The Resource Curse and Angola

Much evidence and analysis has been published on the links between mineral-dependent economies like Angola, and bad governance, economic dislocation, and conflict. Much (but not all) of it has emerged from cross-country statistical comparisons, or from rather theoretical work and analyses. While this work is valuable, this chapter aims to complement and deepen this work, by providing analysis based instead on 15 years' travels, interviews, and research about the countries of the oil-rich Gulf of Guinea, and interviews with relevant actors in the political, economic, and social life of the African petro-state.

The analysis of the resource curse that follows here, in effect, complements traditional analyses of that curse. It does not negate those analyses, but instead seeks to see several of its key elements as laid out in those analyses unified within a single framework.

The Role of Fragmentation in Mineral-rich States

The essence of the problem with petro-states like Angola is that their political systems (and their societies) are fractured by their natural resource wealth, and from this fragmentation flows most of the harm identified in the literature on the resource curse: both poor governance and higher risk of violent conflict. These problems are two sides of the same coin: fracture and fragmentation.

How does this fragmentation happen? It can perhaps best be understood with reference to the analogy of a queue – an orderly line of people waiting for something. The key point about the queue is that mineral-rich economies (or rentier states more generally) are like a queue, while "normal" economies (such as Denmark's or France's) are not. To put it very crudely, politicians in a rentier economy are first in line, followed perhaps by lobbyists, bankers, contractors, and a long line of others – while ordinary citizens stand right at the back, with few chances of breaking into the front. In my recent book (Shaxson 2007a: 11), I described this situation as follows:

© Ifri, 2009

> A functioning queue is really two queues: a physical one and a mental one. Disrupt the physical queue – by nudging a truck through it, say, or dousing it with a fire hose – and if the mental queue remains intact, then order will reemerge, in the same way that stable countries recover from economic shocks or terrorist attacks. But there is a more damaging way to disrupt a queue: push in at the front. This assaults everyone's belief in it, and if it happens enough, the scrambling starts and it will collapse. There is then no easy way to rebuild it, no matter how much you shout.

The key here is people's trust in each other. A physical queue may simply be disrupted, but if the "mental queue" has been disrupted, then it also has been *corrupted*. The corruption involves a loss of trust. The widely read economist and *Financial Times* columnist, Tim Harford (2007), explains why this is so profoundly important: "Economists believe that the difference between countries that have successfully formalized trust and those that have not is, basically, the difference between rich countries and poor ones."

If the queue is ethnically heterogeneous, with latent rivalries, the pushing-in by members of one faction will irritate members of other factions, and will exacerbate existing tensions, deepen schisms, and create new fissures. It manifests itself in so many ways, at so many different levels of politics or society: it can break out into open warfare, or it can create fragmentation within the government itself, which is more hidden but may be just as disruptive. Mineral wealth can severely exacerbate the latent fragmentation and fracture (such as pre-existing ethnic, religious, or political schisms) in a country like Angola or Nigeria, and it can also create new fissures where none would have otherwise existed. In each case, this is about factions jostling for their share of the proceeds, at the expense of political or social cohesion.

How this fragmentation manifests itself specifically in Angola is discussed below. But, first, to aid understanding, let us contrast this queue analogy with any "normal" economy

© Ifri, 2009

like Sweden's or Britain's. In these countries, the queue analogy does not apply: economic wealth is generated in a distributed, rather than a concentrated, way: people produce goods and services and trade with each other, generating wealth, and governments tax citizens directly and use their tax money to provide public goods like roads, hospitals, physical security, a conducive business environment, set (or influence) appropriate interest rates, and so on. Power is diffused through a series of interdependencies and this, often combined with democratic politics, has (for all the system's faults) produced relatively benign and even highly beneficial economic and political outcomes. Crucially, these interdependencies in well-governed societies have created a widely accepted social contract and a kind of cultural social trust that is the basis for good government. In "normal" societies, political power flows from the bottom up: different constituencies (producers, consumers, companies, etc.) bring something substantial to the table in economic terms. Power follows the money, and power tends to flow upwards, in a sense. These different empowered interests thus need to accommodate their different objectives. This is what politics is about: negotiating an accommodation of powerful peers and equals. The incentives point in the direction of consensus. With oil, however, power flows downwards, and the political incentives are for competition and fragmentation.

One of the absolutely fundamental elements of this knitting-together of society and politics, and an underpinning for good government, is in the issue of taxation. This is an issue that has for years been overlooked by what might be called the International Tax Consensus, which focuses heavily on efficiency and the revenue-raising aspect of taxation, while all but ignoring its governance aspect. As Alex Cobham (2007: 2) of the Oxford Council on Governance has said:

> channels of representation are systematically strengthened when the share of tax revenue in government spending is higher – that is, when governments rely most on tax. Other research has shown that direct taxation (through personal income taxes and corporate profits) is the most

© Ifri, 2009

> important, in terms of strengthening relationships of accountability between rulers and ruled. But the Tax Consensus is telling poor countries to avoid direct taxation, and to reduce revenues, again with potentially very negative results on the strength of governance and the quality of institutions.

Students of European and American political history have long been aware of the importance of taxation in the formation of nation states; it is only very recently that this logic has started to be applied to countries in the developing world. As Deborah Bräutigam (2008: 1) recently put it:

> Taxation is the new frontier for those concerned with state-building in developing countries. The political importance of taxation extends beyond the raising of revenue. We argue in this book that taxation may play *the* central role in building and sustaining the power of states, and shaping their ties to society. The state-building role of taxation can be seen in two principal areas: the rise of a social contract based on bargaining around tax, and the institution-building stimulus provided by the revenue imperative. Progress in the first area may foster representative democracy. Progress in the second area strengthens state capacity. Both have the potential to bolster the legitimacy of the state and enhance accountability between the state and its citizens.

To summarize: in "normal" nations economic processes and specifically direct taxation tend to knit society and politics together; in rentier economies, economic processes and competition between factions for resources from a single source ("at the front of the queue") tend to deepen the fragmentation and drive factions apart. In oil-dependent countries like Angola, rulers tax oil companies, not citizens: so the healthy processes of institution-building, bargaining between rulers and citizens, and relationships of improved political accountability are simply bypassed.

© Ifri, 2009

Another way of thinking about this fragmentation and conflict, consistent with the idea of a queue, is that allocating mineral rents is a zero-sum game: the total size of the national "cake" is a given, based on prevailing oil prices, contracts, and production rates. More for one faction (when they get their turn in the queue) means less for the others. Everyone knows this, and this knowledge intensifies the likelihood of a scramble. This is quite unlike distributed productive activity, such as manufacturing or agriculture, where higher output in one sector (or region) need not mean lower output in another; in fact, the opposite is likely to be the case.

Thus mineral rents set the stage for fragmentation and conflict. It is not the personalities of venal politicians that ultimately drive this, but rather the systemic dynamics based on everyone's observation of, and lack of trust in, everyone else: a loss of faith in society and the national interest. Many Angolans with whom I have spoken have complained in various ways that they lack *citizenship*: they are non-citizens. Not only is this analogous to being unable to get to the front of the queue, but it also means a lack of horizontal interactions knitting them into society, and it involves mistrust of others competing with them to get to the front of a queue. In a "normal" country, this shared citizenship emerges from (alongside voting, bargaining through direct taxation, and other factors) the interactions of a society whose citizens essentially trust each other enough for the emergence of a social contract. This trust is derived from people's horizontal interactions (with each other, through mutually advantageous schemes like commerce) in contrast to the *vertical* interactions more typical of a mineral-dependent economy, where resources flow downwards in exchange for political support.

This focus on fragmentation helps to explain why corruption and conflict are essentially two sides of the same coin. Ethnicity plays into this mix. Nigeria illustrates this point; its political boundaries have fragmented over the years, from four regions at independence in 1960 to 36 states today, as Nigerian politicians applied the divide-and-rule practice that Britain used in colonial India:

© Ifri, 2009

> As the citizens of this ethnically and religiously fractured nation have jostled, then scrambled, for what they can get of the oil money, long-term planning, shared nationhood and trust in each other – the keys to Nigeria's economic development – have dissolved. This splintering of the national good is really what corruption is. […] This is all about belonging, or citizenship. As Ijaws, Ogonis, Itsekiris, and others trumpet their identities and claims to land, the very idea of Nigerian citizenship shrivels, leaving – like the cracks that appear in a lake bed when the water recedes – a fractured landscape. (Shaxson 2007a: 12 and 206)

In many cases citizens in the Niger Delta resort to ethnic, religious, or other localized or narrow identities to stake their claims to shares of resources, whether to oil companies for contracts and jobs, the government for permissions or resources, or simply to mobilize domestic supporters in their claims as lobbyists for access to some share of the oil wealth. The analogy with the queue here is apt again: people standing in a queue, observing people from another faction or group pushing in, will be additionally irritated and grow more competitive; this factor will further underline their ethnic or other prejudices against those other groups – further fragmenting the sense of a shared common interest. Shared nationhood and a broadly held sense of the common good are essential components of successful policy and underpinnings for good governance in relatively well-run states.

Economic and Political Centralization and Decentralization

In view of this discussion of fragmentation, it is important to highlight a potential for confusion. It is accepted in the Western economic canon – as the economist John Kay (2004: 100) put it, citing the poor record of many centrally-planned economies versus market-orientated ones – "that decentralized economic systems out-perform planned and centralized ones. And it is only through experience that the efficiency of decentralization has been recognized as an

© Ifri, 2009

empirical as well as a theoretical truth." It is necessary, then, to point out that the fragmentation described above should not be confused with the economic decentralization Kay describes. The oil state and the non-mineral state each have, to be sure, a fragmented plethora of institutions, political parties, economic actors, and other groups. The difference is the institutional, political, and social setting in which they are embedded. In oil states, the fragments could be described as political fragments, whereas in "normal" states, the competition is between economic "fragments" (or units) in a more unified, non-fragmentary political context.

Angola and the Resource Curse

Economic Growth

A central tenet of the resource curse thesis is that countries with abundant natural resources tend to grow more slowly over the long run than countries without such resources, both in terms of raw estimates of GDP and in terms of real human development. At first glance, this would not seem to apply to Angola: it has been held up as a poster child for economic growth, with an astonishing, near-20% annual GDP growth rate recently, as noted above. However, two factors must be considered. First, the resource curse thesis is taken to apply over long periods of time – during booms (such as in the 1970s), GDP growth tends to rise for obvious reasons, but over the entire boom-bust cycle the negative growth effects occur. This seems to be true of Angola: a 2007 IMF report remarked that Angola's GDP per capita was still only 50% of its level at the beginning of the 1980s (IMF 2007: 27). The IMF blamed the war for this – which is certainly close to the truth; however, this does not negate the resource curse argument for Angola, since oil played an important role in the conflict. A second factor that makes it hard to discount the resource curse thesis regarding growth hinges on the question of inequality. Even though per capita GDP growth rates have been extremely high – averaging almost 17% annually from 2004 to 2006, according to the IMF (2007: 44) – this disguises the fact that growth at a *median* level rather than at the *average* level – the

© Ifri, 2009

median level more accurately reflecting the plight of the ordinary Angolan – has almost certainly been far less impressive, given that inequality has widened. In other words, a relatively narrow elite will have enjoyed disproportionate benefit from the per capita growth while the majority of the population has seen very little or no benefit, and perhaps worse. Data on this is scarce: the last Household Income and Expenditure Survey[21] was carried out in 2000–2001. It showed a sharp rise in inequality and poverty since the previous survey in 1995, with the share of households living in extreme poverty rising to 25% during that period. A more limited Best Estimates Assessment by UNICEF in 2006[22] suggests that maternal and infant mortality rates remained among the world's worst. An OECD report (2008a) published in June 2008 estimated that 68% of the population remain in poverty and their conditions had "improved little" despite the high per capita GDP growth. Angola is now planning a new study, to be called the Inquérito integrado sobre o Bem Estar da População (IBEP). It will be carried out between May 2008 and May 2009 – presumably giving Angola the opportunity to delay publishing the results until after the presidential election if the preliminary results do not prove to be favorable. This study will provide a much-needed update on data on the well-being of the Angolan population.

Conflict as Fragmentation

Most Angolans, if asked, would say that the mainland civil war was not really "about oil." It was certainly not an overt cause of conflict. Unlike, say, in Nigeria, where physical oil tapped from pipelines (and many other schemes) has fueled and financed insurgent and militant attacks, Angola's oil has not directly fed conflict like this, except for in the most

21. *The Household Income and Expenditure Survey* (IDR) and *Multiple Indicator Cluster Survey* (MICS) in 2000 and 2001 were carried out by the Instituto Nacional de Estatistica (INE). A new Household Income and Expenditure Survey and MICS (related to children and welfare) is supposed to be carried out in 2008 – results may not be available before 2009. Details from the surveys can be found in World Bank (2006), iv and 6.

22. A description of the survey was provided to the author via e-mail by a correspondent who requested anonymity. The original survey is not available.

© Ifri, 2009

obvious way: the MPLA's war machine was largely financed by oil (and UNITA's, especially from the 1990s, was financed by diamonds). Nevertheless, on closer examination it is clear that Angola's mineral resources did play a powerful role. Several issues are worth exploring, each of which fits into the fragmentation thesis.

First, it is notable that in 1994 when the world's oil majors were negotiating or signing the deep-water agreements, the Angolan conflict was being described as "the world's worst war" (Shiner 1994), and by 2002 – amid the exuberance of Angola's vaulting oil production and the end of the war – Angola was being described as "the worst humanitarian crisis in the world today" (Jeffrey 2002). In short, the economic, political, and social environment was of little concern to the oil companies. This is a classic feature of the resource curse. As I state elsewhere (Shaxson 2007b: 104):

> extracting oil is different from "normal" businesses like tourism or making electric razors. Nobody would destabilize or attack a country to capture its tourist revenues; this would be like using hand grenades to catch the goose that lays golden eggs. Oilfields are not like golden-egg-laying geese but are instead are like the golden eggs themselves, buried underground; it may be feasible to blast them out with explosives – even if you damage them you will still get most of what you want. With oil, your profits depend less on political stability or a healthy business environment, and depend more on geology, extraction technology, and world oil prices. West African oil has pumped steadily through decolonization, nationalizations, Marxism-Leninism, coups, and civil wars since it was first discovered in the 1950s.

In contrast to manufacturing or tourism, oil has given Angola's rulers few incentives to make the business or political environment – and by extension the lives of Angolans – healthier or happier. This fits with the analysis of the episodes pitting the Angolan authorities against Western oil companies

© Ifri, 2009

over routing offshore payments and delaying deep-water developments: the concerns of civil society groups and ordinary citizens are very different from the concerns of the political leadership and the oil companies. Indeed, plausible-sounding conspiracy theories circulated during the war that the Angolan leadership wanted the war to continue because of profits the leaders were allegedly making from arms deals and the like. This analysis discounts this suspicion – in a limited way it was true, such as when generals from the MPLA and UNITA mining diamonds in adjacent areas had non-aggression arrangements to allow business to continue unhindered, which certainly prolonged the war, but it is not believed this was so for President dos Santos and Angola's leadership as a whole.

The foregoing discussion fits the fragmentation thesis in the sense that it highlights the lack of incentives to create horizontal links and relationships of political accountability. Yet the fragmentation is also present in other ways. The most easily understood manifestation of fragmentation is in the long-running, low-level separatist conflict in the northern oil-rich enclave of Cabinda, which, until the start-up of Angola's deep-water fields, was the base for producing two-thirds of Angola's oil. This will not be explored here in detail; nevertheless, it is yet another of numerous examples around the world of mineral wealth fueling separatist conflicts, where one separatist faction seeks to carve out an independent state with a naturally higher per capita oil revenue. The Angolan government has always, but especially recently, made strong efforts to end the Cabinda conflict – notably by attempting to fragment the main separatist rebel group Frente para a Libertação do Enclave de Cabinda (FLEC) through the judicious allocation of financial and other resources to selected FLEC leaders. The signing of a peace agreement in July 2006 with one of the main FLEC factions has not ended the conflict, whose roots lie in a widely-held sense of cultural separation in the Cabindan population.

A less obvious, but nevertheless more important, manifestation of the role of oil in conflict lay in the Angolan mainland civil conflicts lasting from before independence in 1975

© Ifri, 2009

up to 2002, when the Forças Armadas Angolanas (FAA), possibly with outside military and technological help, tracked down and killed UNITA rebel leader Jonas Savimbi.

The war was about many things. Ethnicity was a factor, but far less so than in many other African conflicts. The uncompromising personality of UNITA's charismatic leader Jonas Savimbi, who saw it as his manifest destiny to rule Angola one day, was another factor militating against a definitive negotiated end. International relations played a part, particularly in the 1980s and 1990s when the US and the Soviet Union and its allies fought a hands-off proxy war in this strategically important African state. But economic factors were arguably the most important.

One fragmenting factor was that natural resources enabled the MPLA forces to supply by air isolated provincial capitals like Kuito, Malange, and Menongue, which were islands of MPLA control circled, and shelled, by UNITA forces stationed in the surrounding countryside. UNITA forces generally could not hold the towns: when they tried to do so (such as in Kuito in the central highlands), they were eventually driven out, beaten partly as a result of the MPLA's ability to fight an expensive oil-financed war. This physical fragmentation also morphed into something with a cultural element: it strongly reinforced a rural-urban divide, which became a major factor in the conflict, where Savimbi stressed that he was leading the "real Africans" against an effete, corrupt, oil-rich elite based in Luanda. One UNITA official told this author of his belief that the MPLA's haughty leaders in Luanda saw him and his colleagues as "monkeys in the bush" – and oil wealth in Luanda undoubtedly contributed powerfully to this sense. This provides a clear example of the erosion of citizenship associated with mineral dependence.

Mineral resources also played another role. It was Savimbi's diamond mines, mostly located in the northeast, that allowed him to continue fighting after Western countries dropped their Cold War support. In a sense, it became partly a war of diamonds versus oil, which – given the truly vast oil resources – meant that a MPLA victory was inevitable.

© Ifri, 2009

To understand better the fragmentation argument in an Angolan context, let us engage in a thought experiment. Imagine that before the 1992 elections a policy had been introduced to distribute Angola's oil revenues directly, and equally, to each Angolan. This would have achieved several things, aside from the obvious welfare effect. First, it would have transformed millions of Angolans from "non-citizens" into citizens (whose incentives, in terms of personal advancement, would no longer come from above in the form of patronage-linked financial flows, but rather from alongside or nearby, from each other, for trade and the like). This restoration of citizenship would all but eliminate their desire to fight: even if UNITA leader Jonas Savimbi's megalomania might still have made him seek to gain power by force, he would not have been able to raise an army to achieve his objective – for his soldiers this would have broken the link with their meal ticket.

Instead, the oil money flows in at the top – mostly to Luanda, creating a winner-takes-all mentality, which was especially strong during the brief period of peace in 1991–1992 when the two armed movements temporarily traded military competition for purely political competition. When UNITA and Savimbi were seen to have lost the election, he simply rejected the result and returned to war. Analysts of the breakdown of the peace deal have on several occasions noted that this winner-takes-all aspect of the accords was one of the great flaws in the election process. Savimbi and his followers understood well that failure to take power meant giving the MPLA the tools to remain in power and win elections indefinitely in the future.

Many MPLA supporters in Luanda and elsewhere were living in dire poverty, but did not naturally shift allegiance to UNITA not only for ethnic, linguistic, and regional reasons (and for their knowledge of UNITA's widely publicized war atrocities), but also because they knew that if UNITA did win power, they would be even worse off – even further back in the queue.

By the time Jonas Savimbi was caught and killed in 2002, UNITA had been effectively defeated. This history, in fact, is consistent with some analyses of the resource curse and

© Ifri, 2009

conflict thesis. According to widely-quoted research by Ian Bannon and Paul Collier (2003), the civil war risk in low-income countries rises from 6% for a country in which primary commodity exports constitute 5% of GDP, to a 30% risk for countries where such exports constitute 25% of GDP – but this effect peaks at about 30% of GDP. This would seem logical: once primary commodity exports get large enough, governments controlling those resources have the wherewithal to pay for military and authoritarian solutions to win the conflicts by military means. This is exactly what happened in Angola's case.

Authoritarianism and Fragmentation

A second manifestation of the fragmentation in Angola can be seen in terms of political governance. It might seem, at first glance, that the foregoing example of Angola's conflict suggests that two phases or systems are at work: first, oil causes fragmentation, leading to corruption and/or conflict; second, the fragmentation is reversed, as the brute force of authoritarian rule is applied and a political system under unified control asserts itself.

In fact, the fragmentation survives the second phase, in disguise: authoritarian approaches merely change the form of the fragmentation; they do not reverse it. In essence, the social and political trust between players has not emerged; and efforts are made to replace it with enforced measures. As Tim Harford (2007) said, using the example of a shop assistant trusting his credit card issuer: "That is a formalized form of trust, based on institutions that dramatically expand our ability to interact with those beyond our immediate neighbours. Richer societies have become very good at formalizing the co-operative outcome." – In fact, Harford (2003) favors the proposal at least for Iraqi oil, for distributing oil revenues directly to a country's people. I have also argued in favor of this, though not necessarily in Angola's case, where the political obstacles are probably too large to imagine its being implemented (see Shaxson 2007a).

The relationships of trust have not emerged in Angola: efforts to impose them from above have not been very successful – and the fragmentation driven by oil wealth is one

© Ifri, 2009

of the key reasons why it has been so hard to do so. Now that the civil war is over, the most important fragmentation happens inside the government. President dos Santos basically has no alternative but to deploy the full range of patronage political tricks in order to stay in power and to preserve political stability. Part of the exercise of this kind of power involves divide-and-rule politics, in which it is important not to let any single constituency grow too powerful. Thus all the main power centers in Angola – the MPLA, the armed forces, the intelligence services, Sonangol (and Endiama), the president's office (sometimes referred to as the Cidade Alta or Futungo), and, more recently, the Ministry of Finance – have seen their roles limited and curtailed in various ways, and to a degree they are encouraged to "compete" against each other for the president's favor.

One obvious form of this fragmentation happens in state finances, as outlined above – where the Finance Ministry has been allowed to have control only over a certain portion of the country's oil revenues, with other portions managed being by Sonangol, Endiama, the president's office, and other bodies – as noted above. Chinese financing provides an interesting example: part of the money from China is being handled by the Finance Ministry, in partnership with China's Eximbank, while another part is being handled by the Gabinete de Reconstrução Nacional (GRN) headed by the unelected Helder Vieira Días, head of military affairs in the president's office, and in partnership with the opaque China International Fund (CIF). In 2006, the finance minister was so far out of the loop that he had to ask special permission just to be able physically to see in overview the construction projects being carried out under the GRN program. The Kopelipa faction was also engaged in a long-running subterranean struggle for influence against a faction headed by Fernando Garcia Miala, who was Angola's foreign intelligence chief until he was ousted and imprisoned in 2006, which was a major victory for the Kopelipa faction. Many other such divisions exist.

The divisions, and the politics of fragmentation, radiate out into the Angolan economy. There are certainly important parts of Angola's economy, such as small-scale agriculture, and

© Ifri, 2009

a major slice of the non-tradable service sector (hairdressing, car repairs, some retail operations, and so on), that are certainly decentralized and fit the "non-resource," non-queue analysis discussed above far more closely than they fit the mineral-dependent fragmentary analysis. But the main economic sectors in terms of economic weight – oil, of course, but also banking, construction, and others – are dominated by a relatively small number of players, each of which plays the patronage game: they are loyal in exchange for permission to operate. Players that are seen as somehow disloyal – for example, the Banco Comercial Angolano (BCA), the second Angolan private bank ever and which had important shareholdings by MPLA "moderates," such as Lopo do Nascimento, who are rather disliked by the top political elites – have, though not being actively driven out of business, found it hard to flourish while their competitors have enjoyed spectacular growth. The game is not restricted to the domestic scene: some of the world's most powerful corporations – ExxonMobil included – play this game; they provide technical competence, capital, and loyalty in exchange for permission to operate in Angola.

President dos Santos's dividing up of state institutions and programs, as well as economic sectors, thereby furthering the fragmentation within the government, is a risk-mitigation exercise: the more unified and coherent any given program is, the stronger it will be, and thus the harder it will be to control. The result, of course, is an built-in bias against coherent, unified policymaking. His record in power has long demonstrated this tendency, as the examples above illustrate. The creation of a new Economy Ministry in a government shake-up that followed the September 5 legislative elections, reduced and undercut the powers of the Ministry of Finance especially. This move is yet another example of the constant process of undercutting institutions that are felt to be growing too strong. If oil resources provoke fragmentation (and competition between factions), then authoritarian leaders harness this powerful force (fragmentation, and competition between factions for access to the resources) as their most fundamental tools of power. This is classic patronage politics, with President dos Santos at the top of the pyramid, and all the harmful results that flow from it.

© Ifri, 2009

To summarize, the exercise of power in Angola through political patronage has led to political, social, and economic fragmentation and fracture throughout society and governments, leading to beggar-my-neighbor competition between factions. The end result is dysfunctional government, more conflicted social and political relations, and widespread poverty. These are the central political features of the resource curse.

Bibliography

Ahmed, R. 2000. Oil: The rewards of discipline. *African Business*, February 1. http://www.allbusiness.com/africa/896780-1.html (accessed February 15, 2009).

Angola Press. 2008. Coordenador do Presild garante conclusão dos 31 supermercados. *Angola Press*, June 7. http://www.angolanainternet.ao/portalempresas/index.php?option=com_content&task=view&id=411&Itemid=71 (accessed February 8, 2009).

Angolan Finance Ministry. 2009. Orçamento Geral do Estado (OGE) [Angolan budget]. http://www.minfin.gv.ao/docs/dspSintese GeralOGE2009.htm, and related links (accessed March 15, 2009).

Bannon, I. and P. Collier (eds.). 2003. *Natural resources and violent conflict: Options and actions*. Washington, DC: World Bank. http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/05/24/000012009_20040524154222/Rendered/PDF/282450 Naturaloresourcesoviolentoconflict.pdf (accessed February 8, 2009).

BP. 2008. *Financial and operating information 2003–2007*. London: BP. http://www.bp.com/liveassets/bp_internet/globalbp/STAGING/global_assets/downloads/F/FOI_2003_2007_full_book.pdf (accessed February 8, 2009).

Bräutigam, D. A. 2008. Introduction: Taxation and state-building in developing countries. In D. Bräutigam, O.-H. Fjeldstad, and M. Moore, eds., *Taxation and state-building in developing countries: Capacity and consent*, 1–33. Cambridge: Cambridge University Press.

Cobham, A. 2007. The tax consensus has failed! *Tax Justice Focus* 3, no. 2: 1–2. http://www.taxjustice.net/cms/upload/pdf/TJF_3-2_Final.pdf (accessed February 8, 2009). For the unabridged version, see *OCGG Economy Recommendation* no. 8, http://www.ocgg.org/fileadmin/Publications/ER008.pdf (accessed February 8, 2009).

© Ifri, 2009

Dos Santos, José Eduardo. 2004. Discurso pronunciado por sua excelência José Eduardo dos Santos, Presidente da República de Angola, por ocasião do 29° aniversário da independência nacional [Speech Given by His Excellency, José Eduardo dos Santos, President of the Republic of Angola, on the 29th Anniversary of Independence]. Luanda, November 11. http://www.ambasciatangola.it/webadmin/01/346_03.doc, accessed February 8, 2009. Translated by author.

ECA International. 2007. Worldwide Cost of Living Ranking 2007 (Singapore). November 26.

Economist Intelligence Unit (EIU). 1999. *Angola Country Report*, 2nd Quarter 1999.

Food and Agriculture Organization of the United Nations (FAO). 2008. Statistical appendix. In *Crop prospects and food situation, no. 2*. April. Rome: FAO. http://www.fao.org/docrep/010/ai465e/ai465e09.htm (accessed February 8, 2009).

Fortson, D. 2008. Angola overtakes Nigeria as top African oil nation. *The Independent*, June 4.

Government Accountability Office (GAO) of the U.S. 2007. Oil and gas royalties: A comparison of the share of revenue received from oil and gas production by the federal government and other resource owners. GAO-07-676R. May 1. Washington, DC: GAO. http://www.gao.gov/new.items/d07676r.pdf (accessed February 8, 2009).

Green, M. 2008. Shell to help plug Nigeria shortfall. *Financial Times*, May 14. http://www.ft.com/cms/s/0/449347b4-2140-11dd-a0e6-000077b07658.html (accessed February 8, 2009).

Hartford, T. 2003. Iraq's oil wealth must flow straight to its people. *Financial Times*, September 25. http://timharford.com/2003/09/iraqs-oil-wealth-must-flow-straight-to-its-people-ft-comment (accessed February 8, 2009).

—. 2007. Right on queue. *FT Magazine*, September 22. http://www.ft.com/cms/s/0/f51f4178-6656-11dc-9fbb-0000779fd2ac.html?nclick_check=1 (accessed February 8, 2009).

IHS Energy. 2005. Bidding round may attract independents to Angola. *American Oil and Gas Reporter*, October. http://energy.ihs.com/NR/rdonlyres/512D62FD-1357-4828-AC03-172610C579C9/0/1005worldwatch.pdf (accessed March 17, 2009).

Instituto Nacional de Estatistica (INE). 2000. *Household Income and Expenditure Survey* (IDR).

© Ifri, 2009

—. 2001. *Multiple Indicator Cluster Survey* (MICS).

International Monetary Fund (IMF). 2002. *Angola – 2002 staff report for the 2002 Article IV consultation* [unpublished document of the IMF and not for public use] Report SM/02/87, March 18.

—. 2007. *Angola: Selected issues and statistical appendix*. IMF Country Report No. 07/355. Washington, DC: IMF. http://www.imf.org/external/pubs/ft/scr/2007/cr07355.pdf (accessed February 8, 2009).

—. 2008. *International Financial Statistics*, April.

Jeffrey, P. 2002. Churches confront post-war Angola's humanitarian crisis. July 23. New York: United Methodist Committee on Relief (UMCOR). http://gbgm-umc.org/umcor/emergency/angolachurches.cfm (accessed March 17, 2009).

Kay, J. 2004. *Everlasting light bulbs: How economics illustrates the world*. London: Erasmus Press.

Organisation for Economic Co-operation and Development (OECD). 2007. Development aid from OECD countries fell 5.1% in 2006. http://www.oecd.org/document/17/0,2340, en_2649_201185_38341265_1_1_1_1,00.html (accessed February 8, 2009).

—. 2008a. *African economic outlook 2008: Angola*. Paris: OECD. http://www.oecd.org/dataoecd/3/49/40568599.pdf (accessed February 8, 2009).

—. 2008b. Major findings of the report [*African Economic Outlook 2008*]. http://www.oecd.org/document/33/0,3343, en_2649_15162846_39963489_1_1_1_1,00.html#MAJOR_FINDINGS_OF_THE_REPORT (accessed February 8, 2009).

Sachs, J. 2007. How to handle the macroeconomics of oil wealth. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the Resource Curse*, 173–93. New York: Columbia University Press.

Shaxson, N. 2000. *Financial Times*. [The author has been unable to locate this article. The quotation of Angolan Oil Minister José Maria Botelho de Vasconcelos is taken from the original (pre-publication) version of the article, which was published almost intact in the *Financial Times*.]

—. 2007a. *Poisoned wells: The dirty politics of African oil*. London: Palgrave MacMillan.

—. 2007b. Oil, corruption and the resource curse. *International Affairs* 83, no. 6: 1123–40.

© Ifri, 2009

—. 2008. There will be blood [Letter to the Editor]. *Foreign Affairs* 87, no. 5. http://www.foreignaffairs.org/20080901faresponse87561/nicholas-shaxson/there-will-be-blood.html (accessed February 8, 2009).

Shiner, C. 1994. The world's worst war. *Africa Report* 39, no. 1: 13–20.

Soares de Oliveira, R. 2007. Business success, Angola-style: Postcolonial politics and the rise and rise of Sonangol. *Journal of Modern African Studies* 45: 595–619.

Sonangol P+P. 2009. Corporate Strategy. http://www.sonangolpp.com/pnpEstrategia_en.shtml (accessed March 17, 2009).

Soros, G. 2007. Foreword. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the Resource Curse*. New York: Columbia University Press. http://www.globalpolicy.org/socecon/develop/africa/2007/0612resourcecurse.htm (accessed February 8, 2009).

Van Meurs, P. 2007. How governments tax petroleum – Will it change? Unpublished presentation, March 15. www.petrocash.com/documents/free/80080002.ppt (accessed February 8, 2009).

Vines, A., N. Shaxson, and L. Rimli. 2005. *ANGOLA Drivers of Change*. London: Chatham House, April 2005. http://www.gsdrc.org/docs/open/DOC87.pdf (accessed March 17, 2009).

VOA (Voz da América). 2008. Deputados criam grupo para fiscalizar OGE. *AngoNotícias*, May 14. http://angonoticias.com/full_headlines_.php?id=19511 (accessed February 8, 2009).

World Bank. 2006. *Angola country economic memorandum: Oil, broad-based growth, and equity.* Report No. 35362-AO, October 2. Washington, DC: World Bank.

Zhu, W. 2008. Angola overtakes Saudi Arabia as biggest oil supplier to China. *Bloomberg.com*, April 22. http://www.bloomberg.com/apps/news?pid=20601116&sid=aqJ3Wjxs.OWs&refer=africa (accessed February 8, 2009).

© Ifri, 2009

The Use of Oil Revenues in Africa

Géraud Magrin* and Geert van Vliet**

Africa's integration into globalization is a product of rentier economies of diverse origins (the sale of agricultural, forest, and raw mineral materials, international aid, migratory transfers). By "rentier economy" we mean income flows that are disconnected from overall production activities in a given territory. Where there is production, it is often simple extraction, with the products being exported without either being processed or providing local benefits, and above all without contributing to a diversified economic system. Specific political forms are inherent to these peculiar economic systems: rentier states.[1] For complex historic and geopolitical reasons, until now and with very few exceptions African oil revenues have been rather fruitless: they rarely bring about accumulation of capital or truly productive investments.

* Géraud Magrin is a human geographer and a researcher at CIRAD (France). His research focuses on natural resources management in Africa, and particularly on the relationship between decentralization and oil and mining activities.
** Geert van Vliet, economist and researcher at CIRAD (France), has worked on the limits of public steering in contexts characterized by low-governability and on the role played by high value extractive activities therein. He is a founding member of the Network for Applied Research on Mining, Oil and Gas Activities (NARMA).

1. According to Beblawi and Luciani (1987), a rentier state exists when a rent, paid by external actors, is sent directly to the state, while a small portion of the population is involved in the production of the rent, and the majority are affected by its redistribution.

© Ifri, 2009

Oil rent[2] is emblematic for a number of connected reasons: strong symbolism is attached to oil, since this raw material was the foundation of economic systems in the 20th century and continues to be so in the beginning of the 21st, and is thus a key to the hierarchy that exists between countries and powers, from the richest to the least advanced. The oil economy involves incomparable sums of money.[3] Lastly, it is a buried, hidden resource. Black gold is opaque. The evaluation and exploitation of oil requires more and more sophisticated technologies that are accessible to only a small number of players; this leads to secrecy. Its immense value, important strategic dimensions, and the raging competition for control of oil fields do not naturally trigger transparency. The extraction of oil, which is basically an industrial process, remains in the hands of a small number of large companies, publicly or privately owned, that have partnerships with states in least developed countries (LDCs). This explains why figures surrounding oil rents have long been as reliable as those coming from the informal sector; until recently, very little information was available about the amounts that oil companies have given to states (Soares de Oliveira 2007). The size of the rent often remains unknown, which encourages small groups to monopolize the resources.

Thus in Africa revenues coming from oil exploitation are often siphoned off. Squandering profits (through ostentatious consumption and other types of unproductive spending, often military) is at the same time accompanied by dumping domestic problems on the international community (Soares de Oliveira 2007). Consumption and redistribution of rents, through multiform clientelistic systems, cement these socio-political systems, without leading to real development. Development indices for oil states are very similar to those of

2. It consists of different types of state revenues: bonuses, proportional royalties, and royalties tied to the production or distribution of profit oil – i.e. the value of production, after deducting costs and expenses (depending on the chosen tax system) – taxes, indirect revenues (customs, income taxes, provisions for diversified investments [PIDs], asset transfers, subsidies and other payments, etc.); see Leenhard (2005). In this chapter, we shall specify the origin of these varied types of resources only when it is useful.

3. Sales for ExxonMobil, the world's largest corporation, at $400 billion in 2007, exceeded the GDP of all of Africa's least developed countries (LDCs) combined, around 20 or so countries.

© Ifri, 2009

other developing states – that is to say, very low. In Nigeria, despite $300 billion in oil revenues over 25 years, average per capita income is less than $1 a day; in real terms, it is now lower than it was in 1960 (Gary and Karl 2003). In Angola, from 2000 to 2004, 2 million people survived thanks only to help from the World Food Program (WFP) (ibid.). The two largest sub-Saharan African oil producers certainly have a long history of conflicts, more or less tied to black gold, but this only partially explains their persistent poverty.

The international context of oil seems only to strengthen this negative relationship between oil and development. Despite recent decreases, global hydrocarbon prices will probably remain high in the medium term, due to growing demand in emerging countries and to the progressive depletion of the most easily accessible reserves. A 2003 estimate of Africa's oil revenues for the period from 2002 to 2012 was $200 billion (ibid.), but the price increases since then would lead to an estimate closer to $500 billion. These will be the most important financial flows to Africa in history (ibid.), concentrated in a smaller number of states (around 10 out of 40 or so; see map 3). Because of this, there is strong competition between oil companies from around the world – the former American and European majors, state companies from emerging Asian countries (China, Malaysia), and independent ones – to secure access to African oil fields. This global oil and political context will tend to amplify the negative impacts of oil profits.

Indeed, profits from black gold are at the heart of the study of the "resource curse." This expression, which first appeared at the end of the 1980s in the scientific community, then within development institutions and the media (Rosser 2006), refers to the process in which, in a number of poor countries, the states that are well endowed with natural resources experience major difficulties that impede their development. Andrew Rosser's (2006) excellent literature survey on this "curse" deals with three areas: economic performance (Auty 1993; Ross 1999), the role of abundant natural resources in civil wars (Collier and Hoeffler 1998, 2002, 2005a; Doyle and Sambanis 2000; Ross 2003, 2004; Fearon 2004; Isham

© Ifri, 2009

et al. 2002; De Soysa 2002; Humphreys 2005), and their influence on the type of political regime – authoritarian or democratic (Wantchekon 2002; Ross 2001).[4] Therefore, Ricardo Soares de Oliveira's (2007) recent, rather oil-pessimistic work shows how the oil states of the Gulf of Guinea – thus, the main sub-Saharan African oil producers – are "sustainable failed states" to the extent that black gold cements a system that is both ineffective regarding development goals and yet quite stable. Their strength lies in clientelistic practices, and increasingly more so in the coercion that oil rent makes possible, as well as in global actors' external legitimization of the system. However, while this "resource curse" well describes the shared characteristics of diverse African oil situations, it has also sparked large controversies.

Various studies that defend the resource curse thesis are based on a confusion between correlation and causation, thereby drawing unwarranted conclusions concerning links between resources and conflicts (Rosser 2006). The proponents of this thesis pay little attention to the southern countries, rich in natural resources, that were able to use them to improve economic performance (Botswana, Chile, and South Africa notably have been able to use their mineral riches for good, and Malaysia and Indonesia their oil resources). The nature of the political regimes (authoritarian or democratic) has proven to be a far less relevant factor of explanation when compared to the existence or absence of efficient control and opposition mechanisms, beyond mere elections (as Collier and Hoeffler [2005b] pointed out, sparking the first speculations about the links between political regimes and natural resources). On the other hand, conflicts have always been accentuated or prolonged by the existence of high-value resources, whether natural (mineral) or not, provided that the protagonists were able to use them to finance their respective strategies.

---

4. However, Rosser's approach ignores a dimension that is often cited in relation to the dangers of oil exploitation – the environment (Kloff and Wicks 2005). While the use of oil rents can have indirect effects on the environment – through the demographic and economic changes it creates, or its possible investment in environmental projects – it is in fact the oil industry itself that poses the biggest threat to the environment, particularly in weak states. In this chapter we shall therefore deal only briefly with environmental issues.

© Ifri, 2009

Moreover, this line of reasoning does not take certain factors into account, such as social relations, the influence of the geopolitical context, or the geographic diversity of the observed cases (Rosser 2006). In Africa, oil exploitation and the rents they generate are determining factors in the construction of societies and territories – which have not allowed any more than elsewhere for a significant economic takeoff, but neither do they condemn everyone to the agony of war and misery. In other words, the oil bias does not obscure all the specificities of national trajectories. Lastly, the very idea of a "curse" is tantamount to a final condemnation, which hardly encourages the exploration of possible escape routes from the vicious circle it describes.

And yet, in the context of the various attempts at oil governance reform, a certain number of proposals have been offered to ward off the "resource curse." For several years now, states, international organizations, and civil societies have worked to make extractive activities – in particular, hydrocarbon exploitation – more beneficial to the development of producer countries. The Extractive Industries Transparency Initiative (EITI; www.eitransparency.org) and the Publish What You Pay coalition (PWYP; www.publishwhatyoupay.org) are pressing for improved governance in the extractive industries sector, with a basic demand for improved transparency. Other measures, which fall under economic, political, or international domains, have also been proposed (see, e.g., Humphreys, Sachs, and Stiglitz 2007). Generally they come up against the question of their feasibility (Rosser 2006).

Based on an analysis of the use of oil rents in Africa, within the framework of a critical review of the so-called resource curse, this chapter suggests a set of proposals and ideas that may help to enable an escape from the portrayed situation. In the evolving and diverse African context, how can we make oil rents flourish through investments? How can we escape a profit–redistribution–consumption structure and move towards a profit–investment structure (Pourtier 2005)? Specifically, what are the conditions that would make possible a bifurcation in states' trajectories? While oil profits in weak African states tend to work as catalysts for the existing social

© Ifri, 2009

and political dynamics – like magnifying glasses or distorting mirrors – our hypothesis is that an analysis of the interplay between actors, while taking into account the long-term cycles of the oil economy (Van Vliet and Magrin 2007), can reveal the openings in which changes are possible outside of the vicious circle of the resource curse.

Beyond a literature review, we also present geographic and geopolitical insights anchored in our field experiences in African oil countries, notably in Chad and Mauritania (see Magrin et al. 2005; Van Vliet et al. 2008).

First, we present the symptoms of the resource curse that are linked to the use of oil rents, their many forms depending on the national context, and their respective oil history, as well as societal transformations in countries under the influence of these rents. Next, we analyze the challenges posed by the use of oil rents, by examining the achieved progress in transparency and the limits and obstructions partly resulting from the international context. Finally, we look at the available room to maneuver that can lead to changes in states' trajectories.

Diversity in the Situations and Effects of Oil Rents in Africa

The use of oil rents in Africa plays an important role in the dysfunctions identified in the resource curse thesis, which we shall present in this section in terms of three of the dimensions Rosser (2006) has identified: economic performance, conflict, and political governance. Next, we shall show that different countries – depending on how long they have been exploiting their resources, the relative importance of profits (which depend on the amount but also on the size and demography of the states in question), and their geo-historic trajectories over the long term – have different outcomes, which leads us to question the linearity postulated in the resource curse thesis. Finally, we shall show that, while the result does not conform to the sustainable development model, the rents are contributing to the construction of specific societies and territories.

© Ifri, 2009

Rents: The Cement of the Three Central Dimensions of the Resource Curse?

Economic inequalities and the governance issues that make up the resource curse are closely linked. While there are surprisingly few examples of the Dutch disease, African oil-producing countries have comparable macroeconomic profiles, characterized by rentier dynamics that are organized around a central, indebted state and predatory elites. Both states and elites are shrinking and seemingly ever more disconnected from the respective national social and territorial processes.

Economic Performance

In terms of economics, the most famous symptom of the resource curse is without doubt the "Dutch disease," a term first used in *The Economist* in 1977 to describe the evolution of the economic and social situation in the Netherlands following the start of exploitation of the Groningen gas field in the 1970s. An influx of money during the 1973 oil crisis brought about an overvaluation of their currency, which hurt their exports and thus their economy's productive sectors (agriculture and industry). The "Dutch disease" remains a useful concept, even if numerous studies later showed that it does not really apply in the case of the Netherlands, since the observed drop in production seems to be explained better by the stagnation that was then affecting the main buyers of their products than by the influx of gas resources, handled as best as possible by the Central Bank (Stijn 2002). Likewise, African oil producers do not fit this model well: in Nigeria, their exchange rate has continually depreciated since the 1970s (AFD 2005). On the other hand, while a large number of francophone African oil countries have strong currencies, it is due to their belonging to the CFA Franc Zone, attached to the French franc and then to the Eurozone, not because of their oil assets. The causes of their mediocre economic performance should thus be sought elsewhere.

Like other non-oil-producing countries, African oil states share the macroeconomic instability that is linked to fluctuations in the global price of oil. This variability is amplified by the structure of the now widely applied variant of production

© Ifri, 2009

sharing contracts, the principle of which is first and foremost to reimburse the oil company's input costs (Shaxson 2005). In these oil states, where budgets are always based on optimistic projections, the (never anticipated) reversal of circumstances creates major economic tensions – which is some cases have disastrous political consequences, as in Congo-Brazzaville in the 1990s. Paradoxically, in economies that produce (and consume) little energy, the variability of the price of oil is nevertheless an obstacle to any future planning. Oil states share another element in terms of their macroeconomic profile: they have are heavily indebted because they use their oil resources as guarantees during periods when other states no longer have access to credit, as has happened since the implementation of structural adjustment in the 1980s (Soares de Oliveira 2007). Favorable oil circumstances (price increases) and periods of forgiveness in the international community (debt cancellation) allow them periodically to re-establish their solvency. The funds from international public loans frequently land in private hands – despite measures taken by the multilateral financial agencies regarding bidding procedures and transparency – while the problem of debt repayment is left to the public (ibid.). The low economic performance of African oil states is rather the result of how the political apparatus and society function.

While the size of the rent follows to a certain extent the fluctuations in the oil cycles, the ways in which rent is redistributed appear to vary depending on the context, though always in directions that are not favorable to development. The history of African oil profits can be divided into three periods: after the start (1960s), characterized by low levels of rent, with limited effects; the boom of the 1970s marks the first oil spike; and, in certain cases, the birth of rentier states. The 1973–1974 oil crisis globally quadrupled the available resources. The 1980s oil glut went hand in hand with an even deeper crisis than experienced in other African states – but these countries are also subject to structural adjustment for comparable reasons. Revenues disappeared. In 1986, Gabon entered a "financial Ramadan," while its budget was cut in half between 1985 and 1987 (Pourtier 1989). In Nigeria, from 1980 to 1986, oil revenues fell from $27.4 to $7 billion.

© Ifri, 2009

Between 1998 and 2008, a new oil shock has been underway. New producers (Equatorial Guinea, Chad, São Tomé) are bringing in "oil bonuses,"[5] which sometimes double the state's budget ($49 million in São Tomé in 2005 [Soares de Oliveira 2007]). Everywhere, increased prices stimulate production. Paying off past debt takes a first and huge part of these new revenues (Leenhardt 2006), while a decrease may be observed in the tax burdens in the Franc Zone due to competition and price increases (Leenhardt 2005). Since 2006, the surge in oil revenues brings up the issue of recycling new petro-dollars. At the same time, countries take on new debt – short-term loans at high rates – to satisfy the cash needs of oil states and their elites (Soares de Oliveira 2007). In oil states, as elsewhere in Africa – but simply to higher degrees – the current context is reminiscent of the 1960s and 1970s, on the eve of adjustment. Increases in the price of raw materials (oil at the forefront) justify new debts, which risk being both untenable if prices fall and ineffective in contributing to development policies.

The coming cycles will certainly not be as simple as imagined by those who project a steady increase in prices (based on an increasing rarity of easily accessible resources, the approach of "peak oil,"[6] and the necessity of exploiting more costly fields). Instead, a drop in global demand could occur due to an international economic crisis (tied to the increase in energy prices or other relevant problems with financial markets, such as the current crisis), or simply and more probably because the price of oil could become high enough to accelerate developments in alternative energies and thus bury oil in its own grave. No one knows, however, when (in the medium or long term) this major change in the foundation of the global economy – once stripped of oil – will occur.

According to a pessimistic interpretation, oil always seems to create improvements, at least initially. But the competition for rents and the inherent malfunctioning invariably lead to

5. An oil bonus is a fixed amount immediately given by an oil company to a state when a contract is signed. Such bonuses are often quite important since contracts are often not favorable to the state.
6. "Peak oil," or peak oil production, is the point at which global oil production begins to decrease, in absolute value. Experts are divided on when that point will be reached.

© Ifri, 2009

ruin at the first downturn (Gary and Karl 2003). It is also often argued that oil states in the 1970s, despite deficiencies in governance, did develop – through investments in economic construction, society, and territory.[7] But the post-adjustment context of the new oil boom (since the end of the 1990s) is much less favorable. Structural adjustment programs (SAPs) and the decreases in available public resources lead elites to retreat into the state's financial core – oil – and abandon national ambitions, despite their public discourse. They instead concentrate on the exercise of despotic power to benefit of their private interests (Soares de Oliveira 2007). The new oil boom has enabled the re-launching of major public works projects, but it has not reestablished the link between the elite, the state structure (public services and civil servants demobilized due to the constant lack of funds over the past 20 years), and the general population. The social functions of the state are left to NGOs, international cooperation (Van Vliet and Magrin 2007), and to the private foundations of presidents and their wives, with their obvious populist goals (e.g. in Angola and Congo-Brazzaville) (Soares de Oliveira 2007). The oil wealth has allowed Chad's president to buy arms and Hummers and to break with the World Bank over oil, while draping himself in "excessive energy nationalism" (Bezat 2008). The decrease in those that benefit from the oil rent – which is sometimes limited to just tens of officials around the head of state – is made possible by the strength of the legitimacy provided by external actors, which directly depends on oil flows (Soares de Oliveira 2007). Efforts to improve the management of oil profits have been possible only in states affected by decreases in their production, such as Cameroon (ibid.).

Conflicts

Unequal access to oil rents and their opacity are indeed important factors in conflict. They weaken state-building processes, which have been underway since independence in

7. Soares de Oliveira (2007: 63), citing Mann (1984), uses the category of infrastructural states – a state that interacts with its civil society and has a direct impact on it through the necessary means of regulation.

© Ifri, 2009

the 1960s, by stirring up rivalries between groups or regions. Nigeria, Africa's number one oil producer, also experienced one of the first post-independence civil wars connected to oil. Behind Biafra's secession (1966–1969) was the attempt by the Igbo elite – following their inability to control the federal state – to control the extraordinary wealth of the Niger Delta. They were helped by Elf, which was looking to join the oil game, which until then had been dominated by the European and American majors, Shell being the head of the pack. After the Biafra War, access to profits has structured national politics in Nigeria. The distribution of profits was spelled out to the last details in the constitution, which has caused a peculiar process of territorial fragmentation (Sébille-Lopez 2005). The amount of federal states went from 3 in 1960 to 36 in 1996, and from 301 local government authorities (LGA) in 1976 to 774 in 1996. Because a large part of the rent is divided up into small pieces between institutions at different levels (through a partition system that seems all the more boundless since it is fueled by the demands of ever-shrinking groups), this does not stimulate development. Tensions arise at all levels, whether they are vertical (between the federal government, the states, or the LGAs) or horizontal (between territories at the same level, depending on whether they have oil infrastructure or not). Globally, inequalities reflect geopolitical force relations: the large northern states, which are relatively less populated, are better served than the numerous small southern states, which have large populations. The Delta oil region and its local governments are disadvantaged (ibid.). The latter receive less than half of what state governments receive, though they are in charge of the essential health and education duties. In the south, profits are split between the governors and urban projects. Rural inhabitants, who are subject to land seizures and environmental destruction, hardly see any positive results (ibid.). Thirty years of frustration and rivalries for access to a morsel of the rent have increased the number of conflicts with the state and oil companies, but also between communities (competition among autochthonous and allochthonous populations). The Gulf of Guinea, depicted as a new global oil hotspot, is one of the frontiers of state dissolution, which does not seem to be accidental (Mbembé 2005).

© Ifri, 2009

The battle for the rent and its unequal distribution add to tensions and conflicts in specific ways in different countries. In Angola, Cabinda Province has produced close to half of the country's oil, without really benefiting from it at all. This situation has fueled the decades-long separatist rebellion led by the Front for the Liberation of the Enclave of Cabinda (FLEC) (Sébille-Lopez 2006). In Chad, the location of oil fields in the south of the country, in the heart of the regions that were home to the most active rebellions during the 1980s and 1990s, help to feed resentment and southern discourse on the exploitation of the south's resources (cotton and oil) by the north (Magrin 2001; Tulipe 2004). But access to a portion of the rent passes through the capital, not the oil fields. This issue further has fed the anger of those dissatisfied with the current regime and has nurtured the recent rebellions in the east of the country (Magrin 2008; see map 5). In neighboring Sudan, civil war has continued for many years and its roots are complex. Sharing the oil rent seemed to have been part of the solution, and was made an essential agenda point in the negotiations with the southern rebels, the SPLA (Sudan People's Liberation Army). Oil profit-sharing is currently among the demands of rebels from Darfur, another region forgotten in national development thus far. Since the start of the exploitation of the misnamed Unity oilfield in the center of the country, military spending to fight the rebels has doubled (Gary and Karl 2003). In Equatorial Guinea, the boom tied to the insularity of oil facilities has fueled a feeling of abandonment in Bata as much as it has created resentment among the local Bubi people of Malabo, who feel invaded. While the MAIB (Movimiento para la Autodeterminación de la Isla de Bioko) is using the new attention paid to the country due to oil exploitation to denounce the negative effects on the environment and human rights, the regime greatly intensified the risk that it poses to the country's unity and used it as a tool to foster nationalist sentiments, dispose of opponents, and raise the stakes with insurance and security companies (Roitman and Roso 2001).

The armed forces of oil states are often large, even if it is difficult to know their precise numbers, since the international institutions that provide financial assistance do not really care

© Ifri, 2009

to ask for such information. As a symbol of assertiveness and the manifestation of the state's physical power if needed, the army represents a key instrument of rentier states' "despotic power" (Soares de Oliveira 2007). Their importance nonetheless greatly varies from one country to another, as is clear from the differences in national histories. In Angola, the large military evinces the influence of their long civil war, just recently ended.[8] In Nigeria, the size of the army is proportionate to the size of the population: 85,000 service members for 140 million citizens (UNDP 2007). This appears to be both a tool for maintaining order in a country that is susceptible to recurrent violence and an instrument of regional or even continental power, through frequent participation in peacekeeping missions in the framework of the UN and ECOWAS.

Political Governance

The behavior of African oil elites as portrayed in the media is only the tip of an iceberg whose base is hidden as much as possible. Their behavior needs to be addressed before developing any technical considerations on improving the governance of oil revenues – since it covers both the human dimension, rooted in the social and cultural sphere, and the specific interests at stake. According to Achille Mbembé (2000), the oil elites' activities can be compared to those of African kings during the era of slave trade, who got their power solely from relations with the exterior, through selling the kingdom's resources (humans) in exchange for imported goods (clothing, alcohol, arms) that symbolically and materially proved their power (Ellis 1999). Certain details are based on anecdotes. The oil boom at the end of the 1970s allowed Gabon, the Congo, and Cameroon to have the highest rates of champagne consumption per capita in the world. The practices encouraged by oil profits fall in line with the history of a consumerist ethos with the trappings of Western modernity that preceded them – for instance, the Gabonese called champagne "okoume juice," a reference to the period before oil (Pourtier 1989).

8. Fourteen years of war for liberation against Portugal (1961–1975), followed, at independence, by twenty-seven years of civil conflict within the Cold War context (1975–2002).

© Ifri, 2009

The tendency of national elites to place their fortunes – resulting from a mixing of public and private treasuries – abroad in order to enjoy them more freely or as back-up funds in case of political problems, is even more harmful to development. At least 40% of Africa's riches are located abroad, a figure that is often much higher, as in the case of Nigeria (Soares de Oliveira 2007).[9] A recent French report, which followed up on charges of embezzlement of public funds leveled against four heads of African oil-producing states, revealed that some of them have extensive holdings: for example, Gabon's Omar Bongo and his inner circle own 33 apartments and houses in France, including a private mansion close to the Champs-Élysées recently acquired for €19 million, and Congolese President Sassou Nguesso has 18 properties. The same reports states that the son of the President of Equatorial Guinea, Teodoro Nguema, bought 15 cars for €5.7 million (La Libre Beligique 2008). As for Guinea, the Rigg's Bank scandal brought to light what many knew – 60 accounts belonging to the president and his inner circle totaling $700 billion, accounts into which oil companies make direct deposits (US Senate 2004). That said, the destructive economic practices of the president, his family, and his clan did not begin with the advent of the oil era. Even before that Guinea was one of the best examples of a state's criminalization (Bayart, Ellis, and Hibou 1997). In Angola, the state received $18 billion between 1997 and 2002, of which a quarter disappeared from the nation's books without a trace. While 60% of young people were not educated, and education and health spending reached 3.4% and 4.9% of the budget, respectively (Sébille-Lopez 2006). And a celebration for the air force in 2000 cost $4 million (Soares de Oliveira 2007). War does not explain everything. Due to a lack of transparency, no one knows the state's exact revenue (Gary and Karl 2003).

Through oil profits, the state is firmly entrenched at the center of political and economic life, itself structured by the redistribution of the rent. The system is organized in concentric

9. Even though this particular form of resource "sterilization" contributes to avoiding the Dutch disease.

© Ifri, 2009

circles – the elite leaders form the first circle of beneficiaries; a second circle is made up of all personnel in the public and parapublic sectors, as well as the intermediaries that benefit from the state's purchases; beyond that, the other citizens benefit, depending on the circumstances, from subsidized staple goods, business, and work stimulated by public works, and from the money that circulates within the first two circles.

The importance of clientelism and corruption in African states has been amply documented in the literature (see Bayart 1989). But in oil countries, the effects of profits combine with the prior institutional weaknesses to form the first oil states (Karl 1997). Natural resources may indeed have a negative impact on growth but only when the previous institutions are weak. For oil destabilizes institutions more than does any other resource, and corrupts more than anything else (Sala-i-Martin and Subramanian 2003). Curse or not, it is a considerable risk, proportional to the importance of oil production and its role in the national economic and political system.

Oil states share a number of characteristics with "failed states" – the private appropriation of state capital to the benefit of a small group of elites, the decline of public services, the criminalization of the economy, the use of ethno-regional divisions to cement allegiances, etc. – but differ from the latter in that they are highly stable. These are "sustainable failed states" (Soares de Oliveira 2007). Destructive economies that benefit only the elites are viable as long as the resource is sustainable: the rent allows for credit, as well as domestic domination by force or by purchase; it is inseparable from foreign recognition. Access to the rent, as well as the corruption that accompanies the exercise of power, are monopolistic and thus rarely competitive. They are concentrated, therefore, at the highest level of the state, between the president's office, the national oil company (NOC) or the Ministry of Hydrocarbons, the Minister of the Economy, and the Central Bank. NOCs sometimes play the role of a second public treasury, as do the SNPC in the Congo and Sonangol in Angola (ibid.).

© Ifri, 2009

In this context, the democratization processes that came about at the end of the Cold War have not produced the expected results. Studies have shown that without an effective system of opposition, conflict surrounding electoral campaigns mixes poorly with natural resource revenues, which do not have positive economic effects (Collier and Hoeffler 2005b). On the contrary, the abundance of resources favors clientelism – through buying opinion leaders, customs, or religions chiefs – rather than providing public goods. In Nigeria, President Shagari, after the 1978 elections, reneged on a dam contract, whose amount was multiplied fivefold: it was instead necessary to pay off campaign expenses (ibid.). Spending and debt skyrocket during election years. But autocratic systems that seem to seduce certain African leaders are economically efficient only in relatively ethnically homogenous contexts, such as in China (ibid.). In Africa, on the other hand, ethnic diversity is used and strengthened through clientelism – resulting, for example, in the vicious circle of Nigerian fragmentation discussed above. Autocracy favors a small base, up to the clan level, with disastrous effects on the functioning of the state and society – as has been the case in Equatorial Guinea and Chad.

Under these conditions, successive electoral cycles are not enough to create a link between the state and the citizens. On the contrary, oil naturally tends to disconnect them further. Rich with its access to oil rent, the state exchanges social calm for a loosening of the tax burden. Thus freed of the tax burden, the ordinary citizen no longer holds the state accountable, which leaves the path clear for the embezzlement of public funds (Collier and Hoeffler 2005b).

Table 1 summarizes the current situations in the main oil-producing countries in Africa in relation to four dimensions of the resource curse. It shows that the symptoms of the curse are experienced differently depending on the country. No oil country is exempt, but few are affected to a high degree in all domains. It also suggests that other important factors contribute to their difficulties.

© Ifri, 2009

Table 1. The Four Dimensions of the "Resource Curse" (Oil's Contribution)

	Economic performance	Governance	Conflicts	Environment	Total
Nigeria	▲▲▲	▲▲▲	▲▲▲	▲▲▲	12
Angola	▲▲	▲▲▲	▲▲	▲▲	9
Sudan	▲	▲▲	▲▲	▲	6
Equatorial Guinea	▲	▲▲▲	▲	▲▲	7
Congo B.	▲▲▲	▲▲▲	▲▲	▲▲	10
Gabon	▲▲	▲▲▲	▲	▲▲	8
Chad	▲▲	▲▲	▲▲	▲	7
Cameroon	▲	▲▲	▲▲	▲	6
Mauritania	▲	▲	▲	▲▲	5
DRC	▲	▲	▲	▲	4
Ivory Coast	▲	▲▲	▲	▲	5
South Africa	▲	▲	▲	▲	4

▲▲▲ = Oil has major role in problems or negative results in the domain.
▲▲ = Oil has an intermediate role in the problems or mediocre results in the domain.
▲ = Lack of a major negative role of oil in the given domain.
NB: Where oil does not play a major negative role, other extraction activities (mineral resources) can still be implicated in the "resource curse." Here we consider only the role of oil.

The Resource Curse in Question: Differences in National Trajectories and Oil Patterns

A curse? Looking beyond the convergences and recognizing the diversity of national situations leads one to modify this view. The poor correlation between oil and development indicators is significant here. According to the UNDP's Human Development Index (HDI), the best-placed sub-Saharan country in 2007–2008 is an oil producer, Gabon (119th). But the two largest producers are ranked quite low (Nigeria is 158th, or 31st out of 50 in Africa; Angola is 162nd). If we study developments over the last 12 years (1995–2008), no correlation exists between positive or negative trajectories and oil exploitation. Equatorial Guinea advanced (from 142nd to 127th) parallel to beginning oil production at the end of the 1990s. Nigeria fell around ten places, but some non-oil-states (DRC and South Africa) did as well. We shall attempt to explain this diversity by investigating the amount of time that states have been producing oil and their respective negotiation capacity; the relative importance of the oil rent in the economies of the given countries; and the size of the country and its population, as well as its historic and geographic pre-oil structures.

© Ifri, 2009

The History of Oil Exploitation: The Negotiation Capacities of States

In previous studies (Van Vliet 1998; Magrin and van Vliet 2005), we emphasized the importance of taking into account the entire lifespan of oil cycles. Indeed, we developed the hypothesis that the behavior of companies, as well as that of the governments and civil society movements, do evolve throughout the entire oil cycle. In particular, we showed how the negotiation abilities of governments and national actors progress over time, but in a direction that is opposite to the evolution, over time, of the propensity of companies to compensate for negative environmental and social impacts, leading to violent crises at the end of the cycle. According to this analysis, the historic oil-producing states in Africa would become mired in potentially inextricable conflicts (Nigeria, Angola, Gabon), while the new producing states could more easily follow alternative trajectories (Mauritania, São Tomé).

Paradoxically, the ability of historic oil states is improving, even though the degree of domestic social discontent is rising. In most oil states, production-sharing contracts (PSCs) have replaced concession contracts based on royalties and taxes (Johnston 2007). Today, the governments of African oil states are faced with the challenge of securing satisfactory deals, while with each pass day contracts are becoming more sophisticated and harder to understand. Indeed, within the category of PSCs – which are the norm today – there are numerous differences in the terms of sharing. When reading official figures, the state's share strongly varies: 50% on average, 90% in Nigeria, 21% in Equatorial Guinea, and 12.5% in Chad (Soares de Oliveira, 2007). A first reading would seem to confirm, then, that the historic oil producers (Nigeria, Angola) have negotiated a better share, while newer producing countries (Chad, Mauritania, São Tomé) have settled for less favorable terms. However, one should not seize on any interpretation of these numbers without a more detailed analysis of the entire contract (Johnston 2007), for "the devil is in the details." Future interdisciplinary research on the contracts, their terms and implications, is therefore necessary.

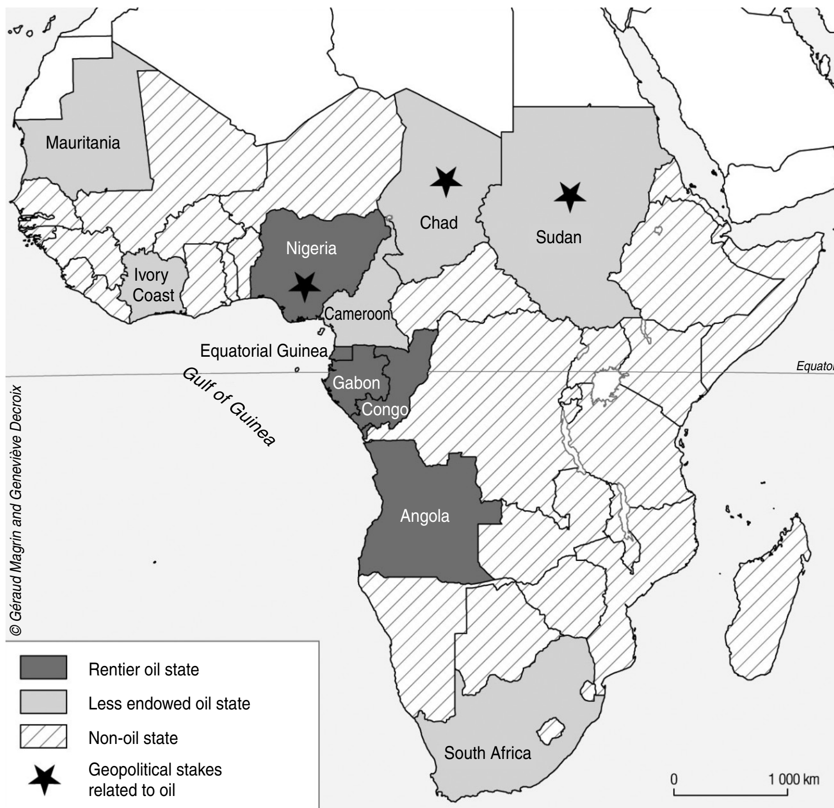
© Ifri, 2009

The Relative Economic Importance of the Oil Rent

It is important to distinguish between at least three profiles of African states in the face of oil issues (see map 1). Most states are non-producers. Despite their low energy consumption, they are nevertheless extremely vulnerable to increases in global oil prices, and thus often devote 40–50% of their export revenue to the import of energy.

There are only a handful of true rentier states (Nigeria, Angola, Gabon, Congo, Equatorial Guinea). Their non-oil-based revenue does not represent more than a third of their income, and sometimes only about 10% (Soares de Oliveira 2007). Oil makes up 40–50% of their GDP, between two-thirds

Map 1. Less and Well Endowed Oil States in 2008



Source: Geneviève Decroix, PRODIG, UNR 8556, CNRS.

© Ifri, 2009

and three-fourths of their budgets, and 80–90% of their export revenues (Rossellini 2005). The oil rent is so important that the entire national economic and political system of each is organized around harnessing and distributing it.

Other countries are in more intermediate positions, since their oil revenues are limited by declining volumes or limited levels of production (Cameroon, Ivory Coast, Mauritania) due to high exploitation costs or unfavorable contracts (Chad), or simply their integration into a stronger and more diversified economy (South Africa). In these cases, oil rents are added to other rents or to other revenue sources (fishing, cocoa, mining), but without eclipsing these other sectors. It has less important economic and political effects, and thus is less problematic. In the current context of the search for new oil, where the very large and easily accessible oil fields are already being exploited and new discoveries will most likely be much smaller with higher exploitation costs, it is likely that the number of African countries benefiting from smaller oil rents will increase. The risk of the "resource curse" would thus not have the same affect on them as in rentier states.

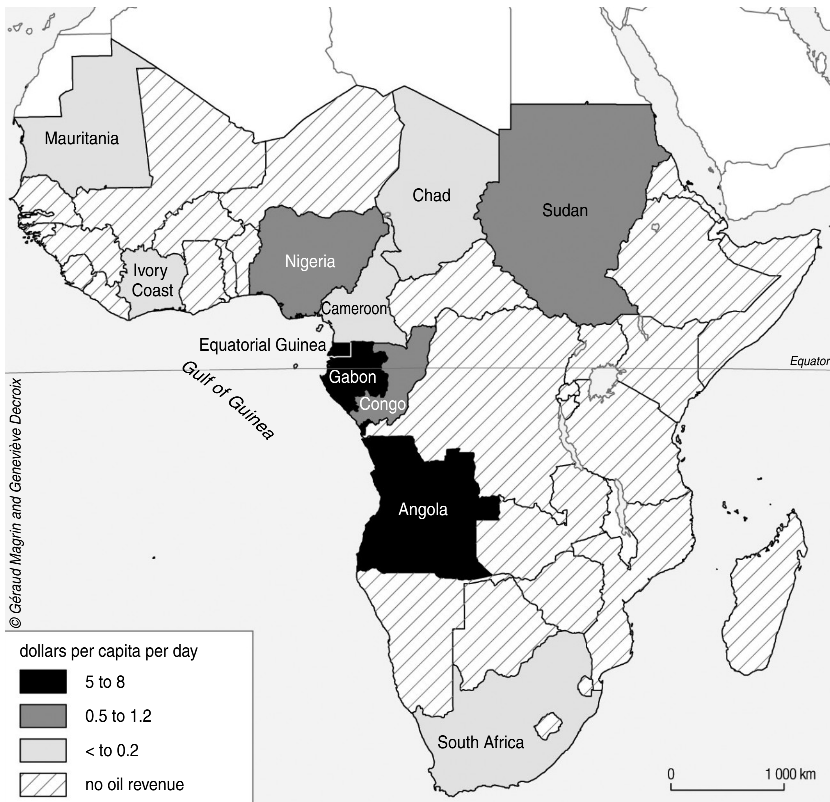
Demography and the Size of the Countries

The effects of an oil rent cannot be understood without taking into consideration the size of the country and its population and the actual size of this oil rent (see map 2). Oil countries with small populations have an emirate-type eco-demographic structure (Pourtier 2005). Gabon, Equatorial Guinea, and São Tomé have less than 1.5 million inhabitants.[10] Congo and Mauritania have less than 4 million. In Gabon, between 1960 and 1984, thanks to oil, the value of exports has been multiplied by 76, and the state budget by 134 (in

10. Gabon probably has 1.2 million inhabitants today; Equatorial Guinea, 0.6 to 0.8 million; São Tomé, 150,000. But there are no reliable figures, because no attention was paid to such small countries for many years to which the oil rent has suddenly given greater visibility. (Equatorial Guinea recently increased the number of its advertorials in order to restore its image or simply to construct one. For a long time, oil-producing Gabon used Air Gabon and the radio station Africa No. 1 as instruments of influence incommensurate with the influence deriving from its demographic size.)

© Ifri, 2009

Map 2. Daily Per Capita Oil Rent (2007–2008 estimate)[11]



Source: Geneviève Decroix, PRODIG, UMR 8586, CNRS.

constant francs); the country has the highest per capita GDP in sub-Saharan Africa at $5,000 (Pourtier 1989). Until now, despite the governance problems typically seen in rentier states, oil revenues have been at a level sufficient enough to benefit a large part of the population, directly or, more often, indirectly. In the best-endowed states, the flows are enough to buy civil peace, despite some social explosions, such the one that shook Port Gentil, Gabon's oil capital, in 1990. But in the

11. The numbers used to create this map are only rough estimates. They come from statistics on population, daily oil production at $80 per barrel, and an estimation of each state's revenue share. This last factor is the least certain in the absence of an in-depth study of oil contracts.

© Ifri, 2009

Congo, the democratization process and a turnaround in the oil situation made the civil war from 1993 to 1998 even worse. In large states, whether in population and/or in size, such as Nigeria (140 million inhabitants), Angola (16 million), and Sudan (40 million), the issues are much different, and most regions, communities, or groups do not benefit from the rent (see map 2).

Pre-Oil Structures

Our reading of oil revenues and their contribution to the resource curse can also be nuanced by looking at their effects in relation to the former national systems. Equatorial Guinea had developed an illicit economy to a rare degree in response to low state revenues, making a business out of anything that a state could trade (diplomatic passports, drugs, flags of convenience, toxic waste storage, money laundering, etc.). This heavily strained the national laws and international agreements on to which Guinea had signed. Oil brought a welcome alternative to this former system (Donner 2004). Now that it is Africa's third largest oil producer, Equatorial Guinea's underground economy is diminishing and becoming even more hidden, but it is also becoming less necessary, and even cumbersome, given the country's search for respectability.

Today, in Equatorial Guinea, many beyond the tight power circle are profiting from the oil boom (ibid.). The first years (1998–2003) were, of course, marked by the elites' becoming spectacularly rich. But as the wealthy sucked up their share of they profits, the spill-over of oil revenues (as much the rent itself as the results of all the necessary investments in infrastructure construction) is spreading widely throughout the country. Salaries are increasing. Unemployment is low and money is circulating; few go hungry. For a country that 20 years ago represented a violent dead end of globalization, oil does not seem to be a curse.

Likewise in Gabon and Congo the effects of oil revenues only consolidated the already existing paths of state-building, based on the administration of successive rentier cycles, in forested areas and with relatively small populations.

© Ifri, 2009

Rent, Territorial and Societal Spaces: Rapid and Fragile Transformations

Beyond the political effects, oil influences societies and transforms territories depending on the circumstances peculiar to each. These transformations do not correspond to the development model followed by the newly industrialized countries (NICs) (the four Asian Tigers) or the currently emerging countries (Brazil, China, India): for here there is neither the industrialization nor the progressive mastery of innovation and competitive economic diversification typical of those countries. Above all, these transformations do not meet the criteria of sustainability, since they do not address what will come after the exploitation of this finite resource. Whatever the case, these oil states in least developed countries (LDC) do constitute a sui generis form of integration into the global system, combining the speed of social-spatial transformations and the fragility derived from their dependence on uncertain levels of revenues.

The oil industry integrates itself in the host territories in the form of an archipelago: its hubs (management branches, control centers, fields, and platforms) are closely connected to each other and with other centers in the company's global system on which they depend, while limiting relations with the host as much as possible (Donner 2004). NOCs play the role of gateway in this relationship. By bringing together the best national human resources, NOCs are the oil archipelago's interface with their national environment, in which they strive to protect themselves against any failure (Soares de Oliveira 2007). The joint ventures that were created in Nigeria and Angola rather than setting up state companies tend to turn local entrepreneurs into parasite rentiers (ibid.). The fact that conflicts or tensions are concentrated in oil enclaves (Port Harcourt and the Delta in Niger, Pointe Noire in the Congo, Port Gentil in Gabon, Cabinda in Angola, and Malongo within Cabinda, the oil fields of Logone, etc.) (Nies 2003; Soares de Oliveira 2007) shows that the oil archipelago's islands are not always as "offshore" as they may seem and that partitions are not always airtight. There are sets of links (physical and material, through communications networks and supplies, though

© Ifri, 2009

this is limited; human, through local employees; economic, through socioeconomic investments; identity, through the construction of national identities that are strongly influenced by oil) that attach them to the host society (Magrin and van Vliet 2005). A study conducted in Chad in 18 villages impacted by the oil project showed moreover that, four years after the start of work, the socioeconomic indicators were better than in more distant villages that are not affected (Cogels and Kupert 2004).

In contrast to diamond or precious metal extraction, which are lootable resources (Isham et al. 2002; Sala-i-Martin and Subramanian 2003; Ross 2003), oil production is geographically concentrated, under the given extraction technology prerequisites, as are the financial flows resulting from it (see map 3). Under these conditions, the state's share – the rent – appears to be the principal link between oil, society, and the territories. Oil distribution accelerates transformations and movements – of people and activities – on different scales.

In all cases the oil state is an employer state – constructed around the archetypal civil servant, with somewhat unstable productivity, but relatively well paid. In Africa more than elsewhere, these civil servant posts play a central role in the redistribution system. They are a direct part of relatively exclusive clientelistic systems, though they may indirectly benefit larger fringes of the population – given the rarity of salaried jobs, a civil servant may support 10–30 people, depending on his level and the additional resources to which his job gives him access. Where civil service is the most developed, oil resources often only intensify prior arrangements. In Gabon, the public sector increased tenfold between 1960 and 1987, reaching 45,000 paid workers in a country that has only 600,000 inhabitants (Pourtier 1989). Cameroon doubled its public workforce between 1972 and 1980. In Congo-Brazzaville, the rent promoted the fusion of an overdeveloped administration, inherited from the former status of the capital of French Equatorial Africa, with the demands of tropical Marxism (Soares de Oliveira 2007). Equatorial Guinea, which has always refused structural adjustments, has an impressive bureaucratic machine: the state was not dismantled, as happened elsewhere. Civil service facilitates

© Ifri, 2009

political control, in a context of a closed and violent dictatorship, which few African countries experienced for such a long period. Under these conditions, the oil boom helped to preserve this system, but it also opened the country to the outside world (trade, migrations, mobile phone network, Internet).

Subsidized services and basic goods (gas, electricity, rice, flour, etc.) are another form of legitimization made possible by the rent. This guarantees the survival of many poor, urban populations, and thus ensures social peace. These subsidies are not restricted to oil states – many other African states have made similar choices, such as Senegal or the Ivory Coast – but they are taken much further than elsewhere. While they certainly benefit certain officials and citizens, these practices are very costly and encourage waste. For example, Nigeria, Africa's top oil producer, has to import refined fuel because of deficits in its refining system. The sale of subsidized hydrocarbons cost Nigeria $2 billion per year in 2004 (Sébille-Lopez 2005). In times of economic trouble, price increases due to subsidy decreases systematically bring about large protests, such as in September 2005. These testify to both the difficulties posed by urbanization in an environment of extreme poverty (massive cities built horizontally, formal jobs concentrated in central areas, insufficient public transport systems based on personal vehicles),[12] as well as more specific issues related to oil: for the lower classes in cities faced with the behavior of the elites and embezzlement, these low prices are their share of the rent – whether consciously or not. This portion of the rent that is reinvested in the country likewise has unexpected spatial effects that should be followed over the coming years: oil rents and activities contribute to the construction of territories with unique characteristics.

Oil revenues shape the territories' organizational processes and their development. In Africa, while the rate of urbanization reflects the level of integration in the global economy,

12. The rise in hydrocarbons and food prices caused riots in numerous large African cities between 2006 and 2008, regardless of their status as oil producers (Conakry, Dakar, Ouagadougou, Niamey, Douala, Yaoundé, Lagos, etc.).

© Ifri, 2009

this statistic strongly correlates to hydrocarbon production. Rentier countries with small populations that follow the emirate model are distinguishable: in Gabon, the percentage of the population living in urban centers went from 15–20% in 1960 to 60% in 1985 (Pourtier 1989) and today it is most likely at 80%, the highest level in Africa. Another rentier cycle – timber exploitation – started the movement of rural populations into cities. The oil rent accentuated the effects of this (Pourtier 1989). More than two-thirds of Congo-Brazzaville's population is probably urban (in a country with less than 4 million inhabitants). In these two cases, the extent of urbanization, in a forested, equatorial environment characterized over time by low demographic densities, poses serious challenges for the control of the state over large segments of their territories.

Capital cities are everywhere the first to benefit from the oil rent, through infrastructure investments by the state or private investments of well-served local elites. Other cities may benefit, however, from significant spill-over. Nigeria's new capital, Abuja, was born out of the rent, on the model of Brasilia – with the only moderately successful objective of creating a link between the north and the south of the country. Libreville is filled with buildings glorifying oil and the power it brings: the Ministry of Oil, Boulevard Triomphal Bongo, etc. In Equatorial Guinea, pre-oil isolation supported a certain reorientation towards the continent – after the colonial period, which had promoted the island and its rent cultures. The oil boom is revitalizing Malabo (Donner 2004; see also Frynas 2004), where infrastructure is going up at great speeds: numerous paved roads (see photo 1), including one around the island's perimeter, a new port, and a gas (LNG) train in the north of the island. New municipal buildings, new office spaces, rental houses, and even some slum areas (Ela Nguema in Malabo, which before was very poor and deteriorated) are being built or redone. In Chad, the visibility of public intervention remains small due to the omnipresence of international funding organizations and military conflicts in the last few years. In N'Djamena, the new oil ministry building and some road improvements demonstrate vague attempts at improving the city – though they have been called into question by conflicts

© Ifri, 2009

in April 2006 and February 2008 (Magrin 2008). In Mauritania, in addition to large new public and private buildings, new neighborhoods have sprung up in Nouakchott. It is likely that oil revenues, along with other state financial resources (international aid, iron, fishing), contributed to this. Nonetheless, this contribution is above all indirect, since oil production and its revenues have fallen short of expectations.[13] Its status as a new oil producer, however, has attracted investors from the Arab world and elsewhere.

Revenue builds territories. Nigeria, despite countless problems, has long had the densest road network in Africa (outside South Africa). Decisions made in Gabon demonstrate the state's acceleration in producing state space (Pourtier 1989), in cities, and in transportation. The Trans-Gabon Railroad, criticized because of its cost and lack of profitability (it transports minerals that previously left the country through Congo-Brazzaville, and goes through regions that are nearly empty for hundreds of kilometers), responded above all else to territorial integration problems with the rich southeast province, where President Bongo is from. In Equatorial Guinea, the rent also spreads beyond the capital. Since the beginning of the 2000s, several cities have split in two: While Malabo 2 is more monumental, Bata 2 and Mongomo 2 also signal the desire for a balance in favor of the continent. In Chad, new roads constructed in the south of the country (Bongor Kélo Moundou, then Moundou Ngaoundere; Moundou Doba is under development), as well as between N'Djamena and Abeche, are being financed more by international aid (primarily from European Union countries and the African Development Bank) than with oil profits. But economic modernization in southern cities (mobile phone networks, new banks, Internet, etc.) was introduced in the wake of oil development between 2000 and 2003. Beyond infrastructure, production investments are rarer, but their effects are more diverse than the resource curse thesis admits.

---

13. Production from the offshore field of Chinguetti began in 2006 and stagnated at 10,000–12,000 barrels per day (bpd) at the end of 2008, far from the 60,000 bpd that were expected. In addition, as in Dakar, the origin of the financial resources invested in real estate in Nouakchott requires further research.

© Ifri, 2009

On the whole, oil revenues are only minimally re-invested in productive activities – only 20% in Gabon, for example, during the pivotal period from 1970 to 1980 (Pourtier 1989). These examples of productive re-investment are not trivial, however, but again display, and even accentuate, the same failures that were observed in a sizable number of African states before the 1980s crisis. Overgrowth and poor choices are explained through the combination of extreme goals (the belief that development problems in a region can be fixed with one swift action, through a factory or a dam; see Sautter 1993) and the interests of donors (in the framework of aid or loans) and national leaders (the largest projects are best when the elites get a percentage). Oil countries are far from having the monopoly on white elephant projects, but they have their share, such as the Russian steel plant in Ajaokuta, Nigeria, which will never work (Soares de Oliveira 2007). Profits thus stimulate investments that without it would not have seen the light of day. Beyond white elephants, these projects form a foundation that contributes to the general economic system.

In the African oil countries, while the Bretton Woods Institutions concentrated their attention on state reforms, the private sectors were mostly spared by these changes. Often, however, the elites in power carved out economic empires for themselves: the embezzlement of the public rent fuels the increase of private rents. In small countries like Congo, Gabon, and Equatorial Guinea, the president, his family, and his inner circle hold interests in the country's major companies. Elf Gabon – of which members of the Bongo family are major shareholders, along with the Gabonese state, Elf, and others – is thus an active player in private companies in widely varying sectors (transport, fishing, industry, agriculture, cement, paint, drilling, etc.) (Soares de Oliveira 2007). However, new initiatives are also developing.

In Equatorial Guinea, factories for processing timber (in Bata), wine, mineral water, etc., were created in the wake of the oil economy. Provisions for diversified investments (PIDs) result in negotiations between oil companies and states to increase local reinvestments of the oil companies' profits. In Gabon, for example, they finance sectors as varied as medical

© Ifri, 2009

© N. Donner 2006.

Photo 1. The New Bata-Niefang Road in Equatorial Guinea

Oil profits often develop into roads and transport infrastructure. They therefore contribute to territorial construction, the circulation of information, persons, and goods. But they also facilitate corruption.

Photo 2. Welcome to the Pathway of the Oil Age (Market in N'Djamena, Chad)

The oil rent helps to revive national identities. But these sudden income flows alone are not always sufficient for a highly dependent state to (re)gain control and legitimacy. The market shown was financed by the French Development Agency.

© G. Magrin 2006.

© G. Magrin 2003.

Photo 3. University Bus in Maiduguri, Nigeria, Financed with Oil Money

The distribution of the oil rent (spatially and sector-wide) is the central Nigerian state's principal function. It allows for the operation of the second largest African university network (after South Africa), but is accompanied by massive over- or misspending.

© Ifri, 2009

research (CIRMF, the International Medical Research Center of Franceville), agriculture (IGAD, Institut Gabonais d'Appui au Développement), training and information for small and medium enterprises (SMEs) (Pourtier 2005). Likewise in Congo, the Association Pointe Noire Industrielle (ANI) was created in 2003 to promote innovation within the local networks of SMEs. These investments can take on a definite local importance. But, in view of the small sums involved, they are to a certain extent comparable to the social spending that accompanies extractive activities. Because such investments have been fixed in situations characterized by asymmetries and clientelism, and because of the dependencies they create, they are no substitute for a national development plan. The failure of the states (despite or because of years of structural adjustment) to deliver essential public goods and services has left more and more space for direct forms of intervention by the oil companies, together with the local population – among whom, however, these companies often only increase their unpopularity inasmuch as they are faced with expectations they cannot live up to (Soares de Oliveira 2007).

The investment flows, the symbolism, and the movements of labor, goods, and information that accompany oil contribute to urbanization while increasing the level of uncertainty for the rural world, especially for agriculture. In general, the hopes for modernization that were sparked by the oil boom are translated into the generation of cities and the consumption of imported goods more than into the development of the rural areas that embody tradition and stasis. In low-density areas, such as Gabon or Congo, oil profit investments tend to benefit agribusiness, in the name of modernization and technological change (which also happen to fit the private interests of the local elites and their Western contractors). In Gabon's Haut-Ogooué Province, SOMDIAA (Multinational Corporation for Food and Poultry Distribution), the ranching AGROGABON, and SOSUHO (Haut-Ogooué Sugar Company) are enclaves of agricultural technology in an anemic human environment, since these investment choices tend to drain the rural areas even further by diverting the small available male workforce from food production (Pourtier 1989). The rent from the oil enclave economy thus gives rise to other enclaves.

© Ifri, 2009

Lastly, the future of such urban societies, which are "closely associated with recycling petrodollars, is uncertain and makes one fear that we have forgotten that man cannot survive on cinder blocks alone" (Pourtier 1989). But the forest-dwellers have never been farmers: the oil rent did not destroy a prosperous agricultural system. It is possible to imagine that, once the need is urgent, transformations will come from the urban inhabitants themselves (ibid.).

At the same time, urban and infrastructure development is conducive to increased levels of circulation. Beyond the black gold rush that accompanies oil projects – less of a problem than initially feared, and without lasting effects (Magrin 2005) – the boom in sectors of food-producing vendors[14] in Nigeria and Cameroon depends to a large extent on the need to supply urban populations, the size of which have increased exponentially. Agriculture in the high elevations of western Cameroon – on the Bamoun and Bamileke plateaus – thus smoothly evolved in the 1980s, from the former production of cash crops (coffee and cacao) to the increasing production of food crops for the local and regional markets, notably produce, to Douala and Yaoundé, and especially to Libreville, where the level of profits and the weakness in the national agriculture system guaranteed high revenues (see Magrin 1994).

Thus the description of the oil rent's influence on rural communities must be modified: the oil-capitals are not any more disconnected from their environment than other African capitals, such as Dakar or Abidjan, which have been open for quite some time to global food imports. Where changes brought about by the rent meet with small farming societies, as in Cameroon and in parts of central Nigeria and Chad, new opportunities accompany the transformation. When the local context includes non-farming societies of hunter-gatherers living in areas with very small populations (Gabon, Congo, Equatorial Guinea), or in regions where overpopulation has

14. The notion of "marketable subsistence crops" describes food production that can either be consumed by the grower or sold, according to the level of production and the market conditions; see Chaléard (1998).

© Ifri, 2009

weakened the agricultural system (the Yoruba region in Nigeria), these processes are strong motivators for a rural exodus, which can lead to crises that are as much rural (desertification) as they are urban (areas with large concentrations of rural poor, with no urban employment opportunities).

Oil rents moreover bring about economic processes that go further than the borders of the concerned states to become factors of regional activity and cooperation. Beyond Cameroon's agricultural exports to Gabon and recently to Equatorial Guinea as discussed above, oil booms in Nigeria, Gabon, Congo, and Cameroon, and the rapid urban growth that has accompanied them, have supplied markets for Chad's exports of cattle, onions, and peanuts, which intensified between 1980 and 1990 (Magrin 2001). These movements go in both directions: the most recent oil emirate, Equatorial Guinea, receives vegetables from Cameroon, but it also distributes Spanish imported goods (cosmetics, wine, etc.) to its two neighbors (Cameroon and Gabon) in supermarkets that Iberian companies recently established there (Martinez supermarket). Equatorial Guinea is no longer the dead zone for regional communications that it once was; its new influence comes from the recomposition, on a large scale and to its own benefit, of the trade region where the three borders meet.[15] At the level of sub-regional macro-economics, it is not only European car dealers who profit from the influx of liquidity in Equatorial Guinean accounts. After the Riggs Bank scandal, the money of the family in power and its inner circle was moved to Swiss and Canadian banks, as well as to the Bank of Central African States (BEAC), where it helps to provide loans to the sub-region.

Oil influences the conditions needed for societal transformation. The highest rates of schooling in sub-Saharan Africa are seen in countries such as Gabon, Congo, and Cameroon. Nigeria has the largest university network outside of South African (see photo 3); its level is remarkable given that most of the state's public sector is in ruins. The tendency for those benefiting from the rent to invest in their children's education by sending them overseas – the elites go to Europe or the US,

15. Interview with N. Donner, September 2008.

© Ifri, 2009

while lower-level civil servants settle for African capitals with better reputations than their own cities, such as Dakar, Rabat, or Johannesburg – has mixed implications. It testifies to the ineffectiveness of national educational systems, despite the importance of state investments, but also allows, over the long term, for more open and better educated elites, at least some of whom will sooner or later return to work in their home country. In the cases of Mauritania and Chad, this trend is even more visible since these oil states, only recently admitted in the oil world, are poorly endowed with human resources.

Lastly, the rent fuels a stream of dreams and symbols which largely contributes to defining the oil situation. Their power is stronger since these symbols are recent. At independence and in the African countries that are involved in its exploitation today, oil has yet to become part of popular imagination or beliefs (Soares de Oliveira 2007). As the foundation for development in the developed northern countries, oil is highly symbolic; it carries with it images of development and relations of North–South domination (Donner 2004). Its place varies according to its age and the role that it plays in national political-economic systems. In Nigeria, the oil rent is commonly referred to as the *national cake*. It is the nation's uncertain glue, since it is both the essential link – tensions mount as profits decrease – and the source of dissolution. For another early producer like Gabon, oil is no less important or uncertain. Bessora's (2004) novel, *Petroleum*, describes how in Port Gentil the all-powerful and neo-colonial Elf inspires both hatred and envy among the Gabonese, and how the rent structures artificial social aspirations (civil service as the only professional prospect) and gives rise to frustration. In an extremely quite poor Chad (173 out of 177 on the UNDP's Human Development Index on the eve of the oil era), which was isolated, plagued by droughts, food insecurity, and civil wars, it was not hard for President Déby to get people to believe that the end of their misery was in sight. Within the country, and even more so outside of it, oil is replacing the former fighter and the cotton farmer as the way to connect to the global system (see photo 2). "Texas" frequently appears in the names of bars and businesses in Sudan's savanna (Magrin 2003). In Mauritania, where oil has been exploited since 2006, some nationalist Moor groups

© Ifri, 2009

would like to see the country join the small group of oil emirates. This desire came from a more or less conscious identification with the Arab Gulf state model, which legitimizes the views of a small faction within the Moor elite that plans to enrich itself and live off of the rent to the detriment of other segments of society (Haratin, or Black Moors, and black Africans). For this faction, Black Moors are merely a workforce necessary for the comfort of these oil-nomads. Production, which is at rates much lower than projected, is currently not supporting this rentier plan. The consequent disappointment matches the hopes that oil had aroused in the first place.

Lastly, in a more general manner, the common struggle between the merchant elite and a dominated population that is deprived of the benefits from oil does not take into account the continuity that links the entire social pyramid in a symbolic order (Mbembé 2000): the elites are part of a society with which they share several basic views of the world, despite their many differences, and the oil rent is one more method of domination, whether it is consented to or imposed.

The Challenges in the Use of Oil Rents

We have acknowledged the often negative role, in terms of political, economic, and financial dependence, that extractive activities – notably oil – have on African states. But having said that, a new issue emerges: the need to move beyond the resource curse by analyzing the deep social and economic forces at work behind the described symptoms, with a view to exploring how these rents might contribute to a less dependent and more sustainable development. We shall first show how transparency is at the heart of this strategy. Next, we shall look at the numerous difficulties that highlight the inefficiency of technical measures taken in isolation. This will lead us, finally, to suggest an approach to governance that takes account of complexity.

Awareness and Progress in Transparency

The recognition, at the end of the 1990s, of the interrelations between extractive activities, conflicts, and persistent poverty in Africa played a key role in the launching of an international

© Ifri, 2009

process for improving oil governance. Encouraged by large NGOs, northern states, and international organizations, it has involved the main private actors as well as a growing number of concerned states. Oil rent is at the heart of this movement.

Influence of the Post-Cold War Context

The period between 1989 and 2001 was a particularly worrisome decade in recent African history. The "geopolitical rent" from the Cold War – which supplied a number of states with consistent revenue in exchange for their allegiance to one of the blocs – ended unannounced. This led to hard economic times, marked by low prices for raw materials and the weight of persistent debt. At the same time, the democratization process encouraged the political use and exacerbation of ethno-regional rivalries in the competition for a shrinking state rent. Many conflicts broke out, killing millions on the continent (see Mbembé 2000; Smith 2003).

Studies and then campaigns carried out under the auspices of international civil society organizations have revealed the important role extractive activities have played in these conflicts. Denunciations were issued regarding the blood diamonds from Sierra Leone, Liberia, and Angola (see Campbell 2002), as well as regarding the role large Western oil companies played in conflicts all over. The report *A Crude Awakening* (Global Witness 1999) denounced the support that the MPLA received from Western companies, notably Gulf (today Chevron Texaco), despite its Marxist leanings, just as Elf was denounced for its support of Sassou Nguesso during the civil wars in Congo-Brazzaville (1993–1998). While the offshore oil facilities were not affected by the violence at the time, the oil rent (and the easy credit to which they gave access) kept those conflicts alive by helping leaders to supply arms to their fighters. Nor was it uncommon for a company to finance the two opposing sides of a conflict so as to be prepared for any outcome, as Elf did in Angola and in Congo (Soares de Oliveira 2007). Likewise, the revolt of the Ogoni region against Shell – as a result of the injustices caused by the gap between environmental damage caused there and profits that were managed elsewhere – and its suppression (the hanging of

© Ifri, 2009

writer Ken Saro Wiwa in 1995) had a major impact, significantly damaging Shell's image. The end of the 1990s in France also saw the Elf scandal. It highlighted the illegal practices between this state company, the states, and the French and African political classes, and thus the unhealthy foundations of the so-called French Afrique (see Agir Ici et Survie 1999; Péan 1983, 1988; Verschave 1999, 2000, 2001; and Shaxson 2004).

Initiatives to Improve Oil Governance

In answer to the challenges surrounding better oil governance, several initiatives emerged. In Chad, the World Bank decided in June 2000 to support a project that appears to be a part of a vaster plan to oversee the governance of the weaker states (Véron 2005). In these poor, isolated, and highly unstable areas, it provide loans to the Chadian and Cameroonian governments so that they can be stakeholders in the project, led by a consortium directed by Exxon, in exchange for putting in place a redistribution mechanism that allows most of the rent to be allocated to the fight against poverty. In Chad, the condition sine qua non for World Bank intervention was the Chadian parliament's approval of Law 001 of 1999. This law calls for the distribution of the oil rent between a stabilization fund for future generations (10%), with the rest (90%) going to the region of production (5%), discretionary state spending (15%), and five priority sectors (education, health, infrastructure, rural development, water, and environment) to fight poverty (80%). An oversight and control committee for the oil revenue (College de Contrôle et Surveillance des Revenus Petroliers, or CCSRP) in which civil society will play a strong role, a plan for strengthening the management capacities of the national economy in the oil era, as well as an international monitoring system, the International Advisory Group (IAG), round out this governance support program.[16]

Soon after, two parallel initiatives followed in the "spirit of the Chadian approach" (Chevalier 2005). The creation of the coalition Publish What You Pay (PWYP), which since 2002

16. See Magrin (2003); Pétry and Bambé (2004); Gary and Reisch (2004); and IAG's reports (www.gic-iag.org/edocs.htm).

© Ifri, 2009

has brought together numerous civil society organizations (religious and otherwise) around Global Witness, is complemented by the Extractive Industries Transparency Initiative (EITI), launched in 2003 at Lancaster House by the British government. In Africa, these initiatives rely heavily on the involvement of churches – which often have much influence in society (Congo, Angola, Cameroon, Chad) – in reaction to the major gaps between state oil revenues and the misery of the populations (Gary and Karl 2003). These processes represent unprecedented efforts to improve transparency. They are based on the principle that if rents are known and made public – through oil companies' publication of the amounts they transfer to governments – populations will be better prepared and exercise their voice in demanding public goods and services from their leaders.

While PWYP is organized into federations of national coalitions that are involved in advocacy around extractive activities, EITI oversees and certifies the steps to be followed by the states that intend to adhere to the EITI label. To be a candidate for EITI, four criteria must be met: the government must show clear intent to implement EITI; it must express its commitment to working with civil society and the private sector on the initiative's goals; someone must be named to lead implementation; and a detailed working plan must be proposed. Among the African oil-producing states, seven were officially accepted as candidates in October 2008. These include new and old, large and small, oil-producing states (Nigeria, Gabon, Congo, Cameroon, Equatorial Guinea, Mauritania, São Tomé). Sudan, Chad, and Angola are not among them, despite occasional declarations of interest by the latter two.

Independent of EITI, the situation is moving almost universally towards the formal inclusion of oil revenues in state budgets – while for many years they have been deposited into special accounts that were directly tied to those in power who can use them as they wish. In São Tomé, there was even a preemptive coup in July 2003 in reaction to contracts signed in secrecy by the elites in power (Sébille-Lopez 2006; Soares de Oliveira 2007). While the demand for transparency is

© Ifri, 2009

hardly shaking things up in political regimes outside of this micro-state, it has nevertheless sparked new debates. Numerous workshops and seminars on transparency (an unusual theme for public debate) have been taking place in Africa, such as in São Tomé in 2004 or Brazzaville in 2005. Surprisingly, the Chadian experiment seems to serve as a model: the oil revenue management law adopted in São Tomé in November 2004 was largely inspired by the idea of establishing a fund for future generations. Publish What You Pay often refers to the Chad experience in making its case, as in Mauritania (PWYP 2008). Certain finance ministers publish the accounts of their oil revenue online, certified internationally, as in Congo-Brazzaville, Cameroon, and Mauritania. In Congo and Nigeria, the budget is now prepared according to prudent forecasts of future prices, with any surplus going into special accounts in the Central Bank (Rosellini 2005).

In Nigeria, President Obasanjo, in his last term (1999–2007), established a number of anti-corruption and anti-embezzlement measures. The $3 billion that were siphoned off under the dictatorship of General Abacha have been the focus of legal proceedings. Progress has been made on transparency of the very complex system of rent redistribution between the three levels (federal government, states, and local governments), and the amount given to each is published online (Soares de Oliveira 2007), though this has not significantly decreased the level of violence in the Delta (Sébille-Lopez 2005). The introduction of countervailing powers and stricter procurement procedures for public projects has reduced costs on average by some 40% (Coller and Hoeffler 2005b). In Equatorial Guinea, an investigation by the US Senate (2004) into the Riggs Bank scandal showed that the traditional discretion of Western partners in the use of rents has reached its limits.

The private sector is also adapting to the new environment. Corporate social responsibility is developing further in the oil sector – the companies, at least those from OECD member states, are sensitive to both their reputation with consumers (the majors also supply gasoline) and with their shareholders; their norms and standards are more demanding

© Ifri, 2009

than in the past. As a sign of the times, NGOs are no longer demanding the withdrawal of private companies from the world of public affairs, but are instead asking for more responsible operations (Soares de Oliveira 2007). Due to its setbacks in Nigeria, Shell is reexamining its strategies, and is now putting much more emphasis on its ethical values and respect for the environment. The privatization of Elf in 1994, and its subsequent merger with Totalfina, has reduced political interference in the company's functioning, which is refocusing on economic issues and distancing itself from the old declining pillars of French Afrique (Gabon and Congo) so as to invest itself more in countries that hold the most potential (Nigeria and Angola).

Limits to Progress and the Significance of New Competition for Oil

This progress comes up against major difficulties, however. The Corruption Perceptions Index (CPI) created by Transparency International each year ranks the oil states of the Gulf of Guinea among the ten worst (Soares de Oliveira 2007). These perceptions are not necessarily far from reality. Indeed, many factors lead us to suspect that such governance improving processes are simply for show and thus that a more in-depth analysis of the "shell and the core" (Van Vliet and Magrin 2007) is called for.[17] In a context marked by fierce competition between companies to secure African oil reserves, transparency discourse tends to be used by some states and Western oil companies more to improve their image than out of genuine conviction. All actors in the oil game (companies, states, and international institutions and NGOs) are affected by this ambiguity.

---

17. Using Chad as an example, in Van Vliet and Magrin (2007) we show how the oil game makes room for futile dialogs between the "shell" of each involved organization (state, oil companies, World Bank, even large NGOs). The shell refers to the "green" periphery, a component of an organization that is open to dialog and plays the legitimization roles. These dialogs are futile because they are incapable of influencing changes at the core of each of the involved actors. The core concentrates the vital interests of the organization (production and financial tasks within companies, states, NGOs, financial institutions) and even violence (states, other actors).

© Ifri, 2009

Oil Companies and Reforms

Competition from smaller independent firms (Favennec and Copinschi 2003; Lafargue 2005) and from Asian firms – particularly Chinese state companies – at times put the Western majors under great pressure in terms of governance and oil activities, including rents. By virtue of their ownership and governance structures, these new actors are not subject to the same demands for corporate social responsibility. While they are moved by other demands and certainly respect other values – which dialogue would perhaps render more explicit – they seem at this stage to be less sensitive to human rights and environmental issues. This competition is *a priori* favorable for states – who gain more room to maneuver – but it does not meet the demands of social and political movements for a better distribution and use of the rent. The risk is that companies from OECD countries will see their competitive advantage in Africa diminished as long as they have not been able to have formal discussions with companies from other countries or to include them in their umbrella associations – such as the International Association of Oil and Gas Producers (OGP).

In Angola in 2004, SINOPEC supplanted Total and Shell in two blocks, in return for extremely favorable loans from China for infrastructure projects – and completely independent of the conditions set by Bretton Woods Institutions. British Petroleum at one point attempted to play the EITI card and threatened to pull out of Angola, but had to back down when it was met with the apathy of the Angolan government (Sébille-Lopez 2006). Thus the heads of some companies want to publish only aggregate data of what the states receive, since more detailed figures could put them at a disadvantage, given the intense competition (according to Total Congo, cited in Pourtier 2005). However, competition from Asian companies is not the only constraining factor.

Numerous NGOs continue to doubt the credibility of oil companies' actions regarding environmental and social issues. Several years ago, Total was ranked – along with China's CNPC and Petrochina, Malaysia's Petronas, and Russia's Lukoil – at

© Ifri, 2009

the bottom of a list of performance in revenue transparency developed by Save the Children (Rosellini 2005). The absorption of Elf did not eliminate in one stroke all the habits of the past (Soares de Oliveira 2007). According to a statement from Publish What You Pay in February 2008, only three companies (out of the 37 that officially adhere to the initiative), namely Shell, Chevron, and Statoil Hydro, had actually fulfilled their transparency commitments. For certain companies, the main issue seems to be managing the communication surrounding major crises and avoiding all internal reforms at the core (which would really alter strategic choices and work procedures) while the international context promises the largest profits ever (Soares de Oliveira 2007). These firms argue, and not unreasonably, that energy choices are society's choice, which they agree to implement but which they alone cannot change, despite their stature. Yet while companies cannot entirely replace the political system of power and opposition in receiver countries, oftentimes they are essential components of it. Exxon, for example, the main operator in Equatorial Guinea, invests more in public relations campaigns promoting the country's international image – to avoid being muddied by its terrible reputation – than it does in pressuring it to change its style of governing (ibid.). Shell, in response to the social pressures to which it was exposed in the Niger Delta, is developing major social programs – $69 million spent in 2002, versus $100,000 in 1991. But the Niger Delta Development Commission, which it finances along with other companies, is known more for its ineffectiveness and corruption (Frynas 2000, 2001). Moreover, NGOs and multilateral banks do not escape the analysis of the "shell" and the "core".

Civil Society and International Lenders

Some NGOs that work as subcontractors for multinational companies on issues that accompany oil activities (impact studies, relocation, compensation, socioeconomic projects, and infrastructure) tend to become less critical of the companies on which they are partially dependent – like Care, World Vision, or GTZ in Chad. The result is less pressure on these companies.

© Ifri, 2009

After a very active period leading up to 2000 – with numerous reports published on oil and its influence on corruption and conflicts – the big NGOs involved in oil advocacy have grown quieter on this issue. Thus, Human Rights Watch, Global Witness, and Catholic Relief Services continue to publish much work on violence in Nigeria and Sudan, but without making explicit links to the governance of oil rents. Since 2003, no sizable study dealing specifically with this issue in countries such as Chad, Sudan, Nigeria, or Equatorial Guinea has been available on their websites. This relative relegation of oil in the priorities of some NGOs can doubtless be explained by the difficulties encountered in trying to influence developments positively and by the importance of other problems that must be dealt with (conflict, food crisis, etc.).

The role of international financial institutions and Western states is not completely clear either. By making Chad's oil project possible, the World Bank supported one company – Exxon – which was not the leader of the pack (indeed, it was far from it) in terms of corporate social responsibility, while better placed companies (Shell or BP) did not receive support (Soares de Oliveira 2007). Unconditional loans from China weaken the effectiveness – which was already quite subjective – of the conditions set in World Bank or International Monetary Fund loans. The Bretton Woods Institutions' room to maneuver appears to be extremely limited, since a rupture with an important oil-producing country with non-orthodox policies – such as Nigeria or Angola – would immediately have consequences on influence and on the volume of the outstanding portfolio – after all, the World Bank is ultimately a bank. Its attitude in Chad demonstrates this well: after years of powerless recriminations against the poor management of oil revenues and then the abandonment of Law 001-1999 by the Chadian government, the bank finally broke with Chad at the beginning of September 2008. But this break only concerned this single oil project, while all the other projects in the country continued. And yet Chad is only a small oil-producing country, with limited weight. African oil-producing states – like all others that are not – came to understand that what is important was to *appear* to be in dialog with international financial institutions. These institutions

© Ifri, 2009

thus seem to be forced to settle for occasional technical progress in this or that country – such as when Equatorial Guinea announced it would include its oil rent in its budget – while not being fooled about the reality of its management (Soares de Oliveira 2007).

The position of bilateral Western partners is no less duplicitous. The Americans, who go the farthest in voicing political criticism, finally softened their position on countries like Equatorial Guinea – where Exxon and other American companies control most of the production (ibid.). Beyond the polite rhetoric on democracy and good governance, France's Africa policy has been one of continuity, between a progressive withdrawal of aid and political conservatism marked by support of the pillars of French Africa, the presidents of Gabon, Congo, and Cameroon. The support of the Chadian regime is the most difficult to understand (Tulipe 2008). The regime's escapades seem to matter very little in the face of the need to maintain a semblance of stability in this fragile part of Africa – no matter the cost.

African States

On the African side, since at least the end of the 1990s, we have been witnessing a refinement of discourse on good governance and the fight against corruption and poverty. This discourse is aimed domestically as well as internationally, somewhat in the form of a *pidgin language* (Bayart 2000, cited in Soares de Oliveira 2007). It is a matter of charming the public before electoral contests and creating scapegoats to deal with the feelings of resentment created by striking inequalities in access to riches. Next, it is used so as not to completely put off the lenders of international funds. But the implemented reforms never reach the heart of the political system of rent redistribution. The power of the elites would be weakened too much if it were reorganized. In terms of power struggles, on the other hand, anti-corruption discourse is used as a weapon for getting rid of opponents.

Thus, following the scandal at Riggs Bank, Equatorial Guinea declared itself a candidate for EITI. Its creation of an anti-corruption brigade belongs to the aforementioned domain

© Ifri, 2009

© G. Magrin 2008.

Photo 4. Ambiguities in Anti-Corruption Discourse

"Everyone suffers from the consequences of corruption" (here, a campaign conducted in Nouakchott, Mauritania, in May 2008). But it is hard to go from discourse to real changes without shattering the political systems cemented by clientelism.

of discourse and cosmetics. The predation system surrounding the president, his family, and his clan was not jeopardized. In Nigeria, the measures President Obasanjo put in place stop just where they risk disrupting powerful interests: the complex system of siphoning oil, which affects 10% of production (or the equivalent of a smaller oil state's output, such as Congo, Gabon, or Chad), has not been threatened (Soares de Oliveira 2007). The functioning of NOCs remains as opaque as ever. In Congo, the SNPC, associated with operators through PSCs, directly markets its share of the profit oil[18] (around 40% of production, according to Pourtier 2005) in the most opaque way – for the revenues are not deposited in the treasury, which is monitored by EITI – a move denounced by civil society organizations. In Gabon, it is difficult to follow how the rent is spent. In 1998, a fund was created for future generations, which was supposed to receive 10% of revenues and 50% of unforeseen revenues, but no deposit had occurred by 2003 (Gary and Karl 2003). Angola distinguishes itself by the exceptional talents of its oil system's executives – notably those of Sonangol – in opacity and embezzlement (ibid.).

The failure of the "Chadian model"[19] is a good illustration of the difficulties of improving the governance of oil rents in Africa. The government began by using a part ($4.5 million out of $25 million, or around 20%) of the bonus oil in 2000 to

18. Oil profit corresponds to the state's share of PSCs, once the cost oil has been deducted.
19. It is symptomatic that only foreign observers have used the term "Chadian model." The Chadian authorities themselves were reticent to do so, sensing that it implied foreign intervention during its implementation and subsequent monitoring.

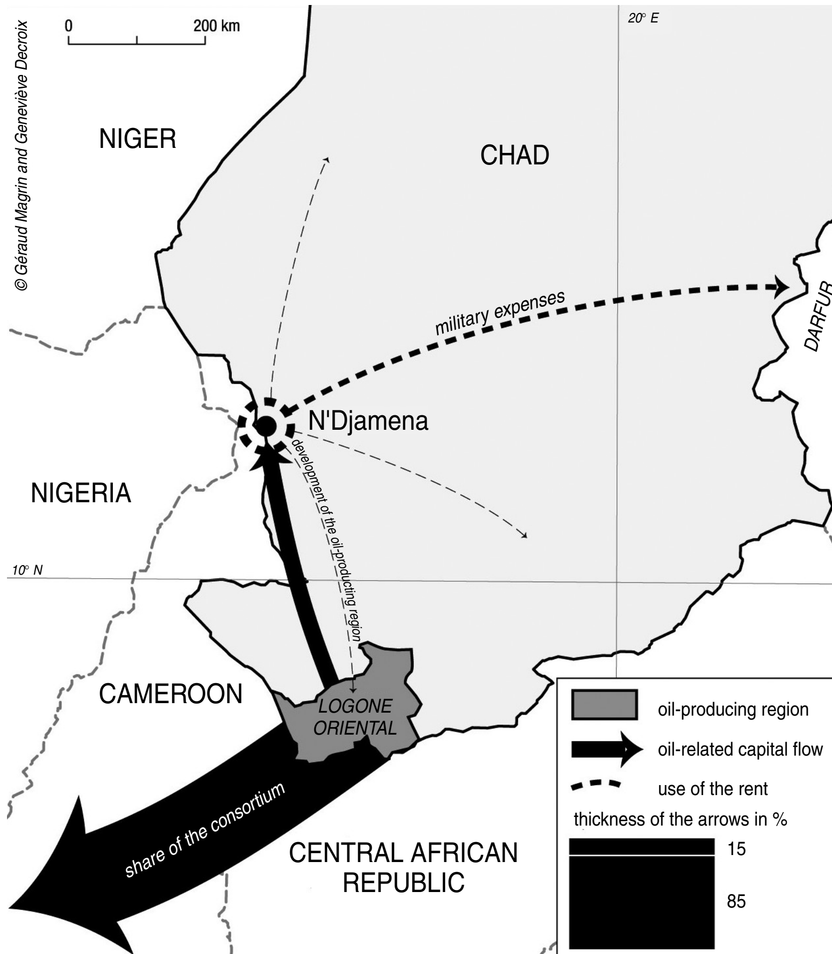
© Ifri, 2009

buy arms to fight a dangerous rebellion that was developing in Tibesti – which was not prohibited by the letter of the law, but spoke volumes about the spirit of those who implement it. From the beginning of exploitation in 2003 to 2006, the management of oil revenues had serious problems. The low disbursement rate was commensurate with the Chadian administration's absorption capabilities. The transportation sector and infrastructure alone received close to half of all spending. It is these that encourage the most corruption – a former state company, La Société nationale d'entretien routier (SNER), which was privatized for the benefit of President Déby's older brother, received the largest share of the contracts.

In December 2005, the 1999 law was repealed. At the end of bitter negotiations with the World Bank, a new law was adopted, abolishing the stabilization fund for future generations, enlarging the list of priority sectors (notably to include administration, justice, and security) and the amount of revenues deposited into the general state coffer for discretionary spending (which went from 15% to 30%). The repeal of this law revealed more than just the regime's appetites, inconvenienced by the shackles it represented. It shows the ineffectiveness of imported, technical turnkey measures, imposed from abroad (Magrin 2006). In Chad, the mere idea of a "fund for future generations" was difficult to accept in a very poor country where, unlike Norway, the urgent concern was the financing not of retirements but of schooling and health care for a young and fast growing population. Above all, inflexibilities in the law – which prevented, for example, important spending in areas such as paying civil servants or occasionally supporting the cotton sector when shaken by the fall in global prices – put the government under strong popular pressure, even though revenues were low during the first few years since the oil companies were exonerated from taxes for the first five years in order to recuperate their investment. All the more so because the available funds remained low despite the increase in oil prices, since the oil companies were freed from taxes for the first five years and the production sharing contracts allowed for quick cost recovery (Massuyeau and Dorbeau-Falchier 2005). The lack of transparency regarding the calculation of the real oil revenues and

© Ifri, 2009

Map 3. Who Profits from Chad's Rent?



Source: Geneviève Decroix, PRODIG, UMR 8586, CNRS.

production costs and the rumors regarding financial transfers to the mother companies added to this pressure. Increases in revenues, but especially increases in the state's needs (mostly military) while in the throes of more and more dangerous rebellions intertwined with the Darfur crisis (see map 5; Magrin 2008; Debos 2007), led to less and less scrupulous uses of oil revenues and the recent break with the World Bank.

© Ifri, 2009

The Chadian experiment shows that the asymmetric relationship between an international institution and a southern state is not so simple for the former to manage. While foreign efforts are not completely futile, the state's room to maneuver is much larger, and having the status of an oil country certainly expands its leeway.[20] The private sector has benefited beyond what one could reasonably expect. While Exxon perfected sustainable development discourse on Chadian soil (Magrin 2003), this has hardly improved transparency or governance. In the country as a whole, oil has barely contributed to reducing poverty: from 2000 to 2008, it moved from 173rd to 170th on the UNDP's Human Development Index.[21]

Thus, despite reformist talk, the current process of state privatization and the concentration of elites in their vital central sphere – the hard core of oil money – go hand in hand with access to money (loans), expertise (of national companies), and force (private security or otherwise), which guarantees the sustainability of the oil–state system (Soares de Oliveira 2007) in a sense conducive to the "resource curse." This does not mean, however, that the search for a way out of this vicious circle should be abandoned.

From Rent Use to a Modification of the State's Overall Trajectories

Three connected issues dominate the thinking on how to improve the impact of oil activities in Africa. They concern the reduction of existing asymmetries (between oil companies, the states, and civil society), the central issue of transparency, and the need to construct or renew links between the foreign oil companies and the states on the one hand and the states, citizens, society, and the territory on the other hand. These issues lead to considerations of what methods should be given priority in order to bring about changes – from plain external pressures to providing space and patient guidance for internal transformations.

20. But other African states had earlier developed a remarkable capacity to get around the international financial institution's demands, especially Senegal (see Hibou 1999).

21. It is probable that it moved up in the classification due more to the increases in GDP tied to increases in oil revenues than to improvements in other, more qualitative areas, such as education and health.

© Ifri, 2009

Three Issues

The asymmetry between oil companies and states is most visible during negotiations over the type of oil contract. While strengthening a nation's capacities to manage their oil tax system appears to be necessary – for forecasting the budget, taxation, etc. (Leenhardt 2005) – it does not address the risk of creating small, opaque islands with set responsibilities within state companies. One solution could be to give states access to the services of negotiators, financed by a fund made up of future revenues (Humphreys, Sachs, and Stiglitz 2007). Regional solidarity should grant West African states access to information on the experiences of other member states of the African Union. Sharing the lessons learned from negotiation experiences would benefit others.

The research carried out in multiple disciplines (economics, political science, sociology, etc.) underscores the centrality of transparency when it comes to development in a context of oil and gas exploitation. Improved transparency has a large scope (ibid.). It affects, for example, competition between companies for contracts, the quality of the negotiation process, the government's credibility, political stability, access to capital markets under normal conditions, the citizen's attitude towards the government, and debt mechanisms.

However, numerous obstacles stand in the way of improving transparency (ibid.). It is important first to determine what should be transparent. In certain cases, exceptions to the principle of transparency can be allowed. It is also necessary to select the information to be accessed. A mountain of data can hide the essential: for the Chad-Cameroon project, documentation centers holding all available literature on the subject were opened in N'Djamena and in the south of the country (Moundou, Doba, Bebedjia, the oil region). But the thousands of pages available were difficult for the general population or NGOs to use, as they were not prepared to read documents as technical and codified as Environmental Impact Evaluations and Environmental Management Plans (see Magrin 2001, 2003). In addition, the most important data for transparency (the terms of the oil contract) were not made public. The voluntary approaches used by EITI and Publish

© Ifri, 2009

What You Pay are obviously limited in terms of transparency, given that corrupt actors have a natural tendency to hide and that, in the current era of intense competition for oil, companies tend to keep most information confidential. To respond to this challenge, producer states should adopt a principle of transparency and demand by law that all companies publish their contracts (Humphreys, Sachs, and Stiglitz 2007).

Building – or restoring – the link between the elites of oil states and their societies and territories is most likely the central task in order to escape the "resource curse" – in this respect, transparency appears to be more a means than an end. For some, it would be enough to redistribute the rent directly to the population (Sala-i-Martin and Subramanian 2003), with the state then recovering a part of the revenues through taxes. It is possible, however, that in countries with large populations (Nigeria) or states with small rents due to contracts negotiated from positions of weakness (Chad), low resulting per capita revenues could foster suspicions of unjust use of revenues (see map 3). In any case, it would be necessary to restore classical forms of taxation, with taxes holding a key place in the link between the state and its citizens (Humphreys, Sachs, and Stiglitz 2007). Expanding the field of those who participate in the decision-making process could also play a beneficial role (ibid.). Contrary to all expectations, a context of greater transparency makes governments more popular (Alt et al. 2001), while redirecting social demands from the oil companies back to the state (Ross 2007).

The emphasis on oil revenues – the importance of which underlines its disruptive nature – must not allow us to ignore the other parameters of governance. Democracy, which is supposed to promote transparency, is successful only if the electoral process is accompanied by opposition forces and checks and balances (Collier and Hoeffler 2005b). Moreover, in the context of African economies that are often characterized by their rentier structure, transparency measure and monitoring methods associated with hydrocarbon revenues make sense only if they apply to all national resources (revenues from fishing, forestry, agricultural exports [coffee, cocoa, cotton, flowers, etc.], mining, foreign aid, etc.). Lastly,

© Ifri, 2009

while efforts to promote transparency were first applied to the upstream aspect of the rent (the amounts given to the states by companies) in order to produce the expected development results, they must also take into account the downstream forms of public spending (thus monitoring budgeting and real expenditures).

In this sense, the geopolitical tensions at different levels caused by unequal access to oil revenues must be reduced. It is especially important for state-building that regions not feel marginalized, especially when it involves those where the oil fields are located (Humphreys, Sachs, and Stiglitz 2007). Decentralization of the type found in Nigeria has shown its limitations: the multiplication of states born out of the demand for access to the rent creates entities that are too small and do not have the ability to manage or control themselves. On the other hand, an increase in the departmental and geographic traceability of oil revenues – by means of a suitable codification of national budgets – would encourage the monitoring of revenue use, while providing an interesting subject for parliamentary debate (Van Vliet et al. 2008). Dedicated funds may prove very useful. In Cameroon, for example, part of the rent tied to oil transit through the Chad-Cameroon pipeline was allocated for the rehabilitation or the creation of protected areas, as compensation for the affected environmental resources. Funds could be allocated to regional development (constructing infrastructure in underprivileged areas) or in support of decentralization (providing matching grants to municipalities in view of their new domains of responsibility). But these allocated funds pose problems that are difficult to resolve. In a context of extreme poverty, where all needs seem to be equally critical, it is difficult to justify the creation of funds for one sector versus another. This holds even more when the rent is small, such as in Mauritania (Van Vliet et al. 2008) and Chad (Magrin et al. 2005). Likewise, stabilization funds – often misleadingly called “future generation funds” – can play a useful role in mitigating the effects of high price variability (Humphreys, Sachs, and Stiglitz 2007). Several experiments (Chad, Gabon), however, have shown the difficulty in making them work while not giving in to the temptation to use them immediately.

© Ifri, 2009

Where Can Change Come From?

Until now initiatives that support improved oil revenue governance have had weaknesses similar to those that plagued structural adjustment plans (SAPs); these had also been imposed from outside, further strengthening dependence mechanisms. The proposed measures are meant to be technical and apolitical, while in fact they threaten the very heart of these political systems. Thus it is not surprising that the elites who are the main targets of these reforms work to empty them of substance instead of carrying them out (Soares de Oliveira 2007).

The attempts based on foreign pressure – coming from foreign governments or multilateral institutions – therefore do not appear to be the best way to change these systems. A number of alternatives are currently being studied, however. Among the suggestions that seem most worthwhile is the proposal that the home countries of oil companies demand the publication of oil contracts and revenues, with the threat of tax penalties if they do not comply (Humphreys, Sachs, and Stiglitz 2007). Likewise, they could apply pressure for improvements in the standards of financial reporting by multinationals (Global Witness 2005). Prosecution for corruption and human rights violations outside the company's home country should also be expanded, which is possible under US law. These measures should also be extended to environmental damage (Humphreys, Sachs, and Stiglitz 2007). International financial institutions should offer very favorable conditions to countries that correctly use their stabilization funds. They should also demand that all companies benefiting from their funds publish contracts and revenue sent to states (ibid.). A major difficulty will thus be to convince independent and certain Asian (especially Chinese) companies to join this new process.

When it comes to dealing with the effects of economic and political dependency, the new plans for just and sustainable oil revenue management should be conceived at the level of the people, the states, and the companies themselves. Like other components of society, companies are affected by demographic changes. The latter can bring deep changes to the individual behavior of managers, even if they have yet to

© Ifri, 2009

dramatically change corporations' structural nature. We anticipate a situation in which social and environmental values will no longer concern only a tolerated minority, situated on the periphery of companies (public relations, environment and social departments), but also many new managers, situated in the core of the productive and financial systems. Alliances between NGOs and these new executives thus could bring about changes in trajectories that deserve in-depth research.

In Gramsci's terms, if by "modern state" we mean a state that is able to perform both its coercive role and its legitimization role, then nothing prevents the coalitions of actors who lead African states from transforming these states into modern ones. The holders of power are not condemned to use only mechanisms of coercion. By using such mechanisms alone, one becomes predictable and thereby loses power (Shelling 1960, cited in Crozier and Friedberg 1977): following the coercive path to use more coercion inexorably leads to a loss of power. The oil rent provides an opportunity through which the elites can consciously, autonomously, and without being forced by the international community, change their trajectory by diversifying their sources of power. They can use these revenues to create or manage functions that are crucial for their legitimacy (notably through the adequate provision of essential public services), a function that so far has been carried out mainly by the international community (Van Vliet and Magrin 2007). The different forms of domestic consultation (round tables, supervision mechanisms, platforms for dialog) are mechanisms that can bring about such changes if the discussion on core procedures and work processes is woven into the agenda. These areas of possible bifurcations also warrant exploration.

Conclusion

Three periods overlap in Africa's oil history. First was an era of undersized rents, a reflection of the asymmetry between Western majors and African states, which are nonetheless sufficient in periods of abundance to shape rentier states. Such states stress the importance of the public sector, make productive investments in cities and territories, but are harmful to

© Ifri, 2009

the diversification of the economy. In the second period, a growing aware of the negative influences of oil rents – which increases corruption among the elites and ethno-regional conflicts, while structural adjustments left the state bare – gave rise to an international movement to use non-renewable natural resources in a way that promotes sustainable development objectives. The third period is that of the new oil boom and the surge in new actors on the African hydrocarbon scene, who are hindering this progressive agenda. The actors involved – states, oil companies, international institutions – seem locked in a pernicious system of relationships at the heart of the global economy and which the global thirst for oil should serves to consolidate (Soares de Oliveira 2007). African oil states thus appear to be on the margins of the global system. Entry into that system seems to benefit only its few guardians – the small, national elites – while leaving the rest of society disconnected.

But when refining the analysis on different scales – geographic and temporal – we are obliged to introduce many nuances. While oil rents have specific powerful effects, taken on their own they are not enough to be a curse – their influence depends too much on the potentially diverse structures and previous trajectories of the different states. Relations between oil and state and nation-building are thus complex and uncertain. Black gold works in many respects as a catalyst for economic and national social structures (marked by their dependent insertion into the global system) that oil influences according to the circumstances specific to each state. Beyond the quasi-emirates of the Gulf of Guinea (Gabon, Equatorial Guinea) that are known for their large production and small populations, the countries that will most likely benefit from the oil economy are those where production is sufficiently moderate so that it does not play an overpowering role and eclipse other productive economic activities. But there, too, the exploitation of black gold is enough to establish an "oil situation" where simply the presence of oil creates the context. While the concept of the "colonial situation" described the effects of political domination of the economy, the society, and identities (Balandier 1951), the "oil situation" takes into account the shared characteristics of the states at issue, examining the

© Ifri, 2009

evolutions in their political systems, their foreign relations, their economic systems, and their social and territorial visions that are rooted in the search for black gold. Even when it is modest, the rent – through its systems of formation, capture, redistribution, and allocation – is the domestic glue.

But changes in trajectories and behavior are possible. On the one hand, in the present situation, all attempts at improving our understanding of the oil rent and its use are confined to two disciplines: law and accounting. Broader, multidisciplinary research is required. Based on the work of Johnston (2007) and Dikoumé (2007), among others, such broader research on the world of oil contracts would need to determine what is a fair oil contract and for whom it is fair. While the recommendation of a single public budget is finding broad acceptance today, the overall downstream traceability of national budgets remains a key issue. Thus, in the context of African economies that are often characterized by their rentier structure, transparency measures and monitoring methods associated with hydrocarbon revenues make sense only if they are applied to all national revenues (from fishing, forestry, agricultural exports, mining, foreign aid, etc.) and to all public expenses.

On the other hand, openings that should be explored can come from inside companies themselves, thanks to demographic changes that are taking place within management structures, as well as the inclusion of companies from non-OECD countries in the oil and gas sectors' umbrella organizations. Openings can also arise when the African elites acknowledge the opportunities that the oil rent offers for escaping from the usual clientelistic mechanisms and for accelerating the diversification of regulatory functions exercised by the state (legitimization in addition to coercion). We should develop our research tools in order to better perceive and understand the conditions needed for these bifurcations and their evolutions to occur. Beyond the usual research, based on standard statistical correlations, used by the defenders of the resource curse thesis, we advocate modeling multi-agent systems (MAS), which is better able to take account of uncertainties and events that can provoke splits in trajectories as a result of interactions between actors.

© Ifri, 2009

Bibliography

Agence française de développement (AFD). 2005. *La lettre des économistes de l'AFD* 8. March. http://www.afd. fr/jahia/webdav/site/afd/users/administrateur/public/publications/Lettredeseconomistes/lettre8.pdf (accessed February 20, 2009).

Agir ici Survie. 1999. *Projet pétrolier Tchad – Cameroun. Dés pipés sur le pipe-line*. Dossiers noirs de la politique africaine de la France no. 13. Paris: L'Harmattan.

Alt, J. E., D. D. Lassan, and D. Skilling. 2001. *Fiscal transparency, gubernatorial popularity, and the scale of government: Evidence from the States*. EPRU Working Paper No. 16. Copenhagen: Economic Policy Research Unit, Institute of Economics, University of Copenhagen. http://www.econ.ku.dk/epru/files/wp/WEB-blaa-2001-16.pdf (accessed February 20, 2009).

Auty, R. M. 1993. *Sustaining development in mineral economies: The resource curse thesis*. London: Routledge.

Balandier, G. 1951. La situation coloniale. *Cahiers internationaux de Sociologie* 9: 44–79.

Bayart, J. F. 1989. *L'Etat en Afrique. La politique du ventre*. Paris: Fayard.

—. 2000. Africa within the world: A history of extraversion. *African Affairs* 99, no. 395: 217–67.

Bayart, J. F., S. Ellis, and B. Hibou. 1997. *La criminalisation de l'État en Afrique*. Brussels: Éditions Complexe.

Beblawi H. and G. Luciani (eds.). 1987. *State and integration in the Arab world: The rentier state*. New York: Croom Helm.

Bessora. 2004. *Petroleum*. Paris: Denoël.

Bezat, J. M. 2008. Le pétrole, fauteur de guerres civiles. *Le Monde*, July 14.

Campbell, G. 2002. *Blood diamonds: Tracing the deadly path of the world's most precious stones*. Boulder, CO: Westview Press.

Chaléard, J. L. 1998. *Temps des villes, temps des vivres. L'essor du vivrier marchand en Côte d'Ivoire*. Paris: Khartala.

Chevalier, J. M. 2005. L'Afrique et le pétrole. Entre malédiction des importations et malédiction des exportations. *Afrique contemporaine* 216: 57–64.

© Ifri, 2009

Cogels, S. and G. Koppert. 2004. *Socioeconomic monitoring survey in the Chad oil field development area and pipeline corridor*. Paris: Groupe d'Étude des Populations Forestières Équatoriales (GEPFE). http://www.ulb.ac.be/socio/anthropo/tchad/00MainEnglish.pdf (accessed February 20, 2009).

Collier, P. and A. Hoeffler. 1998. On economic causes of civil wars. *Oxford Economic Papers* 50: 563–73.

—. 2005a. Resource rents, governance, and conflict. *Journal of Conflict Resolution* 49, no. 4: 625–33.

—. 2005b. Démocraties pétrolières. *Afrique contemporaine* 216: 107–23.

—. 2006. The political economy of secession. In H. Hannum and E. F. Babbitt, eds., *Negotiating Self-Determination*, 37–59. Lanham, MD: Lexington Books.

Crozier, M. and E. Friedberg. 1977. *L'acteur et le système: les contraintes de l'action collective*. Paris: Seuil.

De Soysa, I. 2002. Paradise is a bazaar? Greed, creed, and governance in civil war, 1989–99. *Journal of Peace Research* 39, no. 4: 395–416.

Debos, M. 2007. Darfour, Tchad, République centrafricaine: le développement d'une crise régionale. *Ramses 2008*, 269–73. Paris, Dunod.

Dikoume, A. L. 2007. *La fiscalité pétrolière des Etats-Membres de la CEMAC: Cameroun, Congo, Gabon, Guinée Equatoriale, Tchad, Centrafrique*. Paris: L'Harmattan.

Donner, N. 2004. *Naphte et dynamiques géographiques en Guinée Equatoriale*. Doctoral dissertation in geography, University of Paris.

Doyle, M. and N. Sambanis. 2000. International peacebulding: A theoretical and quantitative analysis. *American Political Science Review* 94, no. 4: 779–801.

Economist. 1977. The Dutch disease. *The Economist*, November 26: 82–83.

Ellis, S. 1999. *The mask of anarchy: The destruction of Liberia and the religious dimension of an African civil war*. New York: New York University Press.

Favennec, J. P. and P. Copinschi. 2003. Les nouveaux enjeux pétroliers en Afrique. *Politique africaine* 89: 127–48.

© Ifri, 2009

Fearon, J. 2004. Why do some civil wars last so much than others? *Journal of Peace Research* 41, no. 3: 275–301.

Frynas, J. G. 2000. *Oil in Nigeria: Conflict and litigation between oil companies and village communities*. Münster: LIT Verlag.

—. 2001. Corporate and state responses to anti-oil protests in the Niger Delta. *African Affairs* 100, no. 398: 27–54.

—. 2004. The oil boom in Equatorial Guinea. *African Affairs* 103, no. 413: 527–46.

Gary, I. and N. Reisch. 2004. *Chad's oil: Miracle or mirage? Following the money in Africa's newest petro-state*. Baltimore, MD: Catholic Relief Services (CRS); Washington, DC: Bank Information Center. https://crs.org/publications/showpdf.cfm?pdf_id=187 (accessed February 20, 2009).

Gary, I. and T. L. Karl. 2003. *Bottom of the barrel: Africa's oil boom and the poor*. Baltimore, MD: Catholic Relief Services (CRS). https://crs.org/publications/showpdf.cfm?pdf_id=183 (accessed February 20, 2009).

Global Witness. 2005. *Extracting transparency: The need for an international financial reporting standard for the extractive industries*. London: Global Witness. http://www.globalwitness.org/cgi-bin/parser.pl/0104/www.globalwitness.org/media_library_get.php/245/1235870468/IFRS (accessed February 20, 2009).

Hibou, B. 1999. De la privatisation des économies à la privatisation des Etats: une analyse de la formation continue de l'Etat. In B. Hibou, ed., *La privatisation des Etats*, 11–70. Paris, CERI - Karthala.

Human Rights Watch. 2002. *The Niger Delta: No democratic dividend*. *Human Rights Watch* 14, no. 7 (A), October. http://www.hrw.org/legacy/reports/2002/nigeria3/nigerdelta.pdf (accessed February 15, 2009).

—. 2003. *Sudan, oil, and human rights*. Brussels: Human Rights Watch.

—. 2004. *Some transparency, no accountability: The use of oil revenue in Angola and its impact on human rights*. *Human Rights Watch* 16, no. 1 (A). http://www.hrw.org/sites/default/files/reports/angola0104.pdf (accessed February 15, 2009).

—. 2005. *Rivers and blood: Guns, oil and power in Nigeria's Rivers State*. A Human Rights Watch Briefing Paper, February. New York: Human Rights Watch. http://pwypdev.gn.apc.org/sites/pwypdev.gn.apc.org/files/RiversandBlood_HRW_2005.pdf (accessed February 15, 2009).

© Ifri, 2009

—. 2007. *"Chop fine": The human rights impact of local government corruption and mismanagement in Rivers State, Nigeria.* New York: Human Rights Watch. http://www.hrw.org/en/node/11042 (accessed February 15, 2009).

Humphreys, M. 2005. Natural resources, conflict, and conflict resolution: Uncovering the mechanisms. *Journal of Conflict Resolution* 49, no. 4: 508–37.

Humphreys, M., J. D. Sachs, and J. E. Stiglitz. 2007. Future directions for the management of natural resources. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the Resource Curse*, 322–36. New York: Columbia University Press.

Isham J., M. Woolcock, L. Pritchett, and G. Busby. 2002. The varieties of rentier experience: How natural resource export structures affect the political economy of economic growth. Unpublished paper. http://www.st-edmunds.cam.ac.uk/vhi/research/woolcock.pdf (accessed February 20, 2009).

Johnston, D. 2007. How to evaluate the fiscal terms of oil contracts. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the Resource Curse*, 53–88. New York: Columbia University Press.

Karl, T. L. 1997. *The paradox of plenty: Oil booms and petro-states.* Berkeley, CA: University of California Press.

La Libre Belgique. 2008. La fortune de présidents africains en biens immobiliers. *La Libre Belgique*, February 1. http://www.lalibre.be/index.php?view=article&art_id=399346 (accessed February 20, 2009).

Lafargue, F. 2005. Etats-Unis, Inde, Chine: rivalités pétrolières en Afrique. *Afrique contemporaine* 216: 43–56.

Leenhardt, B. 2005. Fiscalité pétrolière au Sud du Sahara: la répartition des rentes. *Afrique contemporaine* 216: 65–86.

—. 2006. Paper presented at the AFD seminar *Le pétrole en Afrique*, Paris, May 22.

Magrin, G. 1994. *L'approvisionnement vivrier de Libreville (Gabon).* Bachelor's thesis in geography, University of Paris 1, Gabonese Institute for Development (IGAD).

—. 2001. *Le sud du Tchad en mutation. Des champs de coton aux sirènes de l'or noir.* Paris: Sépia-Cirad.

—. 2003. *Les enjeux d'un enrichissement pétrolier en Afrique centrale. Le cas du Tchad.* Paris: Pôle de recherche pour l'organisation et la diffusion de l'information géographique (PRODIG).

© Ifri, 2009

—. 2005. Pétrole et migrations : la ruée vers l'or (noir) du Tchad aura-t-elle lieu? In H. Tourneux and N. Woïn, eds., *Migrations et mobilité spatiale dans le bassin du lac Tchad. Migrations et mobilité dans le bassin du lac Tchad.* Actes du XIIIe colloque international du réseau Méga Tchad de Maroua, 31 octobre – 3 novembre, 49–52. Garoua: Institute of Agricultural Research for Development (IRAD).

—. 2006. La modification de la loi de gestion des revenus pétroliers au Tchad. Rupture ou opportunité pour un nouveau dialogue? Unpublished paper.

—. 2008. Tchad 2008. Géographie d'une guerre ordinaire. *EchoGéo*, March 13. http://echogeo.revues.org/document2249.html (accessed February 20, 2009).

Magrin, G. and G. van Vliet. 2005. Greffe pétrolière et dynamiques territoriales: l'exemple de l'on shore tchadien. *Afrique contemporaine* 216: 87–105.

Magrin, G., B. Koulro-Bézo, D. Miankéol, G. Ngaressem, M. Oualbadet, and G. van Vliet. 2005. *Regional development plan for the oil region in Chad.* Ndjaména: CTNSC, CIRAD.

Mann, M. 1984. The autonomous power of the state: Its origins, mechanisms, and results. *Archives européennes de sociologie* 25: 185–213. http://www.sscnet.ucla.edu/soc/faculty/mann/Doc1.pdf (accessed February 15, 2009).

Massuyeau, B. and D. Dorbeau-Falchier. 2005. Gouvernance pétrolière au Tchad. La loi de gestion des revenues. *Afrique contemporaine* 216: 139–56.

Mbembé, A. 2000. *De la postcolonie. Essai sur l'imagination politique dans l'Afrique contemporaine.* Paris: Karthala.

—. 2005. A la lisière du monde. Frontières, territorialité et souveraineté en Afrique. In B. Antheaume and F. Giraut, eds., *Le territoire est mort, vive les territoires! Une (re)fabrication au nom du développement*, 47–77. Paris: IRD Editions.

Nies, S. 2003. Une géographie planétaire discontinue : les enclaves: volcans "éteints" ou en activité. *La revue internationale et stratégique* 49: 111–20.

Péan, P. 1983. *Affaires africaines.* Paris: Fayard.

—. 1988. *L'argent noir: corruption et sous-développement.* Paris: Fayard.

Pétry, M. and N. Bambé. 2004. *Le pétrole du Tchad. Rêve ou cauchemar pour les populations?* Paris: Karthala.

© Ifri, 2009

Pourtier, R. 1989. *Le Gabon 2: Etat et développement*. Paris: L'Harmattan.

—. 2005. Comment maximiser l'impact de l'industrie pétrolière sur le développement des pays de l'Afrique centrale. INICA, synthèse de l'atelier tripartite de Brazzaville, July 13–14.

Publish What You Pay (PWYP). 2008. *Publish What You Pay Mauritania*. Nouakchott: Coalition Mauritanienne Publiez Ce Que Vous Payez. http://www.pcqvpcm.org (accessed February 20, 2009).

Roitman, J. and G. Roso. 2001. Guinée Equatoriale: être "off-shore" pour rester "national." *Politique africaine* 81: 121–42.

Rosellini, C. 2005. La répartition de la rente pétrolière en Afrique centrale. *Afrique contemporaine* 216: 125–38.

Ross, M. L. 1999. The political economy of the resource curse. *World Politics* 51, no. 2: 297–322.

—. 2001. Does oil hinder democracy? *World Politics* 53: 325–61.

—. 2003. Oil, drugs, and diamonds: The varying role of natural resources in civil war. In K. Ballentine and J. Sherman, eds., *The political economy of armed conflict: Beyond greed and grievance*, 47–70. Boulder, CO: Lynne Reiner.

—. 2004. What do we know about natural resources and civil wars? *Journal of Peace Research* 41, no. 3: 337–56.

—. 2007. How mineral-rich states can reduce inequality. In M. Humphreys, J. D. Sachs, and J. E. Stiglitz, eds., *Escaping the Resource Curse*, 237–55. New York: Columbia University Press.

Rosser, A. 2006. *The political economy of the resource curse: A literature survey*. IDS Working Paper No. 268. Brighton: Institute for Development Studies, University of Sussex. http://www2.ids.ac.uk/gdr/cfs/pdfs/wp268.pdf (accessed February 15, 2009).

Sala-i-Martin, X. and A. Subramania. 2003. *Addressing the natural resource curse: An illustration from Nigeria*. IMF Working Paper No. 139. Washington, DC: IMF. http://www.imf.org/external/pubs/ft/wp/2003/wp03139.pdf (accessed February 20, 2009).

Sautter, G. 1966. *De l'Atlantique au fleuve Congo. Une géographie du sous-peuplement*. Paris: Mouton.

—. 1993. Libres réflexions sur les aménagements ayant pour objet la maîtrise de l'eau par ou pour les agriculteurs. *Parcours d'un géographe: des paysages aux ethnies, de la brousse à la ville, de l'Afrique au monde*, vol. 2, 517–33. Paris: Arguments.

© Ifri, 2009

Sébille-Lopez, P. 2005. Les hydrocarbures au Nigeria et la redistribution de la rente pétrolière. *Afrique contemporaine* 216: 157–81.

—. 2006. *Géopolitiques du pétrole*. Paris: Armand Colin.

Shaxson, N. 2004. The Elf trial: Political corruption in the oil industry. In Transparency International, ed., *Global Corruption Report 2004*, 67–71. London: Pluto Press.

—. 2005. New approaches to volatility: Dealing with the resource curse in sub-Saharan Africa. *International Affairs* 81, no. 2: 311–24.

—. 2007. *Poisoned wells: The dirty politics of African oil*. London: Palgrave Macmillan.

Smith, S. 2003. *Négrologie. Pourquoi l'Afrique meurt*. Paris: Calmann Lévy.

Soares de Oliveira, R. 2007. *Oil and politics in the Gulf of Guinea*. New York: Columbia University Press.

Stijns, J.-P. 2001. Natural resource abundance and human capital accumulation. Economics Working Paper, University of California at Berkeley. http://129.3.20.41/eps/dev/papers/0112/0112001.pdf (accessed February 20, 2009).

—. 2003. An empirical test of the Dutch disease using a gravity model of trade. Unpublished paper. http://129.3.20.41/eps/it/papers/0305/0305001.pdf (accessed February 20, 2009).

Tulipe, S. 2004. Le bassin tchadien à l'épreuve de l'or noir: réflexions sur la nouvelle donne "pétro-politique" en Afrique centrale. *Politique africaine* 94: 59–81.

—. 2008. Tchad: lettre à M. Sarkozy au sujet de la crise et du rôle de la France. *Mouvements*, February 8. http://www.mouvements.info/spip.php?article257 (accessed February 20, 2009).

US Senate, Permanent Subcommittee on Investigations. 2004. *Money laundering and foreign corruption: Enforcement and effectiveness of the Patriot Act. Case study involving Riggs Bank*. Washington, DC: US Senate. http://hsgac.senate.gov/public/_files/ACF5F8.pdf (accessed February 20, 2009).

United Nations Development Programme (UNDP). 2007. *Human Development Report 2007–2008: Fighting climate change: Human solidarity in a divided world*. http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf (accessed February 20, 2009).

Van Vliet, G. 1998. Activités minières, barrages, et problématiques de négociation : hypothèses pour une réflexion. PowerPoint

© Ifri, 2009

presentation.cmsdata.iucn.org/downloads/ref_2_g_van_vliet_presentation.ppt (accessed February 20, 2009).

Van Vliet, G. and G. Magrin. 2007. L'écorce et le noyau : les relations entre Banque mondiale, Etat, ONG et entreprises pétrolières au Tchad. Paper presented at *L'Etat malgré tout? Acteurs publics et développement*, 23rd Conference of the Développement de l'Association Tiers-Monde, Mons, Belgium May 14–16.

Van Vliet, G., G. Magrin, B. van Dessel, and L. Chabason. 2008. Panel scientifique indépendant sur les activités pétrolières et gazières en République Islamique de Mauritanie, Rapport provisoire. May 22. Nouakchott: Union mondiale pour la nature (UICN). http://www.panelpetrole.mr/docs/rapport-mission-panel-mai.pdf (accessed February 20, 2009).

Véron, J. B. 2005. Editorial: Le pétrole en Afrique. *Afrique contemporaine* 216: 5–7.

Verschave, F. X. 1999. *La Françafrique: le plus long scandale de la République*. Paris: Stock.

—. 2000. *Noir silence*. Paris: Les Arènes.

—. 2001. *Noir procès: offense à chefs d'Etat*. Paris: Les Arènes.

Wantchekon, L. 2002. Why do resource dependent countries have authoritarian governments? *Journal of African Finance and Economic Development* 2: 57–77.

Websites:

The World Bank (Chad-Cameroon Project): www.worldbank.org/afr/ccproj

Catholic Relief Service: www.crs.org

Department for International Development (DfID): www.dfid.gov.uk

Esso Chad: www.essochad.com

International Advisory Group on the Chad-Cameroon Petroleum Development and Pipeline Project: www.gic-iag.org

Extractive Industries Transparency Initiative (EITI): www.eitransparency.org

Publish What You Pay (PWYP): www.publishwhatyoupay.org

© Ifri, 2009

Border Conflicts Tied to Hydrocarbons in the Great Lakes Region of Africa

BENJAMIN AUGÉ*

Ever since the steady rise of oil prices started five years ago, the hydrocarbons exploration/production sector has witnessed a deep mutation. New explorations and discoveries have been accomplished due to two interconnected factors: the rise of global demand for hydrocarbons and the rise of oil prices on two major stock exchanges: London and New York. In 2003, the price of a barrel of oil has risen from $31.59 to $40.83 in 2004, $56.27 in 2005, and $65.14 in 2006 (BP 2007). The increases continued in 2007 with an average range between $70 and $80 per barrel depending on crude oil. The average for 2008, taking into consideration the decrease in prices since July, has been close to $100 per barrel. The first consequence of the rise in prices is that companies, regardless of their size, became interested in new zones of exploration. They have used their profits to maximize their reserves, and taken chances in exploring new sedimentary basins less familiar or previously unknown. In this context, the African continent has greatly profited, since it had yet to be properly

* Benjamin Augé is a Ph.D. candidate at the Institut Français de Géopolitique (Paris VIII). His research focuses on the issues of shared basins of hydrocarbons in Africa and on the political management of the oil industry in Africa's present and future oil producers.

© Ifri, 2009

surveyed geologically. When it comes to the exploration and production of hydrocarbons, this continent has been developing a new status since the end of the 1990s. First, its production has gone from 7 million barrels per day (bpd) in the 1990s to 10 million bpd in 2008. On the other hand, big consuming countries, especially the United States of America, came to realize the danger of relying heavily on the Middle Eastern petroleum, especially that from the Persian Gulf. Hence, due to the necessity of diversification, the Middle East now faces the challenge of competing with other zones, such as the Caspian Sea, Brazil, and Africa. However, it is certain that when it comes to the localization of international reserves, the Persian Gulf will remain the most strategically important zone.

Today the African continent has for 14 producers of crude oil,[1] 12 of them being net exporters;[2] and the club keeps growing in number of members. Equatorial Guinea started its production in 1993 and today extracts 365,000 bpd; Sudan started in 1999 and now produces 457,000 bpd; Chad followed in 2003 and has been producing 144,000 bpd ever since (BP 2008); and finally Mauritania, starting in 2006, extracts a modest 17,500 bpd (CNSRH 2008). None of these recent producers, other than Mauritania, benefited from the rise in prices because the decisions to start the fields' development were all made prior to the beginning of the new cycle in 2003. On the other hand, the rise of the barrel's value was beneficial for Uganda, which will produce about 4,000 bpd starting in 2010, as well as for Ghana, which will produce 120,000 bpd starting in 2010–2011. Similarly for gas, exploration has recently started paying off. Tanzania has been producing electricity since 2004 through the Songo Songo fields; and at the same time, Mozambique started exporting gas, extracted from its Tamane and Pende fields, to South Africa; whereas, towards the end of 2008, Rwanda started converting gas extracted from Lake Kivu into electricity. These projects (except Mozambique's) are not primarily dedicated to exports;

1. Ranked from the most important to the least in terms of hydrocarbons production: Nigeria, Angola, Libya, Algeria, Sudan, Equatorial Guinea, Republic of Congo, Gabon, Chad, Tunisia, Ivory Coast, Democratic Republic of Congo, South Africa, and Mauritania.
2. The 12 countries are those in which consumption is lower than production. South Africa and Tunisia are the only ones to be excluded from this category.

© Ifri, 2009

their primary role is to generate electricity locally. Throughout their implementation, the profits from these projects proved to be more valuable than expected. When imports of crude oil allocated to operate fuel facilities became too costly, countries suffered from high bills for crude imports, and thus redirected their attention increasingly to smaller reserves.

The Berlin Conference of 1884–1885 sought to define the main spheres of influence in Africa among colonists but did not take into account the location of hydrocarbons. This was due to the fact that, at that time, the only significant oil production was restricted to the US and the Baku Region, the current capital of Azerbaijan. Unlike water, petroleum was not a criterion for the delimitation of African states' borders. Today, due to the rise in prices, and consequently the greater interest in the African continent in terms of exploration, countries and companies alike are facing the problem of sharing sedimentary basins among different sovereignties. When those states discover fields partially located under the territory of a neighboring country, several types of resolution are possible. If the nations concerned enjoy healthy diplomatic relations, international jurists, particularly those representing the United Nations, could push for the creation of a Joint Development Zone (JDZ) based on the principles of unitization.[3] Unitization aims to implement a joint management of blocks, as well as the partition of revenues for each party.[4] There are several examples of JDZs in Africa, even if not all of them are models of success. For instance, in 1993, Senegal created a JDZ with Guinea Bissau. This JDZ was set up with the purpose of managing all issues related to fishing and hydrocarbons within a well defined zone. However, Senegal has felt constrained by this JDZ, because, according to Senegalese authorities, the other party is not properly organized and is not putting the necessary effort into making the zone more dynamic. The project has placed a certain burden on Senegal,

3. "Unitization" is a legal concept, created in the US, that addresses the partition of oil revenues among several holders whose underground resources overlap beyond their land borders. A unitization agreement specifies how and where drilling should be conducted.
4. Obviously, the power ratio of countries in conflict, regardless of geologic data, plays a major role in the negotiations.

© Ifri, 2009

which is no longer satisfied with the agreement since the development and growth of the sector is going much slower than authorities had expected. The most popular example of a JDZ is that of São Tomé e Principe's archipelago, which created a common zone with Nigeria in 2001. Yet, despite the current presence of major companies, such as Chevron (USA), Sinopec (China), and Addax (UK), the deceptive results of the drilling campaign pushed ExxonMobil to retrieve and abandon the region in 2007. In addition to this JDZ, São Tomé holds an interest in the development of its own independent block located in its Exclusive Economic Zone (EEZ). It should be noted that same resolutions applied to economic sharing among countries and landowners are applicable to operating companies. When a company discovers a field overlapping a neighboring company's block, companies can decide whether to pursue unitization or not. This means that they could both continue drilling together, after defining the quota each is to receive from the joint field and thereby avoiding any legal action. In the US, unitization was developed several decades ago. Unitization agreements arose there because, unlike in most other countries, in the US underground mineral rights belong to the landowner and not to the state. Landowners often signed on to agreements for the joint exploration of fields exceeded the boundaries of their land.

When this sort of peaceful agreement seems impossible between countries or private landowners, especially among those engaged in disputes over the delimitation of borders, conflicting parties can seek international justice by calling for UN mediators to intervene. This was the case between Nigeria and Cameroon in their dispute over the Bakassi Peninsula, which was officially handed back to Cameroon on August 14, 2008. A similar situation exists at present between Equatorial Guinea and Gabon, which are fighting over the islands of Mbanie, Conga, and Cocotiers. To overcome this dispute, a steady flow of mediators has gone back and forth, though without any progress.[5] Last

5. The first mediator was the Canadian Yves Fortier, who was appointed in 2003. The UN's Secretary-General, Kofi Annan, later withdrew the file, which remained on hold until the appointment of Ban Ki Moon as Secretary-General in 2006. The most recent mediator, a Swiss named Nicolas Michel, was appointed on September 17, 2008.

© Ifri, 2009

but not least is the case, which we shall analyze in greater depth in this chapter, of Africa's Great Lakes region, particularly the dispute among countries in this region that have rather tense bilateral relations. The shared sedimentary basins can lead to open conflicts or at least to relatively complicated political negotiations. Petroleum, being one among many ingredients in state relations, can become the main or even the only motive for bilateral discussions, or it can exacerbate of existing legal disputes.

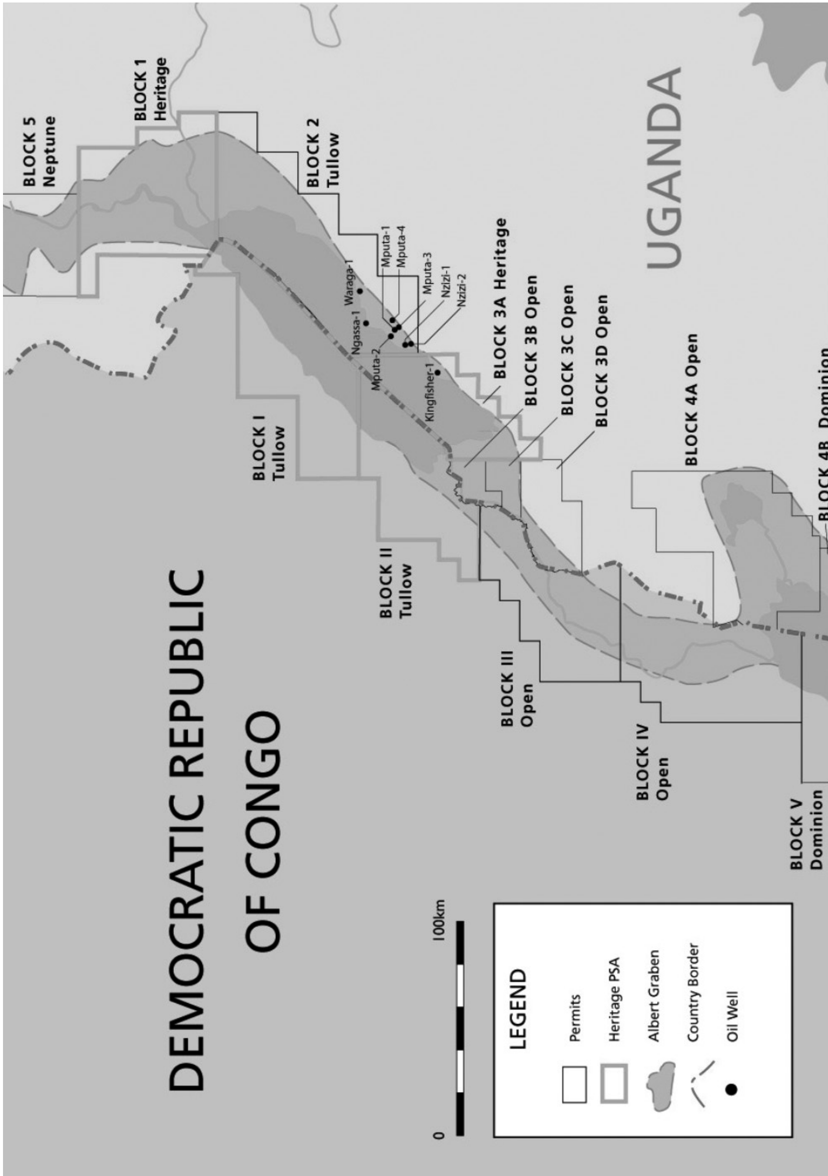
The Great Lakes region is in the mist of development in terms of petroleum and gas exploration. The complexity of this part of Central Africa comes from the number of lakes sharing by up to four different sovereign powers. Moreover, hydrocarbons have been found to lie around and in those lakes. A comparative analysis would be necessary to determine how the Democratic Republic of Congo (DRC) on one side and its Ugandan, Rwandan, Burundian, Tanzanian, and Zambian neighbors on the other side are managing or could possibly manage together in the future the four shared lakes in and around which hydrocarbons are thought to be located: Albert, Edward, Kivu, and Tanganyika. Yet such a study would remain incomplete if it were to fail to look at the relations between the DRC and Angola, where considerable oil stakes are complicating bilateral relations. A study of the Great Lakes region allows us to illustrate different possibilities of conflict resolution when border disputes tied to hydrocarbons arise. This chapter relies mainly on a fieldwork conducted from April to June of 2008 in Kinshasa, Kampala, and on the Ugandan side of Lake Albert.

Lake Albert Petroleum: Open Conflict between Kinshasa and Kampala

The DRC has been producing oil since 1976. Average production is 25,000 bpd, which is 80 times less than Nigeria. Its sole zone of production is located near Muanda in the province of Bas-Congo, where the French company Perenco exploits hundreds of onshore and offshore wells. Even though the country's current level of production is low, the DRC still

© Ifri, 2009

Map 1. Lake Albert Shared between the DRC and Uganda



Source: Heritage Oil (www.heritageoilltd.com/images/maps/congo_map.jpg).

© Ifri, 2009

hides other gigantic sedimentary basins, which have yet to be exploited. Except for the "Cuvette Centrale" (Central Basin), which covers 800,000 km^2 of the equatorial forest, and the basin covering the actual zone of production in Bas-Congo, most of the other basins in the DRC are shared with other countries. They are located both around and in the lakes, and are all basically grabens following the Rift Valley. In geology, grabens are described as depressions of tectonic rifts between two adjacent fault blocks. All the lakes east of the DRC possess identical properties and hence potential interest for companies.

Lake Albert is shared by the DRC on the west side and Uganda on the east side. Relations between the two countries have been very complex since the Rwandan genocide, and particularly since 1996, when the Ugandan army helped to overthrow President Mobutu in favor of Laurent Desire Kabila. In 1998, Ugandan and Rwandan armed forces and consultants were strongly requested to leave the country, which led to the Second Congo War. To avenge their eviction, but especially to assure the continuation of mineral extraction in the east, Uganda and Rwanda used their armies and financed militias to throw the country into complete anarchy and chaos.[6] The Congolese Army was unable to control its territories, even with the help of Angolan, Zimbabwean, and Namibian forces. The war ended in 2003 with the implementation of power partition principles, agreed upon in Sun City in April 2002; an agreement reached under the mediation of the then President of South Africa, Thabo Mbeki. As a consequence of these events, the Congolese have a contentious relationship with the Ugandans and the Rwandans.

Part of the border between the DRC and Uganda runs over Lake Albert, which complicates the equation still more. In a treaty signed in 1915, British and Belgian colonists fixed lake's banks at its southern source, the Semliki River, as the point

6. Uganda should bear the consequences of its invasion of the DRC in 1998, for it violated international law and human rights, according to the International Court of Justice in an arrest order, dated December 19, 2005, condemning Uganda as well calling on it to reimburse the DRC the natural resources it pillaged. The DRC is demanding $10 billion of compensation, which is three times the amount of its external debts, according to Perrot (2006).

© Ifri, 2009

from which to determine the border between the two countries. The danger inherent in this definition is that the border is unstable because the river banks have shifted continuously. The Semliki River has moved of 3.5 km to the west, and thus onto Congolese land, since the signing of the treaty.[7] In theory, Uganda should now have more territory than is specified on the map 6 drawn up during the colonial period. Yet political motives were merged with geopolitical ones to proceed with rather controversial exploration.

The Ugandan Management of Petroleum Explorations

The first explorations from the Ugandan side of Lake Albert were conducted by the major Anglo-Dutch company Shell in 1938. Following that, Uganda split the zone into several blocks, which were the subject of several aeromagnetic studies during the 1980s and 1990s (Johnson 2003). On January 15, 1997, the Canadian company Heritage Oil signed its first contract with the Ugandan government to explore Block 3A. In October 2001, the Australian company Hardman Resources (purchased by the British company Tullow Oil in 2006) signed a contract with Uganda for Block 2. The work of both companies was not of great importance in the first years due to the low oil prices (about $12 per barrel in 1998). But after the rise of oil shares since 2003, companies once again became interested in this zone despite the fact that its land-locked character made operations costly. In addition to Heritage Oil's extension of its contract for Block 3A, it also contracted for the exploration of Block 1 on the northern side of the lake in cooperation with Energy Africa, which has since been acquired the Irish group Tullow Oil. Finally, the British company Neptune Petroleum (purchased in 2008 by the British company Tower Resources) signed in 2005 for the exploration of Block 5, which is also located to the north of Lake Albert; and in 2007, its compatriot, Dominion, took over Block 4B of Lake Edward, which is shared between Uganda

7. Author's interview with Johan Lavreau, Head of the Department of Geology and Minerology at the Royal Museum of Central Africa in Brussels, July 2008.

© Ifri, 2009

and the DRC.[8] The number of companies alone that are active in this region indicates the growing interest in Uganda regarding oil exploitation.

The management of oil affairs in Uganda is being handled by a team of engineers in the Ministry of Energy's exploration/production department in Entebbe. They have studied in Norway, the US, or the UK. To this day, however, the country has not produced a single drop of oil, though it has been preparing, for over two decades now, for the extraction of the first barrels, which is estimated to occur towards the end of 2010.[9] Were it not for the technical assistance of the Norwegian Agency for Development Cooperation (NORAD), which has participated in both training executives and helped to assure a high level of transparency within new producing states,[10] Uganda would not have made the progress in extraction it has so far.

Petroleum has been a priority for Uganda's President Yoweri Museveni ever since he came to power in 1986. He speaks of it often and considers that oil extraction will achieved soon. Oil will definitely be the main topic of the next presidential campaign, along with the issue of energetic autonomy. Museveni takes this subject very seriously as he sets his eyes on a fourth term, beginning in 2011. He is well aware that it would be dangerous to have the country's economy rely solely on the refined products coming from the oil refinery of Mombasa in Kenya. Uganda has been reminded of this point again throughout the troubles of the 2007–2008 Kenyan crisis, which erupted after Kenya's presidential elections. The transfer of refined products to Uganda was interrupted; some Ugandan service stations closed down, which led to the reemergence of the black market. Museveni

8. Since Lake Edward is not very advanced in terms of exploration, we will not focus much on it here. But it should at least be noted that the British companies Dominion and Soco have been negotiating with the DRC since 2007 for the validation of Blocks 4 and 5, which lie between Lake Albert and Lake Edward.

9. An oil refinery with a capacity of 4,000 bpd will be built near the lake in 2009 by the Norwegian company Jacobsen Elektro. This will help to meet local demand and thereby reduce the size of imports.

10. Other than the presence of NORAD in Uganda, the agency also works in Africa with Madagascar and Ghana.

© Ifri, 2009

therefore considers it a priority for Uganda to have its own crude oil refinery in order to no end its dependence on Kenya.[11]

Museveni has mandated that his army be deployed, in lieu of the usual private security companies, at the operating companies. He maintains that the Uganda fighters provide best possible security. They protect oil companies from both the Congolese militias concentrated in the Kivu region and the Lord's Resistance Army (LRA).[12] The latter continues to spread terror, though mainly in the DRC. On the other hand, the Bunyoro Kingdom bordering the lake does not represent any threat to security.[13] Its prime minister uses the press sometimes to influence the government and push it to obtain a part of future oil revenues. But unlike his counterpart in the Buganda Kingdom, which surrounds Kampala, he is not powerful enough to be influential. The Tullow Oil representatives there seem to be on good terms with the Ugandan authorities. To date, Tullow and Heritage have drilled approximately 20 wells on the lake shores, almost all of which have been successful. Estimates of reserves vary from hundreds of millions of barrels (according to cautious observers) to 2 billion barrels (say optimistic observers). These estimates were made, however, prior to any drilling in the lake. Due to critical border issues, there has not been enough room for developed work in the region. So far, only Tullow Oil has conducted seismic analyses of the lake in 2008.

The Congolese Management of Lake Albert

The first explorations of Lake Albert from the DRC's side were conducted by the US company Amoco in 1987. The results were inconclusive and the company left the country before reaching the drilling phase. On June 2, 2002, Heritage

11. A new pipeline of petroleum products between the city of Eldoret in Kenya and Kampala will link the two countries by the end of 2009. It may help Uganda to meet its needs, but Uganda will still be dependent on Kenya.
12. Led by Joseph Kony, the LRA has committed several acts of vandalism in northern Uganda since the 1980s. Millions of Ugandans have been forced to relocate as a result.
13. There are five Ugandan kingdoms authorized by Museveni in 1993. They have different powers and authorities.

© Ifri, 2009

Oil signed a Memorandum of Understanding for the exploration of 30,000 km² around the lake. This agreement led Heritage and Tullow to sign a production-sharing contract (PSC) with the previous administration, in July 2006, for Blocks 1 and 2. The arrival of a new administration following the election of Joseph Kabila as president soon after stopped the process. And more than 20 years after the first exploration, President Kabila still has not approved any agreement for the exploration of Lake Albert.

The situation has not been helped, of course, by the fact that tensions exist between Tim O'Hanlon, Tullow's vice president of African business, and Lambert Mende Omalanga, the former Congolese Minister of Hydrocarbons.[14] As a result, early in 2008 the DRC signed an agreement with the Franco-Spanish trading company H-Oil for the exploration of Block 1. Thus two companies theoretically have rights to the same block. H-Oil was used since from the start as a means of putting pressure on what top DRC officials regarded as Ugandan companies: Tullow and Heritage. Mende dismissed the Tullow/Heritage deal,[15] accusing Heritage of having instigated and revived the ethnic conflicts in Ituri since 2003.[16] Mende argued that the contract was signed at the time by a vice minister of the previous administration and not by an official minister, consequently rendering it invalid. Moreover, he criticized both companies for not paying the signature bonus specified by the DRC. Tullow/Heritage paid only $250,000

14. Since October 2008, Mende has been Minister of Communication and Media in the new government of Prime Minister Adolphe Mozito.

15. Private interview.

16. This theory derives from Alain Deneault (2008). His book, *Black Canada*, paints a very negative picture of Heritage Oil. Deneault writes that Heritage was founded by Tony Buckingham, a British ex-mercenary who had worked with the company Range in Angola during the civil war. He had the now-defunct South African security company, "Executive Outcomes," which is accused of hunting down anti-apartheid fighters, to work for MPLA authorities in Angola. According to Deneault, this heavy profile serves the owners of Heritage well in that it helps their company to easily win contracts in unstable zones. Deneault believes that Heritage could have purposely created tension among the communities in Ituri so that Kinshasa would be forced to hand the contract to the company willing to work under any circumstances, increasing their chances of oil exploration in the region. This view of the conflict in Ituri was first expressed in Dominic Johnson's report, *Shifting Sands*, published by the Goma Institute in 2003. However, members of the communities in Ituri do not share this view of the causes of the conflicts.

© Ifri, 2009

per block, whereas Mende said that Congolese oil legislation imposes the amount of $500,000 per block. Similarly, the South African company South Africa Congo Oil (SacOil), which theoretically has held rights to Block 3 to the south of Lake Albert since 2007, does not even have authorization to start explorations. Therefore, no company currently has official approval to begin exploration in Ituri.

The tense diplomatic relations between the DRC and Uganda thus are affecting the Congolese contract with Heritage and Tullow. The turning point of the crisis occurred on August 3, 2007, when the Heritage's engineer Carl Nefdt was killed by the Forces Armées de la République Démocratique du Congo (FARDC) while he was aboard a boat conducting preliminary research on Lake Albert.[17] The Congolese Army, in its defense, argued that the boat was on the Congolese side of the lake. The army declared that, prior to taking any action, they warned Heritage's team, several hours in advance, of their illegal presence in Congolese waters. Heritage claims the opposite and denies having entered Congolese territory. The boat had all the GPS equipment necessary to be positioned accurately, whereas the Congolese did not have access to similar technologies. It is difficult to determine whether the order to shoot the engineer came from Kinshasa or if it resulted from individual initiative. The Congolese Army is responsible for many of the country's security problems. Its military academy has instituted reforms since the end of the war in 2003, but the Congolese Army, at least for the time being, is still a patchwork that includes ex-militiamen recruited by the army in the attempt to limit the troubles they could cause in the east. In addition, the army is poorly paid: a soldier makes an average of $50 per month in a country where most products are imported and therefore are expensive (Melmot 2008).[18] Moreover, its heterogeneity causes problems regarding hierarchy and command. This episode forced Museveni and Kabila to meet face to face in order to finally discuss territorial disputes and oil related issues.

17. A FARDC soldier was also killed in this operation.

18. An audit of the DRC's public spending from December 1, 2006 through February 28, 2007 shows that the budget per soldier ranges from $5 to $8 per month.

© Ifri, 2009

Bilateral Negotiations over Lake Albert

On September 7–8, 2007, a meeting between the Ugandan and Congolese presidents was organized under the auspices of the Tanzanian President Jikaya Kikwete in Ngurdoto, a small village in northern Tanzania. The international community applauded this step, regarding as a means of avoiding a new conflict that would further weaken a region already burdened by previous disputes. In Ngurdoto, Kabila and Museveni agreed to establish a joint technical commission charged with determining once and for all the borders on the lake, as well as to the north of the lake, to begin work in November 2007. In addition, it was agreed that each country's minister in charge of its hydrocarbons portfolio should meet in November 2007 to elaborate a new unitization agreement to replace the one signed on June 23, 1990, since it no longer complies with the new situation of Lake Albert. Following Ngurdoto, which was also an occasion to discuss other bilateral issues, the joint commission met twice in 2007, first in Bunia in the DRC[19] and then in Entebbe in Uganda. A Congolese delegation of 70 delegates completed fieldwork on the Ugandan side of the lake along with their Ugandan counterparts. On December 12–15, politicians and technicians from both countries inspected the exploration work before returning to Kampala for discussion.

Kabila and Museveni met again on May 11, 2008 for a summit in Dar es Salaam. In this second meeting, the issue of Rukwanzi Island was raised. This island is located at the intersection of the Semliki River with the southern side of Lake Albert, and did not exist when the border was first delimitated in 1915. Rukwanzi Island is the center point of tension between the DRC and Uganda, because, and according to the authorities of Kinshasa, it would be close to important oil reserves. Armies from both sides fight occasionally to defend "their" island. The problem remains that thus far no drilling has been done in the lake, so it is impossible to estimate its potential. According to Kampala, the island belongs to Uganda; whereas, according to Kinshasa, since Congolese fishermen fish there on a daily basis,

19. Bunia is the capital of the Congolese province of Ituri, where Lake Albert is located.

© Ifri, 2009

it should be Congolese property. The Belgian map archives held in the Tervuren Museum near Brussels does not give any additional information on the ownership of this new island. For oil experts, the determination of both parties to retain rights for the island is perhaps rooted in the possibility that they could locate drilling instruments there. At the end of the Dar es Salaam summit, the two presidents decided to share the administration of the island until a definite solution can be reached. They also declared their will to accelerate the cooperation by exchanging ambassadors in their respective capitals.

Different Projects and Representations of the Parties Involved

Public and private parties involved in the various exploitation projects do not share the same agenda when it comes to the resources of Lake Albert. Tullow and Heritage work together to update information on the most important oil reserves on the banks of the lake from the Ugandan side. This is only a first step, for they will quickly need to start drilling in the lake to be able to export crude oil once local consumption is satisfied. This is why Congolese and Ugandan authorities needs to reach and sign a clear agreement about the borders and the partition of reserves soon. In this connection, Tullow has been lobbying Congolese ministers and deputies for approval of its two blocks. The company regularly invites influential Congolese figures (especially national and provincial deputies) to evaluate the progress of oil exploration in Uganda. On the other side, Tullow stresses that it has been actively investing in Uganda, having invested $250 million in 2008 alone. Uganda comes second only to Ghana in terms of the group's exploration budget. Tullow promises to invest an equal amount in the DRC if its contract is approved. The company strongly promotes the view that only one company, or at least one joint venture, should be allowed to work on the lake in order to avoid conflicts. The appointment of René Isekemanga as the new Minister of Hydrocarbons, in October 2008, will probably speed up the process. During a tour with Prime Minister Adolphe Muzito in November, Isekemanga promised the Ituri population that he will deal with this matter quickly and discuss it at a future council of ministers.

© Ifri, 2009

The main goal for Tullow and Heritage is to control the whole lake in order to access sufficient reserves for exploration. But how will they transport this crude since the zone around Lake Albert is totally isolated? Using existing roads is out of the question because the network's condition is not the same in all areas and at times virtually non-existent in some parts of the country. The construction of a pipeline to Mombasa Port in Kenya might be an option. Such a pipeline, stretching about 1,300 km, would cost $2–$3 billion, taking into consideration the fact that oil service contracts have doubled in price over the past five years. The greatest unknown remains the DRC. Many leaders in Kinshasa refer to the sleeping elephant when speaking of the oil reserves in the region. The main reserves are represented, in this metaphor, by the elephant's body and are located on the Congolese side; its four legs stretch to the Ugandan side. This idea is not based on any concrete information, because no drilling work has been conducted yet on the Congolese shores of the lake. Rather, the leaders are simply trying to put some pressure on their Ugandan neighbors. The Congolese authorities are in fact very concerned about having the lake exploited only by the two same companies. A climate of distrust prevails between the two states. This atmosphere is constantly nurtured by the constant suspicions about Tullow and Heritage. The Congolese press expresses the view of some DRC oil policy officials when it accuses the companies of pumping Congolese crude oil on Ugandan shores. Technically, the operation could be managed by using directed drilling, but Congolese authorities would surely regard it as a casus belli. Be that as it may, petroleum still has yet to flow Uganda, which means that there is no credible basis to support these rumors, which only burden the negotiations. The weight of the past and the war are always present. Beyond the strained interpersonal relations between the Tullow officials and Congolese decision-makers, a number of DRC authorities suspect that Tullow and Heritage represent Ugandan interests. These companies, having been the pioneers in the sector, heavily influenced the Ugandan government in defining its petroleum policies. But the appearance of their being close to Kampala is causing them great harm in Kinshasa.

© Ifri, 2009

On the Ugandan side, about 20 wells have been drilled; whereas on the Congolese side, there are none. The current troubles in northern Kivu are spreading towards Ituri, killing all hope of beginning explorations in the next few months. In Kinshasa, though not openly declared, the portfolio is frozen until a different philosophy and a different kind of discussion emerge. The new authorities, despite Isekemanga's statements to the contrary, want to take their time and consider forcing Tullow and Heritage to take on a minor partner. The current financial crisis, which is proving particularly difficult for banks and financial institutions, does not encourage investors to get involved in difficult zones. This is compounded by the exploration of Lake Albert is more costly from DRC's side than from Uganda's, for the Blue Mountains form a cliff along the DRC's side that requires the use of offshore drilling.

Other Basins Shared by the DRC and its Neighbors

In addition to Lake Albert, the DRC shares other basins with its neighbors as well, basins in which it has important stakes as well, along with rather modest goals in the short term. Lake Kivu, with the DRC shares with Rwanda, has produced methane for latter's electric supply since 2008. As for Lake Tanganyika, which lies between the DRC and Tanzania, it is not far from bearing the first fruits of exploration. Eventually, these two lakes will witness the same problems as Lake Albert unless a way is found to manage resources belonging to several states.

East Africa remains a region in which there is currently no actual oil production and very little gas production.[20] Furthermore, the only efficient oil refinery in the region is in Mombasa, Kenya. The supply of electric or liquid energy therefore represents a major problem. The growing demand for energy in the region is becoming more and more difficult to meet. Over the past five years, the price of refined products has suffocated African states. This has encouraged those who have yet to discover their own resources to engage in ambitious

20. Only Tanzania produces gas, generating 230 MW for Dar es Salaam.

© Ifri, 2009

energy projects. High energy prices provide such countries with the opportunity to grant exploration licenses to companies that are interested in unexplored basins.

The Methane of Lake Kivu

Experts have been aware of the presence of methane in Lake Kivu since 1935. In 1960, a team of engineers from the Chemical Belgian Union established the first gas extraction station in the world in a lake. But this station never produced large quantities and it closed down in 2005. Only a few breweries around the lake were able to operate thanks to this station. According to the physics professor, Michel Halbwachs,[21] holds 40 Gm^3 of Lake Kivu's 65 Gm^3 of methane is exploitable. Halbwachs contends that, using the lake's methane, it would be possible to operate an electric power plant that would produce 160 MW per day for 100 years. Rwanda's current daily electricity consumption is 60 MW, which mean that it could eventually become an energy exporter. The country has a small surface area of 26,000 km^2 and a high demographic density (341 inhabitants per km^2), but only 20% of its population are urban dwellers. At first glance, the construction of a dense energy network would not seem to be profitable, but the future is always difficult to predict. The first recipient of the fruits of the extraction project at Lake Kivu will be Kigali, the capital, which is the heart of the country's economy and has 900,000 inhabitants (one-tenth of the total population).

Several companies have signed contracts with the Rwandan government without being able to implement effective extraction techniques. Several years ago, the French engineering company Data Environment began collaborating with the Rwanda Investment Group (RIG) to establish a system that would enable effective extraction by the end of 2008. However, last October the platform that was supposed to begin operation in early November was vandalized as a result of tensions

21. Private interview. Michel Halbwachs is also the founder of Data Environment based in France. The firm won service contracts in Cameroon and Rwanda to set up procedures for gas extraction in some basins.

© Ifri, 2009

with another project already operating on the lake. That other project was started in 2004 by the Norwegian group Dane Associates, but was taken over by the Rwandan government in 2007 after having taken legal action against Dane. Tensions between these private- and public-sector projects may have led the aforementioned sabotage and thereby cost Rwanda a nine-month delay in getting the methane it desperately needs. The public project, started by Dane, generates not the 5 MW as originally predicted but only 1.5 MW, of which 500 KW are necessary to run the extraction equipment. However, while only 1 MW net is generated by this project, but it should increase to 6 MW once the RIG project begins operation this year.

Lake Kivu has a unique geology rarely seen in other gas fields: its methane is in fact extracted from water and not from under successive layers of sediment. The lake is also susceptible to limnic eruptions, like the Nyos field in Cameroon. Limnic eruptions are gas explosions caused by an oversaturation of carbonic gas. In 1986, an eruption in the Nyos field killed over 1,700 people. The extraction of this type of methane presents a twofold advantage to Rwanda. First, it promotes to the country's sustainable economic growth (6% annually on average over the last few years). Second, extraction minimizes the risk limnic eruptions, which would likely cause a higher toll than in Nyos due to the dense population around the lake.

Rwandan authorities' high level of motivation to extract methane as soon as possible stands in stark contrast with the semi-paralysis among their Congolese counterparts. In fact, except for few limited ministry-sponsored exploration missions, no company is working on the shores of the DRC. Goma, the capital of the northern province of Kivu and the largest city near the lake, is in desperate need of electricity for its 700,000 inhabitants. At the same time, however, Goma has been at the heart of conflicts in the region ever since the Rwandan genocide between April and June 1994. Private companies are in no hurry to explore a zone marked by instability and a lack of security. The militias of the Congrès National pour la Défense du Peuple (CNDP) have controlled this part of the DRC for several years now. The CNDP is a

© Ifri, 2009

militia that was led until late January 2009 by the Congolese Tutsi General Laurent Nkunda, who was known to be close to the Rwandan authorities. This movement has accused Kinshasa of harboring the “Interahamwe” – formerly Forces Armés Rwandaises (FAR), renamed Forces Démocratiques de Libération du Rwanda (FDLR) in 2000 – who carried out the Hutu-led genocide. The CNDP also claims to be the protectors of Congolese Tutsis, who are relatively numerous in eastern DRC. At the end of summer 2008, the CNDP began fighting again and moving closer to Goma. Its 4,000–7,000 fighters are of diverse ethnic origins, but are more efficient than FARDC’s soldiers. In its current form, FARDC creates mercenaries, who fight in FARDC’s ranks by day while also working with FDLR. Kinshasa’s inability to maintain control over the Kivu region has delayed the exploration of the lake.

The future of the Kivu region remains uncertain because of the heavy burden of its security issues. While there were questions about Nkunda’s real objectives, it is no less clear how to interpret his replacement by Jean Bosco Ntaganda, one of the top CNDP generals, after the Rwandan Army arrested Nkunda on January 22, 2009. Ntaganda’s first move was to initiate discussions with Kinshasa. At the end of January, he decided to merge the CNDP with the Congolese National Army. Nkunda’s activities were deemed unacceptable by President Barack Obama’s new administration, but US has been an important supporter of Rwanda’s vision for the region, which falls in line with the American policy in Africa. On the other hand, some European countries have threatened to cut aid to Rwanda. Moreover, as soon as the share of mines in Kivu between Rwanda and the DRC was little by little becoming an official subject on the table, there was no longer a need for Kagame to keep supporting Nkunda. Rwanda’s president has succeeded in convincing the international community that if Kivu’s mines were not legally shared, he has the power to destabilize an entire region through the CNDP. Kagame shares the same view as some American officials and think tanks after the Mobutu regime came to an end in 1996; they all believe that the DRC is too big of a country to be led from Kinshasa alone, and that it would be better to share parts of its territory with countries such as Rwanda or Uganda.

© Ifri, 2009

The fact that the idea of mine sharing was publicly mentioned in January 2009 by the France's President Nicolas Sarkozy suggests that the main contributors to UN are tired of paying for a completely inefficient MONUC (Mission des Nations Unies en République démocratique du Congo), which costs roughly $1 billion each year. If sharing the mines could be a solution, the US and some European countries seem to be ready to try to implement the idea, despite the possibility that it may weaken Kabila and despite the threat it poses to the concept of sovereignty.

The DRC's delay in developing Lake Kivu is due mostly to the lack of security in the region, but also to differences in priorities. Lake Kivu is more than 2,000 km away from Kinshasa. The political elite's main energy concerns is to improve the supply of electricity to Kinshasa by rehabilitating the Inga Dam's turbines on the Congo River. The DRC is a large country in terms of area, and the government's main preoccupation is to establish a state powerful enough to control and retain every acre of its territory. Thus, Lake Kivu is not high on the list of the Congolese leaders' priorities. By contrast, Kigali, the Rwandan capital, is only a 100 km from the lake, which makes it easier to convince Rwandan decision-makers of the importance of developing it.

The insecurity of the region since it would be in a way controlled by Kigali through Nkunda (and now his successor), leads to a weak collaboration between Rwanda and the DRC for the exploitation of the lake. Suspicions about Rwanda's repeated looting of gold, coltan (columbite-tantalite), and cassiterite, complicates relations that are more strained than the DRC's relations with Uganda. Ugandans know they need to be unimpeachable if they want to reach an agreement with the DRC on Lake Albert's borders and its exploration. Moreover, extracted oil from the DRC's side will have to pass through Uganda. Due to insufficient dredging, the Congo River does not allow of sure navigation. So Museveni will have to be strategically patient with his Congolese counterpart. The stakes are different for the Rwanda's President Paul Kagame, since he does not need Kabila for the exploitation of his country's hydrocarbons. A binding agreement with the DRC

© Ifri, 2009

would cause complications for the small state of Rwanda, which prefers playing on two lanes at the same time. Publicly, Kagame still professes to want to improve Rwanda's relations with its Congolese neighbor, but behind the scenes Rwanda is working to prevent the DRC from growing.

The extraction agreement currently in force for the exploration of Lake Kivu was issued at the Bukavu Convention and signed by the DRC (at the time, still called Zaire) and Rwanda in 1975. The convention stipulates that both countries must jointly conduct all activities of methane gas exploitation from Lake Kivu (Kiboko 2007). This agreement was reaffirmed at a summit in Gisenyi, Rwanda, held March 26–28, 2007, in the presence of international experts and delegations from the DRC and Rwanda. The Communauté Economique des Pays des Grands Lacs (CEPGL)[22] declared the extraction of methane from Lake Kivu a priority in 2004. However, cooperation between the two countries has yet to materialize. Thus far, only Rwanda has launched projects, whereas the DRC is still in the starting blocks. These developments, which run contrary to the signed agreements, could later give rise to tensions concerning questions of sovereignty, something that the Bukavu Convention sought to contain. The fear that neighboring countries might exhaust a country's resources is easily shared, especially when relations are already tense. The exploitation of Lake Kivu has yet to become a source of discontent among the Congolese towards Rwandans. While the Congolese have some interested in it, such projects at Lake Kivu will not be their priority anytime soon as long as the region continues to be unstable, which is quite convenient for Rwanda.

Lake Tanganyika: A Game of Four

Lake Tanagniyka is a new frontier for petroleum. Though no drilling has been conducted there yet, each of its four bordering countries (Burundi, Tanzania, the DRC, and Zambia)

22. The members of this regional economic organization, founded in 1976, are Burundi, Rwanda, and the DRC. The Rwandan genocide in 1994 has put a halt to its activities since. The former Belgian Minister of Foreign Affairs, Louis Michel, attempted to revive the organization during a summit in Brussels in 2004, but to not avail.

© Ifri, 2009

have become interested, to varying degrees, in exploration. Unlike the situations in Lake Albert and Lake Kivu where diplomatic relations between the DRC and its neighbors are unstable due to the Second Congo War, relations are more peaceful among the parties involved in the exploration of Lake Tanganyika. The DRC does not accuse them of attempting to ruin it during the war by looting its raw materials, nor by financing militias that spread chaos. Both Tanzania's President Benjamin Mkapa and Zambia's President Frederick Chiluba were involved from 1999 on in seeking to mediate between various warring parties. This mediation led to the cease-fire agreement on July 10, 1999 in Lusaka (ICG 1999). As for Burundi, it did not fight directly against the DRC because its army was busy fighting against its own rebel groups, the CNDD-FDD (Conseil National pour la Défense et la Démocratie – Force pour la Défense de la Démocratie) and the FNL (Forces Nationales de Libération). Burundi did, however, carried its fight against the rebels onto DRC territory. And Burundi also did stand up to Rwandan troops, who used its territory as a passage to the DRC and as a retreat base. Yet there is no comparison between Burundi-DRC relations and those between Rwanda and the DRC. The Burundian state is very weak and has become one of the poorest countries on the continent. It has been trying since 2006 to involve his militias in the political discussions.[23] It has no means of destabilizing the DRC.

On May 10, 2008, the Congolese Minister of Hydrocarbons, Lambert Mende Omalanga, and his Tanzanian counterpart, William Ngeleja, sealed an agreement for the joint exploitation of the lake. This partnership has yet to be implemented. And it is hard to know what both parties mean by "joint." The appointment of the new Congolese minister, Rene Isekemenga may accelerate this cooperation. Each of the states has independently allocated in each case the exploration blocks on its territory. Tanzania allocated its first block on the lake in May 2008: after competition among several companies, the Tanganyika South Block was awarded to the Australian

23. A summit took place on December 5, 2008, in Bujumbura in the presence of the Ugandan president, the Zambian, Burundi, Kenyan vice presidents, and the Rwandan and Tanzanian prime ministers.

© Ifri, 2009

company Beach Petroleum. Burundi divided its shores of Tanganyika Lake into four blocks; in October, Block D was allocated to the British company Surestream.[24] As for the DRC, it will divide up the two remaining blocks into ten smaller blocks. In doing so, the DRC showed that it sees great potential in the lake.

The new petroleum zones are often divided into big blocks. Later subdivisions are implemented when companies begin to express interest in the zones, or when a company announces a discovery.[25] Surestream, whose representatives are close to the leadership in Kinshasa, will probably obtain one of the nine blocks. If it does, it will then control two blocks of Lake Tanganyika, each in a different country. Its strategy seems to be to acquire as many exploration licenses as possible on the lake. Indeed, Surestream applied last May for the acquisition of Tanganyika South in Tanzania. By contrast, Zambia has advanced the least of the lake bordering countries in terms of potential explorations. Despite the fact that Zambia divided its blocks into 29 oil exploration blocks in January 2009, it has yet to sign any exploration contracts. The Zambian government requested the help of the Norwegian foundation Petrad for the formulation of a coherent petroleum policy. Yet the authorities do not intend to give priority at the moment to exploration near Lake Tanganyika, where Zambia holdings are small. The first explorations will likely occur on the Angolan side of Zambia's border with Angola, since the latter has already achieved some interesting results. It is unlikely that Zambia would cause any problems regarding the lake's exploration. Rather, this case has proven to be a model of peaceful collaboration so far. Yet the situation could change if significant discoveries were to be made in the future; that would change the stakes considerably and, by extension, the agreements.

24. Surestream is also present on the coastal basin of DRC.
25. The Mauritania case is significant in this matter. The first delivered blocks in the basins of Taoudeni shared with Mali and Algeria were extended over around 30,000 km^2. The flow of major companies such as Total, Repsol or Wintershall (Affiliate of the German Chemical Group BASF) in 2005 convinced the state that the blocks still open for exploration need to be divided into smaller parcels. Today the size of blocks in Taoudeni rarely exceeds 10,000 km^2.

© Ifri, 2009

The Delicate Relations between Angola and the DRC

Hydrocarbons is a delicate issue between the DRC and Angola. Again, the Second Congo War has deeply affected the current bilateral relations between the two states. Angola sent troops to the DRC to fight, among others, against Jean-Pierre Bemba's opposition militia, the Mouvement de Libération du Congo (MLC).[26] The borders between the two states in the provinces of Bas-Congo and Bandundu are very porous. Frequently, Congolese are sent back to the DRC by the Angolan army. Border markers are sometimes deliberately removed. These problems exist in water as much as on land, where the rights to part of territorial waters on Cabinda's side of Angola became the source of dispute between the DRC and Angola. The dispute was resolved by the creation of a JDZ, on July 3, 2007, during a meeting between Joseph Kabila and José Eduardo Do Santos in Luanda. The JDZ was approved by the Congolese parliament on September 22, and by the senate on October 2, 2007. Yet both assemblies expressed concern that the JDZ's borders are still not well defined. The Congolese Minister of Hydrocarbons, Lambert Mende Omalanga, who championed this project, agreed that this is a major drawback in a text that was supposed to regulate border disputes. Nevertheless, he managed to convince deputies to vote for it, arguing that the JDZ could prove very productive. The JDZ is an ultra-deep offshore area, which has recently been very successful for Angola. Mende spoke of a production of 100,000 bpd, half of which would belong to the DRC. This would triple the country's current level of production.

A joint commission was set up late in 2007 to propose a schedule for deadlines and a management model for the JDZ. Negotiations were managed by the DRC's minister of internal affairs and minister of hydrocarbons, and by a group of leaders from Angola's national oil company, Sonangol. On July 23, 2008, Angola's former minister of petroleum, Desiderio Da Costa, moved to Kinshasa to monitor the commission's work of. In

26. Jean-Pierre Bemba has been under arrest since June 2008 in The Hague awaiting trial before the International Penal Court (CPI) to face charges that he committed war crimes. MLC became the main opposition party following the 2006 presidential elections.

© Ifri, 2009

its conclusions, the commission recommended the creation of a new commission for the definite delimitation of borders, as well as a management board for the JDZ that would include a decision-making committee, a technical committee, and an executive secretary. The delimitations of this JDZ are still vague up to this day, as are the border between the countries in the ocean. However, the Congolese authorities did not await the outcome of these negotiations to act. The DRC's first exploration contracts in this JDZ, sometimes called the "couloir maritime," were awarded in 2008 to the British company Nessergy.

Angola knows well that it has more to lose than to gain in these negotiations. It is on the defensive because it has to share territories it thought it had it owned. Numerous suggestions about how the map should be defined have circulated among negotiator, but both sides are anxious to maintain their sovereignty. It is the political issues rather than the technical ones that will determine the outcome of these discussions. Some Congolese negotiators[27] suspect that Angola is using the DRC's exclusive maritime zone to exploit oil. Angola currently produces 2 million bpd, which makes the Congolese envious. Nevertheless, the DRC does not want to turn the situation into a scandal out of it, nor discuss it in public like Lake Albert. Oil cannot be used to apply pressure, especially since their military and political debt is too high, even if oil stakes in this zone are of a great value.

Since summer 2008, confrontations in northern Kivu between Nkunda's militias and the Congolese National Army become a topic of discussions between Angola and the DRC. The Angolan Army would intervene to aid FARDC, this would leave the DRC in a weaker position with regard to current negotiations, including those related to oil. Negotiators know that it would be better to wait and reach a good agreement in a few months, rather than to settle for one that would be too favorable to Angola if it were signed now. Each side has the means to pressure the other, but a military aid from Angola would definitely not come cheap. Hence, negotiations proceed, even if at a slow pace.

27. From interviews with the author.

© Ifri, 2009

Conclusion

Due to the rise in oil prices over the past five years, Africa had become increasingly important to the world powers, which are preoccupied with their growing need for hydrocarbons. This thirst for energy combined with the desire to lessen Western dependence on the Middle East, is causing more attention than ever to be directed towards Africa. Even if oil companies no longer are afraid of exploring sedimentary basins that are both isolated and politically risky, their explorations can sometimes reopen "old wounds." The two Congo wars have left deep scars. And the effectiveness of the joint management of shared basins by two or more sovereignties depends on the character of relations between those states during such conflicts as well as in times of peace.

All forms of border resolutions related to hydrocarbons converge in the Great Lakes region of Africa. This region is a laboratory where we can observe different situations, such as: the conflict between Uganda and the DRC; the situation of an actively engaged party and another less interested party due to different priorities as in Rwanda and the DRC; the near-perfect situation of agreement as in the case of Tanzania, Zambia, Burundi, and the DRC; and finally, the situation where old debts dominate, as in the case of Angola and the DRC. Hydrocarbons can heighten already existing tensions in relations, but they can also serve as the basis for discussions. The death of the Heritage Oil engineer in Lake Albert forced the presidents to engage in discussions. To avoid litigation, JDZs remain the best solution. Countries fighting over resources that will ultimately be shared are simply wasting time. Negatively charged atmospheres tend to slow down companies and thereby reduce the profits of all the parties involved in the extractive endeavors. States with poorly controlled borders, and lacking explorations, will not have an easy time attracting companies, especially when the price per barrel is falling. Since 2006 and the recent attacks by the Movement for the Emancipation of Niger Delta (MEND) in the high seas off Nigeria, offshore fields, which formerly allowed oil companies to produce at peace in conflict zones, are no longer immune to attack. In addition, apart from the coastal basin, all

© Ifri, 2009

the DRC basins are onshore, so that infrastructure such as pipelines has to be protected. The cost of working in zones that lack security is often so high that, in times of economic instability, companies would prefer to relocate to better known and less troubled basins.

All extraction projects in the region have to focus first on local supply, a concept that Uganda and Rwanda have already well understood. Exportation is still a long ways off for all the states. Since the barrel price peaked at $147 on July 11, 2008, prices fell by more than $100. Prices are now fluctuating around $40 per barrel and could fall further, according to bleak forecasts of global economical growth. If prices remain at the current level, exploration in isolated and politically risky zones can will be interrupted for the medium term. Apart from the positive surprise of Ghana in 2007, whose main reserves turned out to be located offshore, a many of Africa's new discoveries are located in troubled zones, such as Nigeria, Chad, Uganda, the DRC, and Sudan. These zones are all in jeopardy today if oil prices continue to decline. Launching pipeline projects similar to the one connecting Lake Albert to the Port of Mombasa is meaningless to investors if the price of crude oil is not high enough to generate profits. The construction of the Chad-Cameroon pipeline, at a cost of about $2 billion,[28] can no longer serve as an example today. The work on the pipeline started in 2001, when a barrel at $20 was profitable enough since the oil service industry imposed prices that were relatively low at the time. For the time being, investors will probably hesitate before launching a project as the Lake Albert-Port of Mombasa pipeline, which is projected to be 300 km longer than the Chad-Cameroon pipeline.[29]

The joint attack by three armies – the Congolese, Ugandan, and South Sudanian (Sudan People's Liberation Army) – on December 14, 2008, on an LRA camp within the DRC should

28. Development works in the fields near Doba in Chad and the pipeline construction cost around $3.7 billion. The project was supported by the World Bank.

29. Heritage and Tullow announced in mid-January 2009 that they discovered new reserves by drilling the Giraffe well (on a par with the discovery of Buffalo in December 2008). That brings proven reserves in Block 1 alone (on the north side of the lake) to 400 million barrels, and the probable reserves to 1 billion barrels. The credibility of the pipeline project to the Port of Mombasa is growing gradually.

© Ifri, 2009

be viewed with caution. Such unity of these states may be short-lived and only geared towards achieving a well-defined objective: the weakening of the LRA. From one side, Uganda would definitely not want the LRA to prevent oil exploration of Lake Albert; on the other side, the DRC has no interest in allowing a militia to prosper that brings nothing but instability to its soil. As for South Sudan, the goal is to weaken and put an end to this movement, which Khartoum has long financed. Yet the fact that Ugandan soldiers were permitted to act on Congolese soil is in itself highly significant; this is something that previously would not have been possible. The prospect of oil exploration has put pressure on both Uganda and the DRC to be on their best behavior. Unfortunately, this remains an exception in the region. While countries in Africa's Great Lakes region do not all share same agenda, nor same goals, they will have to come to terms with one another. In particular, Uganda, Rwanda, Burundi, Tanzania, Zambia, and Angola will have to get along with the DRC. Profits generated by the exploitation of new fields will flow faster if legal partitions of shared basins are quickly established.

Bibliography

BP. 2008. *BP Statistical Review of World Energy*. http://www.bp.com/liveassets/bp_internet/globalbp/globalbp_uk_english/reports_and_publications/statistical_energy_review_2008/STAGING/local_assets/downloads/pdf/statistical_review_of_world_energy_full_review_2008.pdf (accessed February 15, 2009).

Comité National de Suivi des Revenus des Hydrocarbures (CNSRH). 2008. *Rapport sur la production, l'exportation et les recettes pétrolières*. November. Nouakchott, Mauritania: Trésor Public. http://www.tresor.mr/mxdispatcher?m=website&a=ShowRubricDocument&idTopic=50137B87-AC10-0406-0077-72559B459071&idRubric=5541C7E0-7F00-0001-0174-8654851DB4C7&id=0F206756-7F00-0001-01C4-B94FACEFC64A (accessed February 8, 2009).

Deneault, A. 2008. *Noir Canada: pillage, corruption et criminalité en Afrique*. Montréal: Les Éditions Écosociété.

International Crisis Group (ICG). 1999. *The Agreement on a cease-fire in Democratic Republic of Congo: An analysis of the agreement*

© Ifri, 2009

and prospects for peace. ICG Democratic Republic of Congo Report No. 5, August 20. Brussels: ICG. http://www.unhcr.org/refworld/docid/3ae6a6e30.html (accessed February 20, 2009).

Johnson, D. 2003. *Shifting Sands: Oil exploration in the Rift Valley and the Congo conflict*. Goma, Congo: Pole Institute. http://www.pole-institute.org/documents/heritage05.pdf (accessed February 8, 2009).

Kiboko, A. M. 2007. RDC-Rwanda: un accord sur l'exploitation conjointe du gaz méthane du lac Kivu. *Le Potentiel* (Kinshasa), March 31. http://forumrdc.org/index.php?option=com_content&task=view&id=41&Itemid=46 (accessed February 20, 2009).

Melmot, S. 2008. *Candide au Congo échec annoncé de la réforme du secteur de sécurité (RSS)*. Focus stratégique no. 9. Paris: Laboratoire de Recherche sur la Défense (LRD), Institut français des relations internationales (IFRI). http://www.ifri.org/files/Securite_defense/Focus_Candide_Congo.pdf (accessed February 20, 2009).

Perrot, S. 2006. La condamnation de l'Ouganda par la Cour Internationale de Justice, un non-évènement? *Chronique du Cérium*, January 30. http://www.cerium.ca/Condamnation-de-l-Ouganda-par-la (accessed February 8, 2009).

© Ifri, 2009

© Ifri, 2009

Mise en page et impression
bialec, nancy (France)
Dépôt légal n° 71248 - mai 2009

© Ifri, 2009

© Ifri, 2009

les études ifri

Governance of Oil in Africa: Unfinished Business

GOUVERNANCE EUROPÉENNE ET GÉOPOLITIQUE DE L'ÉNERGIE

A closer inspection of the world's oil and gas resources, tempered by a critical assessment of their accessibility, would lead many investors now focused on Russia and the Middle East to turn their attention to the Caspian Basin. But many of these oil and gas provinces are largely off limits for international investors, or the investment conditions have become so unpredictable that investors are forced to look elsewhere for the oil and gas to meet the world's increasing demand. Even if today's economic crisis has taken the urgency out of today's supply and demand balances, economic recovery will soon reveal the need for ever-increasing investment upstream.

Other parts of the world may not hold the huge hydrocarbon resources of the Middle East, but there is considerable opportunity elsewhere. This study is dedicated to sub-Saharan Africa where considerable resources have been found and more is no doubt yet to be discovered. Specifically, the countries of the Gulf of Guinea have long been in the oil business and some are now in the gas business. What have the experiences in the oil and gas sectors of these countries been? How has governance evolved over the years and why have some of these countries been unable to realize the full benefits of their resource endowments?

The Gulf of Guinea holds considerable promise for more oil and gas for world markets, but the experiences of the past decades suggest a need for substantial reform. Income distribution, welfare, development are not generally the business of energy companies, but if governments do not see to these basic requirements of their populations, energy companies will not be able to bring those energy commodities to the market.

This book includes four chapters that examine how energy, governance, corruption, income distribution, and corporate issues are linked. The IFRI program on European Governance and Geopolitics of Energy hopes this publication will shed light on the role of hydrocarbon production in Africa.

With contributions by Benjamin Augé, Yvan Guichaoua, Jacques Lesourne, Géraud Magrin, William C. Ramsay, Nicholas Shaxson, and Geert van Vliet.

Prix : 15,50 €
ISBN 978-2-86592-370-0

Diffusion:
La Documentation française
29-31, quai Voltaire
75340 Paris Cedex 07
Tél. : 33 (0)1 40 15 70 00
Fax : 33 (0)1 40 15 68 00
www.ladocumentationfrancaise.fr