

Executive Summary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Summary Recommendations:

National governments *should*

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

Oil companies *should*

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

The World Bank and International Monetary Fund *should*

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

Export credit agencies *should*

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

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

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

The United Nations *should*

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

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

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